



Audit Committee Agenda

REGULAR MEETING

TUESDAY, SEPTEMBER 24, 2019

TIME: 9:00 A.M.

MEETING LOCATION:

LACERS Ken Spiker Boardroom
202 West First Street, Suite 500
Los Angeles, California 90012-4401

Live Committee Meetings can be heard at: (213) 621-CITY (Metro), (818) 904-9450 (Valley), (310) 471-CITY (Westside), and (310) 547-CITY (San Pedro Area).

Chair: Elizabeth Lee

Committee Members: Sung Won Sohn
Michael Wilkinson

Manager-Secretary: Neil M. Guglielmo

Executive Assistant: Ani Ghoukassian

Legal Counselor: City Attorney's Office
Public Pensions General
Counsel Division

Sign Language Interpreters, Communication Access Real-Time Transcription, Assistive Listening Devices, or other auxiliary aids and/or services may be provided upon request. To ensure availability, you are advised to make your request at least 72 hours prior to the meeting you wish to attend. Due to difficulties in securing Sign Language Interpreters, five or more business days' notice is strongly recommended. For additional information, please contact: Board of Administration Office at (213) 473-7169.

- I. PUBLIC COMMENTS ON MATTERS WITHIN THE COMMITTEE'S JURISDICTION
- II. [APPROVAL OF MINUTES FOR THE AUDIT COMMITTEE MEETING OF MAY 14, 2019 AND POSSIBLE COMMITTEE ACTION](#)
- III. [AUDIT ACTUARY FINALIST PRESENTATIONS AND POSSIBLE COMMITTEE ACTION](#)
- IV. [UPDATE FROM BROWN ARMSTRONG ACCOUNTANCY ON THE AUDIT OF LACERS FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019](#)
- V. OTHER BUSINESS
- VI. NEXT MEETING: The next Audit Committee meeting is not scheduled at this time, and will be announced upon scheduling.
- VII. ADJOURNMENT



Board of Administration Agenda

SPECIAL MEETING

TUESDAY, SEPTEMBER 24, 2019

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| | |
|----------------------|--|
| President: | Cynthia M. Ruiz |
| Vice President: | Michael R. Wilkinson |
| Commissioners: | Annie Chao Elizabeth Lee Sandra Lee Nilza R. Serrano Sung Won Sohn |
| Manager-Secretary: | Neil M. Guglielmo |
| Executive Assistant: | Ani Ghoukassian |
| Legal Counsel: | City Attorney's Office Retirement Benefits Division |

- I. PUBLIC COMMENTS ON MATTERS WITHIN THE COMMITTEE'S JURISDICTION
- II. APPROVAL OF MINUTES FOR THE AUDIT COMMITTEE MEETING OF MAY 14, 2019 AND POSSIBLE COMMITTEE ACTION
- III. AUDIT ACTUARY FINALIST PRESENTATIONS AND POSSIBLE COMMITTEE ACTION
- IV. UPDATE FROM BROWN ARMSTRONG ACCOUNTANCY ON THE AUDIT OF LACERS FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019
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MINUTES OF THE REGULAR MEETING
AUDIT COMMITTEE
BOARD OF ADMINISTRATION
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM

LACERS Ken Spiker Boardroom
202 West First Street, Suite 500
Los Angeles, California

May 14, 2019

9:02 a.m.

| |
|--|
| Agenda of: <u>Sept. 24, 2019</u> Item No: <u>II</u> |
|--|

| | | |
|----------|----------------------|------------------------|
| PRESENT: | Chair: | Elizabeth Lee |
| | Committee Member: | Michael Wilkinson |
| | Manager-Secretary: | Neil M. Guglielmo |
| | Executive Assistant: | Ani Ghoukassian |
| | Audit Manager: | Rahoor "Wally" Oyewole |
| | Legal Counselor: | Miguel Bahamon |
| ABSENT: | Committee Member: | Sung Won Sohn |

The Items in the Minutes are numbered to correspond with the Agenda.

I

PUBLIC COMMENTS ON MATTERS WITHIN THE COMMITTEE'S JURISDICTION – Chair Elizabeth Lee asked if any persons wished to speak, to which there was no response and no public comment cards were received.

II

APPROVAL OF MINUTES FOR THE AUDIT COMMITTEE MEETING OF MARCH 26, 2019 AND POSSIBLE COMMITTEE ACTION – A motion to approve the Minutes was moved by Committee Member Wilkinson, and adopted by the following vote: Ayes, Committee Member Wilkinson and Chair Elizabeth Lee -2; Nays, None.

III

CONTINUED CONSIDERATION OF CONTRACTOR DISCLOSURE POLICY AND POSSIBLE COMMITTEE ACTION – Rahoor "Wally" Oyewole, LACERS Departmental Audit Manager, presented this item to the Committee. Committee Member Wilkinson moved approval with one technical suggested change, and adopted by the following vote: Ayes, Committee Member Wilkinson and Chair Elizabeth Lee -2; Nays, None.

IV

RECEIVED AND FILE – EXCESS BENEFITS PROGRAM – INDEPENDENT ACCOUNTANT’S REPORT ON APPLYING AGREED-UPON PROCEDURES - Rahoof “Wally” Oyewole, LACERS Departmental Audit Manager and Karen Freire, Chief Benefits Analyst with Retirement Services Division, presented this item to the Committee. After discussion, the Committee received and filed the report.

V

OTHER BUSINESS – There was no other business.

VI

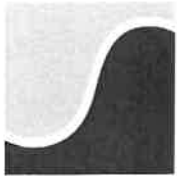
NEXT MEETING: Chair Elizabeth Lee announced that the next Audit Committee Meeting is not scheduled at this time, and will be announced upon scheduling.

VII

ADJOURNMENT: There being no further business before the Committee, Chair Elizabeth Lee adjourned the Meeting at 9:22 a.m.

Elizabeth Lee
Chair

Neil M. Guglielmo
Manager-Secretary



LACERS
LOS ANGELES CITY EMPLOYEES'
RETIREMENT SYSTEM



REPORT TO AUDIT COMMITTEE

MEETING: SEPTEMBER 24, 2019

From: Rahoof "Wally" Oyewole, Departmental Audit Manager **ITEM: III**

SUBJECT: AUDIT ACTUARY FINALIST PRESENTATIONS AND POSSIBLE COMMITTEE ACTION

ACTION: ☒ CLOSED: ☐ CONSENT: ☐ RECEIVE & FILE: ☐

Recommendation

That the Audit Committee: 1) Interview Milliman and Cheiron, Inc., as finalists for the audit actuary engagement; and 2) recommend to the Board one of the two firms for contract award.

Executive Summary

On July 9, 2019, the Board awarded a new three-year contract to incumbent LACERS Consulting Actuary, Segal Consulting, which necessitated a need for actuarial audit services. The Board requested the Audit Committee (Committee) report back with a recommendation for award of audit actuary contract. Three well-qualified firms submitted proposals for audit actuary engagement. Two of the three firms, Milliman and Cheiron Inc., are presented as finalists to the Committee for interview and consideration for contract award.

Discussion

Background

According to the Government Finance Officers Association (GFOA), due diligence requires that pension plan fiduciaries exercise prudence in selecting service providers such as actuaries, and in monitoring the quality of their work. An actuarial audit, a process of engaging an outside actuary to review the work of plan consulting actuary, is a valuable tool for monitoring the quality of actuarial services performed on behalf of a pension plan. Best practice recommends conducting an actuarial audit in cases where an incumbent actuary has provided service for five consecutive years or more. The last LACERS actuarial audit was completed by Cheiron in 2013.

The primary goal of an actuarial audit is to perform an independent examination of the methods used by the incumbent actuary for soundness and compliance with actuarial standards. Specifically, Actuarial Auditor would evaluate prior LACERS valuations completed by incumbent actuary in order to: 1) provide independent assurance to the Board that valuations were performed in accordance with actuarial standards of practice; (2) help the Board assess whether LACERS is meeting its funding objectives; (3)

potentially identify errors that might otherwise go undiscovered; and (4) provide recommendations for improving the actuarial valuation process.

On February 26, 2019, the Board approved the release of a Request for Proposal (RFP) for actuarial services. The purpose of the RFP was to secure actuarial services under two contracts: one contract for on-going actuarial consulting and services (Consulting Actuary), and one contract to conduct a one-time actuarial audit (Actuarial Auditor). The Actuarial Auditor contract would only be necessary if the incumbent Consulting Actuary, Segal Consulting, won the contract. On July 9, 2019, the Board awarded Segal a new three-year contract as Consulting Actuary, which in effect triggered a review of three Actuarial Auditor proposals received from Milliman, Cheiron, and Gabriel, Roeder, Smith & Company (GRS).

Evaluation of Proposals and Recommendation

Staff evaluated the proposals based on three levels of review as published in the RFP. Levels 1 & 2 were completed by Administrative Division staff while Level 3 review was completed by a panel of three management staff from Executive, Administrative, and Audit Divisions. The evaluation results are described below:

Level 1 Review – Administrative Responsiveness

Staff conducted a preliminary evaluation of the proposals to determine compliance with proposal requirements and mandatory document submissions. All three proposers, Milliman, Cheiron, and GRS, submitted requested information and forms within the required timeframe and manner requested in the RFP. Cheiron and GRS provided acknowledgement of acceptance of the City and LACERS' standard contracting terms, while Milliman submitted substitutions for consideration. Staff determined that all three firms successfully passed level 1 review, and moved them forward to level 2 review.

Level 2 Review – Minimum Qualifications, Experience & References

Proposals were then reviewed for minimum qualifications and demonstration of positive record as a responsible contractors. Staff also conducted reference checks on the three firms to gain additional insights from past or current clients. All three firms exceeded the required minimum qualifications of providing at least five years of actuarial consulting services to other U.S. public pension fund clients similar to LACERS, and having a supervising/lead actuary with at least 15 years of experience with major public employee retirement systems, including at least three years of experience with California public pension funds. All three proposals were then moved forward to final review to be ranked by an evaluation panel.

Level 3 Review

Staff ranked the proposals based on scoring criteria and corresponding weightings published in the RFP, as follows:

| Criteria | Weight/Max Points |
|---|--------------------------|
| Qualifications, Experience, and Accomplishments | 35 |
| Proposed Scope of Services | 30 |
| Value of Cost | 20 |
| Professionalism | 15 |

Panel members initially rated the bids individually, and then met to discuss the proposals. Individual scores were averaged and tabulated to compute the overall final score for each firm. The following table shows the average final scores for each firm.

Evaluation Scores

| Criteria | Weight | | Cheiron | GRS | Milliman |
|---|---------------|--|----------------|-------------|-----------------|
| Qualifications, Experience, and Accomplishments | 35 | | 33.7 | 26.3 | 33.0 |
| Proposed Scope of Services | 30 | | 28.7 | 26.7 | 30.0 |
| Value of Cost | 20 | | 18.0 | 20.0 | 13.3 |
| Professionalism | 15 | | 15.0 | 13.7 | 11.7 |
| <i>Total Score</i> | <i>100</i> | | <i>95.4</i> | <i>86.7</i> | <i>88.0</i> |
| Final Ranking | | | 1 | 3 | 2 |

As noted in the table, GRS received the maximum cost points for proposing the lowest cost (\$69,500) compared to Cheiron (\$75,000) and Milliman (\$95,000). However, staff believe the qualification and the overall strength of engagement team proposed by Cheiron and Milliman are stronger. Based on final total scores, Cheiron ranked first with 95.4 points, Milliman ranked second with 88 points, and GRS ranked third with 86.7 points. Therefore, staff recommend Cheiron and Milliman as finalists for Committee's interview and consideration. Staff believe both firms are fully qualified and their proposals show necessary experience conducting actuarial audits of California pension plans of similar sizes to LACERS. The firms have been notified and will have representatives available to answer Committee's questions.

Strategic Plan Impact Statement

Actuarial audit would help the Board in meeting its due diligence and fiduciary responsibility with regards to monitoring the soundness and quality of actuarial services provided to LACERS by incumbent actuary. Implementing a competitive bidding process for contract award helps "uphold governance practices which affirm transparency, accountability and fiduciary duty."

Prepared By: Rahoof "Wally" Oyewole, Departmental Audit Manager

RO

Attachment: 1. Cheiron Presentation
2. Milliman Presentation

AC Meeting: 9/24/19
Item III
Attachment 1

Finalist Presentation Proposal to Provide Actuarial Audit Services

September 24, 2019

Anne Harper, FSA, EA, MAAA

Graham Schmidt, ASA, EA, FCA, MAAA



- About Cheiron
- Relevant Experience
- Our Staff
- Purpose of Audit
- Managing Risk



- Formed in 2002 by former Milliman consultants over concerns on liability limitations
- Employee-owned with nine offices nationwide
- Highest percentage of fully credentialed actuaries in the industry
- 100% revenue from actuarial consulting with most clients being public and jointly-trusted pension and health funds
- National reputation for being proactive, responsive, and innovative

About Cheiron – Public Sector Experience



Statewide Plans:

- CalPERS
- CalSTRS
- Connecticut
- Delaware
- Florida
- Illinois
- Idaho
- Kansas
- Louisiana
- Maine
- Maryland
- Montana
- New Jersey
- New York State Teachers
- Oregon
- Pennsylvania
- Rhode Island
- Texas ERS & TRS
- Utah
- Vermont Municipals
- Washington State Investment Board
- Washington
- West Virginia

Federal:

- US Army
- US Court of Appeals
- US Tax Court
- US Department of the Treasury

Local Government Plans:

- Alexandria (VA)
- Allentown (PA)
- Arlington County (VA)
- Baltimore (MD)
- Chesterfield County Schools (VA)
- City of Annapolis (MD)
- City of Hampton (VA)
- City of Los Angeles (CA)
- Chattanooga (TN)
- Denver (CO)
- District of Columbia
- Fairfax County (VA)
- Fresno County (CA)
- Kansas City (MO)
- Los Angeles (LACERS and LAFPP)
- Marin County (CA)
- Merced County (CA)
- Metropolitan Washington Council of Governments
- Miami (FL)
- Milwaukee County (WI)
- Newport News (VA)
- Norfolk (VA)
- Philadelphia (PA)
- Phoenix (AZ)
- Saint Louis (MO)
- San Diego (CA)
- San Francisco (CA)
- San José (CA)
- San Joaquin County (CA)
- San Luis Obispo (CA)
- Santa Barbara County (CA)
- Stanislaus County (CA)
- Tulare County (CA)
- Wichita (KS)
- Wilmington (DE)

OPEB:

- Arkansas
- Alexandria (VA)
- Annapolis (MD)
- Delaware
- Greater Richmond Transit Company (VA)
- Hampton (VA)
- Knoxville Utilities Board (TN)
- Maine Municipal Employees Health Trust
- Maine Public Employees Retirement System Health and Life Plans
- Multnomah County (OR)
- Norfolk (VA)
- Newport News (VA)
- Oakland (CA)
- Pennsville Township (NJ)
- Philadelphia (PA)
- San Francisco (CA)
- San José (CA)
- Springfield Area Transit Co. (MA)
- US Army Community & Family Support Center
- Vienna (VA)
- Wilmington (DE)
- Westchester Medical Center (NY)

Actuarial Audit Experience



One of Cheiron's key lines of business

- Cheiron staff have audited several large CA systems
 - CalPERS, CalSTRS, University of California
 - **LACERS**, LA Police and Fire, LA Water and Power
 - San Luis Obispo
 - 1937 Act County Systems: Alameda, Fresno, Imperial, Kern, Mendocino, Orange, Sacramento, Santa Barbara, San Bernardino, Sonoma
- Systems currently auditing
 - Contra Costa County
 - San Diego County
- Other recent Cheiron audits
 - District of Columbia Retirement Board
 - Illinois Office of the Auditor General
 - Municipal Employees' Retirement System of Michigan
 - Retirement Systems of Alabama
 - Texas State Auditor's Office



Unique to Cheiron is our dedicated internal audit team

- Performs internal audits on all of Cheiron's clients
- Significant experience replicating valuations for wide variety of public pension plans
- Supplements consulting team

Our Staff – Proposed Personnel



| | | |
|--|---|---|
| Anne Harper Co-Lead Actuary (Pension) San Diego, CA | Graham Schmidt Co-Lead Actuary (Pension) Lafayette, CA | James Summers Co-Lead Actuary (Health) San Diego, CA |
| Margaret Tempkin Backup Consultant (Health) Annapolis, MD | Michael Moehle Compliance / Auditing Lafayette, CA | Bill Hallmark Additional Resource Portland, OR |
| Actuarial Support | | |
| Administrative Support | | |

- Fresh set of eyes – entirely new proposed team
- The Co-Lead Actuaries, Special Resources, and Actuarial/Admin Support all have significant public sector experience especially with California systems

Our Staff – Quality of Our People



- Highly skilled:
 - Significant concentration of credentialed actuaries with strong emphasis on achieving full credentials (31 of 55 credentialed actuaries are FSAs and 39 are EAs)
 - All Cheiron consultants are “hands-on” with our technology
- Reputation for creativity and responsiveness:
 - Often called on to handle the most challenging and complex assignments
 - At the forefront of understanding and managing risk
- Keep our clients satisfied:
 - Strong long-term relationships and communication
 - Dedicated internal actuarial team independently audits our valuations

Our Staff – Keeping Current and Influential



- We dedicate senior staff to thought-leadership positions in our industry
 - Graham Schmidt – California Actuarial Advisory Panel
 - Bill Hallmark – Prior Vice President of Pensions, American Academy of Actuaries, prior chair of Public Plans Committee
 - Stephen McElhaney – Pension Committee of the Actuarial Standards Board
 - Ken Kent – Prior Vice President of Professionalism, American Academy of Actuaries, prior chair of Public Plans Committee
- Cheiron actuaries are regular speakers at conferences sponsored by SACRS, CALAPRS, NASRA, NCTR, etc.
- Cheiron actuaries regularly testify before federal entities (such as Congress, GASB, IRS, DOL, and GAO)
- Jim Holland, our Chief Research Actuary (and former Chief Pension Actuary at the IRS), monitors government regulations and pronouncements with respect to pension and health matters, and coordinates the issuance of Cheiron's Alerts and Advisories



- Full replication audit of the Retirement and Health Subsidy Plans
- Review assumptions and methods from the last experience study for reasonableness and internal consistency

Key Questions to Consider for Audit



- Is actuarial valuation reasonable and accurate?
- Are the current assumptions and methods reasonable and appropriate?
- Do the current methods and assumptions achieve the Board's objectives and meet required Actuarial Standards of Practice?
- Does the valuation report provide usable information on short and long-term risks?
- Are there any changes to consider?

Example of Audit Findings



- Our audits are not just rubber stamps
- Example of findings
 - Using headcount instead of a benefits-weighted analysis to study mortality experience
 - Headcount analysis tends to underestimate liabilities
 - Actuarial Standards of Practice (ASOP) recommends benefits-weighted analysis for pension plans
 - New public sector mortality tables developed based on benefit income, above and below the median
 - Plans with retirement rates based only on age instead of age and service-based rates
 - Suggest contribution rate and funded status projections be included in valuation reports
 - New risk ASOP 51 strongly encourages

Example of Audit Findings



- Findings from our 2012 LACERS audit
 - Consider lowering net investment return, inflation, and payroll growth rate by approximately 0.25% – 0.50%. **Segal recommended lowering these rates in the 2014 and 2017 experience studies.**
 - Consider performing a stochastic analysis for the COLA assumption which could potentially show a lower growth rate than the COLA cap. **Segal performed a stochastic analysis in the subsequent experience study, but kept the COLA growth assumption at COLA cap levels.**
 - Suggested termination analysis be done based on service instead of age since service is usually a better indicator of termination behavior. **In their next study, Segal did review terminations on a service-basis, but concluded that age-based was still reasonable.**
 - Suggested report have projections of contribution rates, funded ratios. **Not yet incorporated into valuation report, but published under a separate cover.**

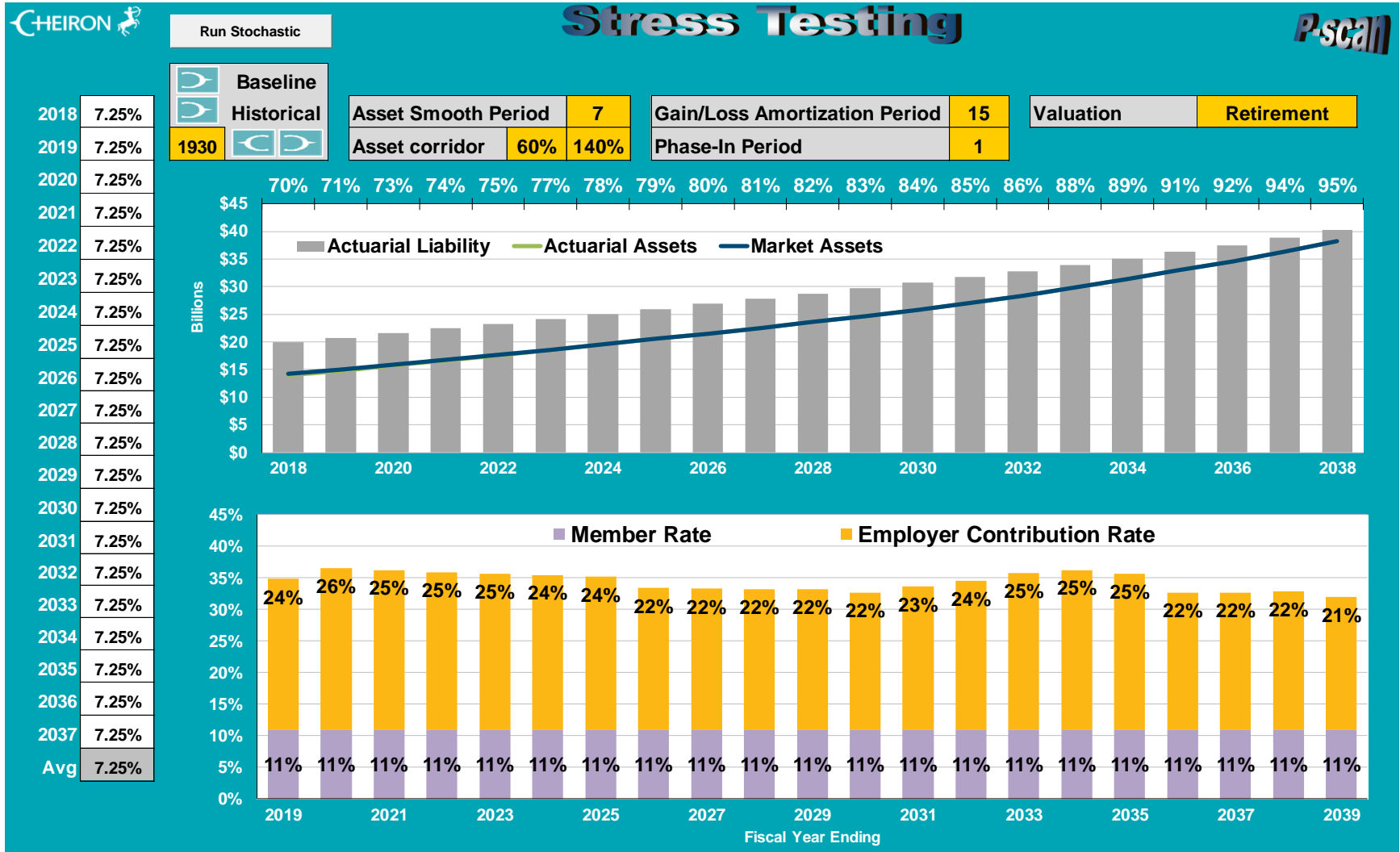


- Cheiron emphasis on explaining and helping clients to manage risks since Day 1
 - Leads the profession in projections, stress testing, simulations, etc.
 - Create customized risk dashboards
 - Strong supporters of the new risk ASOP 51
 - Two of our consultants participated in drafting of the new standard
 - Recent article on risk maturity provided to clients, included in the winter SACRS magazine



- Projections used to communicate expectations
 - Customizable
 - Amortization policy, asset smoothing method
 - Sensitivity to different economic scenarios so potential range of outcomes can be understood
 - Easy to update as investment returns are known
 - Short and long-term impact on costs and funded ratio of changes to amortization policies or asset smoothing method

P-Scan and R-Scan





*To empower our clients in managing
their risks by integrating the highest
qualified staff with the latest
technologies*



Classic Values, Innovative Advice.

Cheiron (pronounced kī·ron), the immortal centaur from Greek mythology, broke away from the pack and was educated by the gods. Cheiron became a mentor to classical Greek heroes, then sacrificed his immortality and was awarded in eternity as the constellation Sagittarius.

Audit Actuary Proposal

Actuarial Consulting Services RFP 19.01

Prepared for Los Angeles City Employees' Retirement System

SEPTEMBER 24, 2019



Milliman Service Team for LACERS



Daniel Wade, FSA

- 20+ yrs exp. (16 with Milliman)
- Focus on public sector pension and OPEB plans
- 15 actuarial audits of large public retirement systems



Nick Collier, ASA

- 25+ yrs exp. (all with Milliman)
- 25 actuarial audits of large public retirement systems



Scott Preppernau, FSA

- 15+ yrs exp. (7 with Milliman)
- Extensive experience working with large, complex public retirement system, including Oregon PERS

About Milliman

- 3,500 employees; \$1 billion annual revenue; 60 offices on 6 continents; wide variety of actuarial practices
- Western US employee benefits service group: 200+ employees; 35+ credentialed pension actuaries
- Dedicated subject matter experts in actuarial audits and California public retirement systems

Discussion topics



1. Does Milliman understand our situation?



3. How will Milliman approach the project?



2. Does Milliman have the expertise necessary for this audit project?



4. Why choose Milliman?

Does Milliman understand our situation?

- Recent experience for LACERS pension and OPEB benefits
 - Declining funded status and steadily increasing employer contribution rates
 - Significant recent assumption changes
 - Addition of new benefit tier for new entrants
- Goals for actuarial audit
 - Verify financial condition of system is accurately reported
 - Evaluate actuarial advice
 - Consider changes or adjustments
- Replication audit is the most comprehensive approach

Does Milliman have the expertise we need?

Stability and Consistency

- Commitment to public plans since our foundation in 1947
- Consistent quality to our clients



- Commitment to retirement systems
- Public plan experience
- Expert team with extensive audit experience

Depth of Resources

- 1,500 credentialed actuaries
 - 3,500 employees
- Public plan consultant group
- Employee Benefits Research Group in Washington, D.C.

Recent public plan audit experience

Performed by Milliman's Western US group

| | Date |
|---|------------|
| Los Angeles Fire and Police Pensions | 2019 |
| Marin County Employees' Retirement Association | 2013, 2018 |
| Santa Barbara County Employees' Retirement System | 2017 |
| Washington State Retirement Systems | 2016-2018 |
| Kern County Employees' Retirement Association | 2015 |
| Contra Costa County Employees' Retirement Association | 2008, 2014 |
| Colorado Public Employees' Retirement Association | 2014 |
| San Bernardino County Employees' Retirement Association | 2009, 2013 |
| City and County of San Francisco Employees' Retirement System | 2013 |
| Orange County Employees Retirement System | 2012 |
| San Diego County Employees Retirement Association | 2008, 2012 |
| Teacher Retirement System of Texas | 2009 |

Retained large public plan clients

Sample client list

California State Teachers' Retirement System

Los Angeles County Employees Retirement Association

Florida Retirement Systems

Oregon Public Employees Retirement System

Public Employee Retirement System of Idaho

Texas County & District Retirement System

San Mateo County Employees' Retirement Association

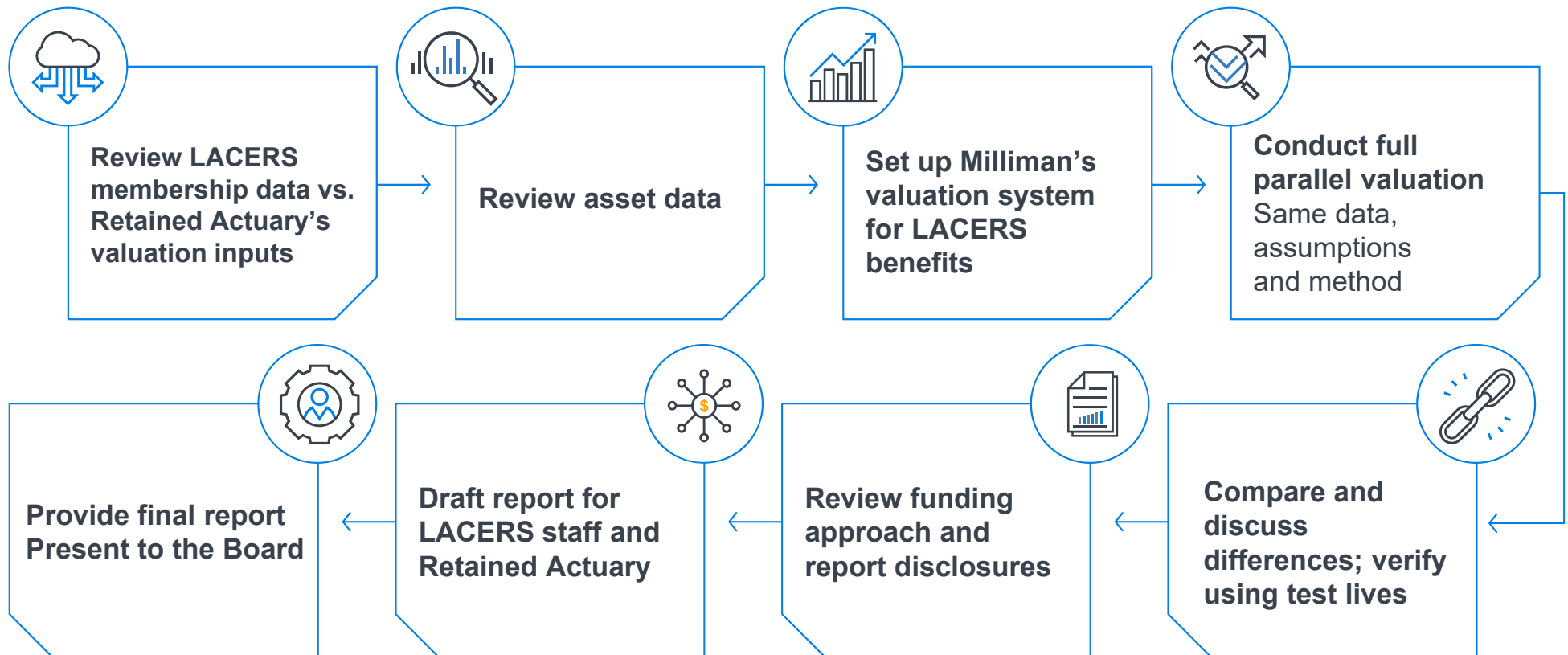
Portland Fire & Police Disability & Retirement Fund

Tacoma Employees' Retirement System

Seattle City Employees' Retirement System

Washington State Fire & Police System

Valuation audit procedures



Valuation audit results – Examples

Aggregate summary, with detailed analysis

| | Joe | Milliman |
|--------------------------------------|----------|--------------|
| Aggregate Employer Contribution Rate | 39.29% | 39.16% |
| Funded Ratio | 81.3% | 80.9% |
| Joe Actuary | Milliman | Joe/Milliman |

General

| | | | |
|--------------|----------------------|----------------------|---------------|
| Service | \$ 2,445,240,000 | \$ 2,443,624,000 | 100.1% |
| Withdrawal | 88,236,000 | 89,706,000 | 98.4% |
| Death | 20,908,000 | 20,962,000 | 99.7% |
| Disability | 23,524,000 | 24,184,000 | 97.3% |
| Total | 2,577,908,000 | 2,578,476,000 | 100.0% |

Safety

| | | | |
|--------------|----------------------|----------------------|--------------|
| Service | \$ 1,385,670,000 | \$ 1,395,624,000 | 99.3% |
| Withdrawal | 37,448,000 | 36,444,000 | 102.8% |
| Death | 9,936,000 | 10,132,000 | 98.1% |
| Disability | 44,492,000 | 45,360,000 | 98.1% |
| Total | 1,477,546,000 | 1,487,560,000 | 99.3% |

| | | | |
|----------------------|-------------------------|-------------------------|--------------|
| Total Actives | \$ 4,072,256,000 | \$ 4,083,053,000 | 99.7% |
|----------------------|-------------------------|-------------------------|--------------|

| | Joe | Milliman | Ratio Joe/Milliman |
|-----------------------|---------------|---------------|-----------------------|
| Group #1 | 33.82% | 33.57% | 100.8% |
| Group #2 | 34.25% | 33.47% | 102.3% |
| Group #3 | 35.55% | 35.37% | 100.5% |
| Group #4 | 22.80% | 22.41% | 101.7% |
| Group #5 | 33.89% | 33.82% | 100.2% |
| Group #6 | 26.86% | 26.83% | 100.1% |
| Group #7 | 28.70% | 28.82% | 99.6% |
| General Total | 33.02% | 32.79% | 100.7% |
| Group #1A | 56.06% | 56.65% | 99.0% |
| Group #1B | 55.17% | 53.19% | 103.7% |
| Group #2A | 54.92% | 55.08% | 99.7% |
| Group #2B | 63.61% | 62.54% | 101.7% |
| Group #3A | 62.94% | 63.19% | 99.6% |
| Group #3B | 43.66% | 44.35% | 98.4% |
| Safety Total | 56.79% | 57.04% | 99.6% |
| Group #1 | 45.02% | 45.11% | 99.8% |
| Group #2 | 43.60% | 43.98% | 99.1% |
| Group #3 | 36.01% | 36.12% | 99.7% |
| District Total | 42.30% | 42.55% | 99.4% |
| All Groups | 39.29% | 39.16% | 100.3% |

Reconciling differences

- *Numerical* differences
 - Direct interaction with Retained Actuary
 - Most issues resolved in initial phase
 - Test lives output is critical
 - Provide step-by-step comparison of calculations to Retained Actuary
 - Previous experiences working with Segal have been positive
- *Subjective* issues
 - Ensure we understand why the Retained Actuary made their decision
 - Respect opinion of Retained Actuary
 - Discussion with staff to get their input
- Putting differences in perspective



Where do differences occur?

Objective

- Data
- Benefits not reflected correctly
- Assumptions not applied correctly
- Application of cost method or smoothing method

Subjective

- Based on actuary's judgment
- Most often regarding assumptions

Why Milliman?

Highly experienced senior audit team with expertise in large, complex systems in California and elsewhere

In-depth analysis befitting LACERS's importance and uniqueness

 **Milliman**



Understandable, respectful, and forthright communication style

Passion for client service – just ask our enthusiastic references



Thank you

Daniel Wade

Daniel.Wade@milliman.com

Scott Preppernau

Scott.Preppernau@milliman.com



Daniel Wade

FSA, EA, MAAA

Principal, Consulting Actuary



CURRENT RESPONSIBILITY

Daniel is a principal and consulting actuary with the Seattle office of Milliman. He joined the firm in 2003.

EXPERIENCE

Daniel has 20 years of experience in the employee benefits field, serving primarily public sector clients, including 10 large county retirement systems throughout the state of California.

He is lead technical actuary for the Florida Retirement System.

He currently manages pension valuations for more than 20 municipal plans in the Washington state fire and police systems. He also manages LEOFF I retiree medical benefit valuations for many of these same cities, as well as for two counties.

He is the external office peer review actuary for the Oregon Public Employees Retirement System.

He has assisted clients with many aspects of defined benefit plans, including:

- Experience studies
- Projections of future contribution rates
- Valuation of pension and retiree medical benefits
- Benefit calculations
- Analysis of pension plan funding policies
- Actuarial audits

Recent projects include the GASB 45 retiree medical valuations for 35 clients.

PROFESSIONAL DESIGNATIONS

- Fellow, Society of Actuaries
- Member, American Academy of Actuaries
- Enrolled Actuary, ERISA

AFFILIATIONS

- Member, 2013-2016 Annual Meeting Program Committee for the Conference of Consulting Actuaries

PRESENTATIONS AND PUBLICATIONS

Daniel's recent presentations include:

- Actuarial and GASB issues for public plans: How can an actuary help you? National Association of Public Plan Attorneys
- Plan redesign: Debating the pros and cons of current proposals, Public Fund Boards Forum
- Who created America's public pension problems? Can actuaries help lead the way out?, Conference of Consulting Actuaries
- GASB 67 and 68: The new world of public pension plan accounting
- GASB 74 and 75

His recent publications include:

- Case study: Maintaining a healthy funded status in defined benefit retirement systems
- Setting the discount rate for valuing pension liabilities
- Overview of GASB Statements 73, 74, and 75

EDUCATION

- BS. (Phi Beta Kappa), Mathematics, Stanford University



Nicholas J. Collier

ASA, EA, MAAA

Principal, Consulting Actuary



CURRENT RESPONSIBILITY

Nick is a principal and consulting actuary with the Seattle office of Milliman. He joined the firm in 1987.

EXPERIENCE

Nick's area of expertise is the employee benefits field, serving a wide range of public and multiemployer clients. He has assisted clients with many aspects of defined benefit plans, including actuarial valuations, experience studies, asset-liability modeling, projections of costs, and the valuation of postretirement benefits. Additionally, Nick has extensive experience performing actuarial audits. He is the valuation actuary for the California State Teachers' Retirement System (CalSTRS), the Los Angeles County Employees Retirement Association, and the Texas County and District Retirement System, among others.

Nick's projects have included:

- Creating stochastic asset-liability projection
- Designing retirement benefit online calculator
- Analysis of use of reserves in funding policy
- High-level internal quality control reviews

PRESENTATIONS AND PUBLICATIONS

Nick has made numerous presentations to retirement boards and legislative bodies. In addition, he presented on "Volatility Adjusted Discount Rates" at the 2010 Conference of Consulting Actuaries meeting.

Nick's analysis for CalSTRS on their investment return assumption is used as reference material by the National Association of State Retirement Administrators.

PROFESSIONAL DESIGNATIONS

- Associate, Society of Actuaries
- Member, American Academy of Actuaries
- Enrolled Actuary, ERISA

EDUCATION

- BA (cum laude), Mathematics and Economics, Claremont McKenna College



Scott D. Preppernau

FSA, EA, MAAA

Principal and Consulting Actuary



CURRENT RESPONSIBILITY

Scott is a principal and consulting actuary in the Portland, Oregon, office of Milliman. He joined the firm in January 2012.

EXPERIENCE

Scott has over 15 years of experience in pension plan consulting and has worked with governmental and corporate plan sponsors to effectively manage their pension and retiree medical programs. As a consulting actuary, he assists clients with actuarial valuations, experience studies, liability and contribution projections, legislative impact analyses, plan administration, and financial reporting.

Scott's recent projects include:

- Stochastic analysis of future contributions and funded status levels for a large governmental retirement system, reflecting alternative funding strategies
- Plan design studies for corporate plan sponsors, including comparisons of defined benefit, defined contribution, and hybrid plans including variable pension plans and cash balance plans
- Experience studies covering economic and demographic valuation assumptions for multiple governmental plans
- Analysis of numerous legislative proposals affecting benefits and/or contribution policy for a large governmental retirement system
- Contribution strategy and de-risking consulting for corporate plan sponsors to improve plan funding and manage plan costs and risk
- Financial reporting under U.S. GAAP and governmental (GASB) accounting standards

PRESENTATIONS

Scott frequently delivers public presentations to Retirement Boards, elected officials, and other stakeholders, and has experience presenting to corporate executives in a variety of settings.

Scott has presented at educational conferences for pension plan clients and professionals, including annual Milliman Client Conferences, the annual conference of the Oregon Society of Certified Public Accountants, and the Mid-Sized Retirement & Healthcare Plan Management Conference.

PROFESSIONAL DESIGNATIONS

- Fellow, Society of Actuaries
- Member, American Academy of Actuaries
- Enrolled Actuary under ERISA

EDUCATION

- BS, Mathematics, Linfield College
- BS, Economics, Linfield College



Los Angeles City Employees' Retirement System (LACERS)

Scope of Services Presentation of the June 30, 2019 Audit Plan and Audit Status Update



Brown Armstrong

Accountancy Corporation

4200 Truxtun Avenue, Suite 300 | Bakersfield, CA 93309 | 661.324.4971 | Fax 661.324.4997

www.bacpas.com

Contact: Rosalva Flores, Engagement Partner, CPA – rflores@bacpas.com

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September 24, 2019

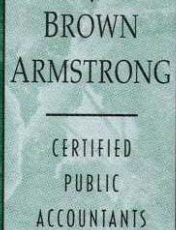
Los Angeles City Employees' Retirement System (LACERS)
202 W. First Street, Suite 500
Los Angeles, California 90012-4401

We are pleased to have the opportunity to summarize the scope of the audit and provide you with a status update on the audit for the year ended June 30, 2019. This provides for a continuous, two-way communication and reporting to management of LACERS.

We look forward to presenting this information, addressing your questions, and discussing any other matters of interest to the management of LACERS.

Sincerely,

Rosalva Flores, Engagement Partner, CPA
Brown Armstrong Accountancy Corporation



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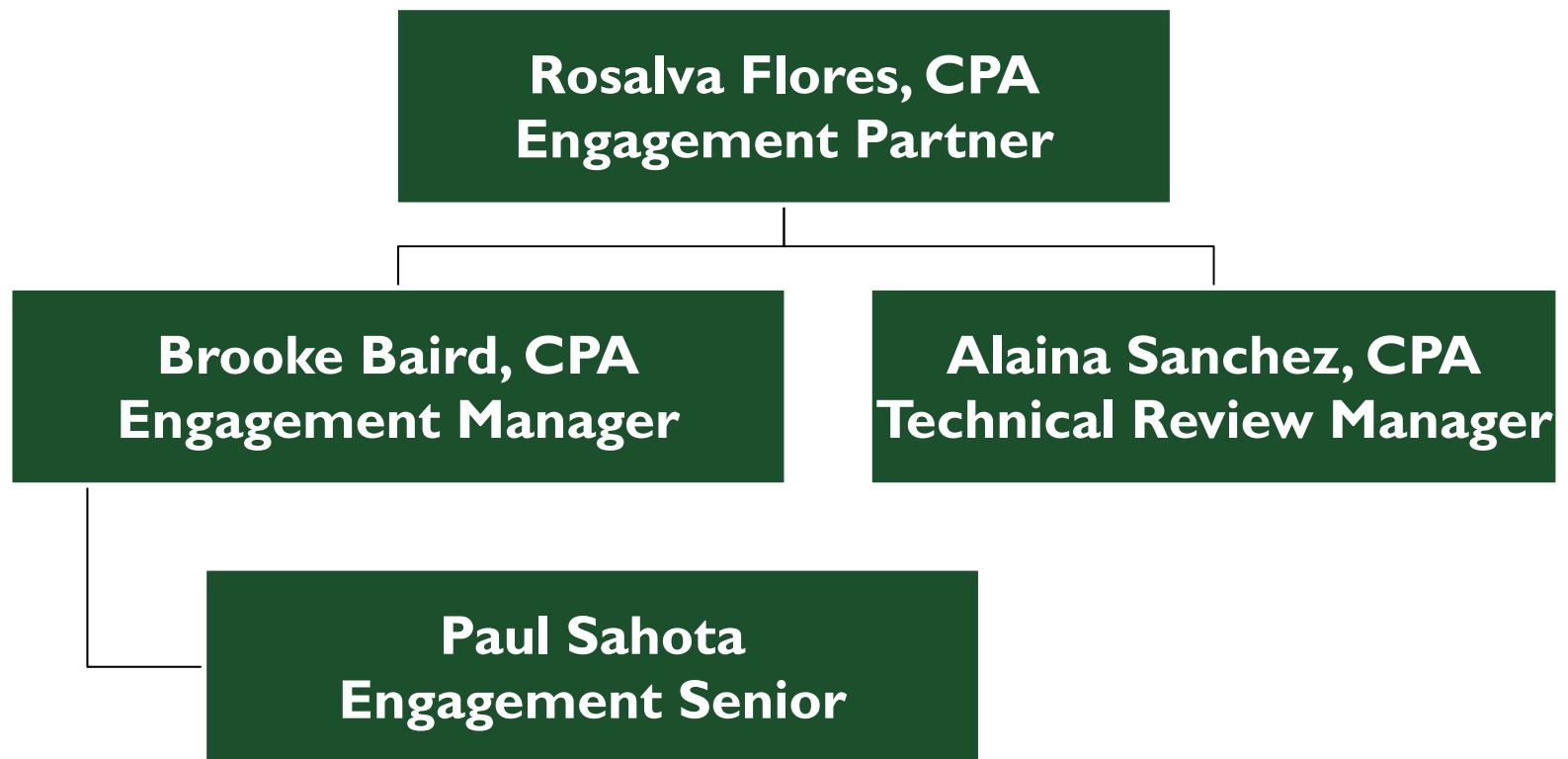
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The Engagement Team





Our Audit Objectives

As the auditors for LACERS, we are responsible for reporting on the financial statements of LACERS for the year ended June 30, 2019. Our engagement is focused on delivering our services at three levels.

| For the public and LACERS | Independent opinions and reports that provide assurance on the financial information released by LACERS. |
|---|---|
| For the Audit Committee and Board of Retirement | Assistance in discharging its fiduciary responsibilities. |
| For management | Observations and advice on financial reporting, accounting, and internal control issues from our professionals. |

Our primary objective is the expression of an opinion on LACERS' financial statements in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, which includes:

- Obtaining reasonable assurance as to whether the financial statements are prepared in accordance with accounting principles generally accepted in the United States of America and are free of material misstatements, whether caused by error or fraud; and
- Obtaining reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Reports Expected to be Issued

| ← | Government Auditing Standards | → | |
|--|---|---|---|
| GAAS | | | |
| Independent Auditor's Report (Opinion) on Financial Statements | Required Communication to the Audit Committee and Board of Retirement in Accordance with Professional Standards | Report on Internal Control over Financial Reporting and on Compliance with Laws and Regulations | Report on Agreed Upon Conditions Designed to Increase Efficiency, Internal Controls, and/or Financial Reporting (Management Letter) |

Audit Strategy

| Phase I | Phase II | Phase III | Phase IV |
|---|---|---|--|
| ← | Audit Planning | → | |
| | Interim Field Work | Final Field Work | Completion |
| Familiarize ourselves with operating environment | Assess internal control environment | Plan and perform substantive audit procedures | Perform completion procedures, including manager, partner, and technical reviews |
| Perform risk assessment procedures | Perform Statement on Auditing Standards (SAS) 99 (fraud evaluation) procedures | Conduct final analytical review | Assist with the drafting of the financial statements |
| Determine planning materiality | Identify internal control strengths and weaknesses | Consider audit evidence sufficiency | Draft reports to be issued |
| Perform preliminary analytical review | Evaluate design and implementation of selected controls | Conclude on critical accounting matters | Obtain legal confirmation |
| Identify significant audit areas | Test controls over financial reporting and administration | Complete any leftover interim procedures | Draft and obtain a signed management representation letter |
| Develop an audit plan and communicate with client regarding any new standards that will affect them in the current year | Understand accounting and reporting activities | | Conduct exit conference with management, including discussion of proposed audit adjustments, internal control and compliance findings, and management letter |
| Determine nature and extent of audit procedures | Participant Testing | | Issue auditor's reports and management letter |
| Reevaluate the progress of the audit and make any changes on audit approach and procedures, if necessary | IT Audit - Limited scope in current year due to second year Pension Gold implementation | | |
| Confirmation of account balances | | | |



Areas of Focus

- Investments and Related Earnings
- Participant Data
- Employee/Employer Contributions
- Actuary Information
- Information Technology (IT)



Significant Changes in Audit Plan from Prior Year

- Reduced scope for IT due to full scope implementation of the PG Version 3 upgrade performed in prior year

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Audit Timeline/Status

Completed

- Interim fieldwork – Week of July 29
- Final fieldwork – Week of September 9
- Concluded final fieldwork – Mid September
 - ✓ Wrap up of work papers in process
 - ✓ Work substantially reviewed by both manager and partner
- Exit meeting with Management – September 23

Pending

- Release of numbers to actuary – Due September 27
- Draft annual financial report with exception of the valuation information – Due October 11
- Valuation report – Expected to be available November 12
- Draft annual financial report – Due November 15
- Issue annual financial report – Due November 26

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Accounting Pronouncements or Auditing Standards Applicable to LACERS for the June 30, 2019 Audit

| Standard | Title | Effective Date | June 30 Year-End Effective Date | Effect on Retirement Systems? |
|-----------------------|---|--|---------------------------------|---|
| GASB Statement No. 83 | <i>Certain Asset Retirement Obligations</i> | Fiscal years beginning after June 15, 2018 | July 1, 2018 – June, 30, 2019 | Not applicable as LACERS does not have these types of transactions. |
| GASB Statement No. 88 | <i>Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements</i> | Fiscal years beginning after June 15, 2018 | July 1, 2018 – June 30, 2019 | No significant impact. |

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Future Accounting Pronouncements

| Standard | Title | Effective Date | June 30 Year-End Effective Date | Effect on Retirement System? |
|-----------------------|--|---|---------------------------------|---|
| GASB Statement No. 84 | <i>Fiduciary Activities</i> | Fiscal years beginning after December 15, 2018 | July 1, 2019 – June 30, 2020 | Establishes guidance regarding what constitutes fiduciary activities and how these should be reported. Not applicable as LACERS does not have these types of transactions. |
| GASB Statement No. 87 | <i>Leases</i> | Fiscal years beginning after December 15, 2019 | July 1, 2020 – June 30, 2021 | Requires the recognition of certain assets and liabilities for leases that were previously classified as operating leases and recognized as deferred inflows or outflows of resources based on the payment provisions of the contract. LACERS potential impact upon implementation has not been determined. |
| GASB Statement No. 89 | <i>Accounting for Interest Cost Incurred Before the End of the Construction Period</i> | Reporting periods beginning after December 15, 2019 | July 1, 2020 – June 30, 2021 | Not applicable as LACERS does not have these types of transactions. |

Future Accounting Pronouncements (cont.)

| Standard | Title | Effective Date | June 30 Year-End Effective Date | Effect on Retirement System? |
|-----------------------|--|---|---------------------------------|---|
| GASB Statement No. 90 | <i>Majority Equity Interests – an Amendment of GASB Statements No. 14 and No. 61</i> | Reporting periods beginning after December 15, 2018 | July 1, 2019 – June 30, 2020 | This statement improves the consistency and comparability of a government's majority equity interest in a legally separate organization and improves the relevance of financial statement information for certain component units. LACERS potential impact upon implementation has not been determined. |
| GASB Statement No. 91 | <i>Conduit Debt Obligations</i> | Reporting periods beginning after December 15, 2020 | July 1, 2021 – June 30, 2022 | Clarifies what is a conduit debt obligation and provides guidance on how issuers should account for these. LACERS potential impact upon implementation has not been determined. |

Questions?

We enjoyed working with your management and appreciate all the assistance during the audit.
Thank you!

Rosalva Flores,
Engagement Partner, CPA

