

AUDIT RESOLUTION POLICY AND PROCEDURES

A. PURPOSE

1. The following audit resolution policy and procedures are set forth in order to establish a comprehensive plan to govern all audit resolution activities. The procedures contained in the policy allow LASERS to track corrective actions taken by management on reported audit issues and to convey these actions to executive management and to the audit committee in keeping with the board's fiduciary oversight responsibilities.
2. Management has a responsibility to promptly evaluate reported observations, determine actions to best resolve outstanding items reported, and assure completion of the actions within an established time frame.
3. The following procedures are designed to monitor resolution of:
 - a. External audits performed by the LASERS independent auditors, other auditors under contract with LASERS, or auditors who have come to audit LASERS (External Audits).
 - b. Audits performed by the audit services division including special projects (Internal Audits).
 - c. Audits of the employer agencies and audits of external investment management firms (LASERS Conducted External Audits).
 - d. Consulting and advisory services provided by the audit services division (Consulting Services).

B. EXTERNAL AUDITS

1. The audit services division is responsible for the coordination of all reviews and audits of LASERS operations by external auditors and other parties (LASERS Policy LAS.01-003). This responsibility is outlined in *Standard 2050 for the Professional Practice of Internal Auditing (IIA Standards)* which provides that the audit director should share information and coordinate activities with other internal and

external providers of relevant assurance and consulting services to ensure proper coverage and minimize duplication of efforts.

2. The external auditors conducting audits of LASERS include, but not limited to: Civil Service, Office of Risk Management, the Legislative Auditor's Office, the independent accounting firm conducting the financial audit, and the independent accounting firm conducting the audit of the Retirement Systems Building fund. Division directors are responsible for notifying the executive director and the audit director whenever an outside party is scheduled to perform an audit in their area of responsibility. The audit director (or designee) will work with the appropriate management personnel, as necessary, to coordinate each audit. The audit services division will work with management personnel in developing responses to the report for signature by the executive director, as needed.

C. INTERNAL AUDITS

1. The audit services division will transmit a draft copy of the audit report to the affected division directors. Within fifteen (15) business days, responses shall be submitted stating either agreement or disagreement with all applicable observations and recommendations and provide explanatory comments. During this period, audit staff, when requested, will clarify audit observations and recommendations and may work with the affected division directors in developing responses and corrective action plans. An exit conference with all divisions affected may be held to discuss the items in the draft report prior to responses being submitted.
2. After the division director responses have been incorporated into the report, the audit director will provide details on the final report to the executive director. The executive director may include a response and may edit the responses provided by the division directors. Audit services will present the final report to the division directors, executive director, and the audit committee.
3. All management action plans related to observations will contain the special actions being taken to achieve compliance and the target completion dates for implementing the recommendations.
4. When the audit director believes that senior management has accepted a level of residual risk that is unacceptable to LASERS, the audit director shall discuss the matter with the executive director. If

the decision regarding residual risk is unresolved, the audit director and executive director shall report the matter to the audit committee for resolution.

5. When a follow-up to an audit is recommended, they should be conducted within 12 months or within a time frame determined by the audit director.
6. The audit services division will maintain an ongoing report of all internal and external audit observations and actions to be taken. This report will be reviewed on an ongoing basis and presented to the audit committee semi-annually.

D. LASERS CONDUCTED EXTERNAL AUDITS

1. The audit services division will transmit a draft copy of the audit report to the agency, vendor, or firm and the related LASERS division. Within fifteen (15) business days, responses shall be submitted stating either agreement or disagreement with all applicable observations and recommendations and provide explanatory comments. During this period, audit staff, when requested, will work with the appropriate parties to clarify any observations and recommendations. If during the course of these audits, observations are made that relate only to LASERS, the resolution procedures outlined in section C above will be adhered to.
2. After the responses have been incorporated into the report, the audit director will provide details on the final report to the executive director. The executive director may include a response or additional comments. Audit services will present the final report to the affected division directors, executive director, and audit committee. In addition, the audited agency, vendor, or investment management firm will receive a copy of the final report.
3. A follow-up to open items from these reviews will be conducted on a periodic basis. In the event that adequate resolution is not reached or issues continue to persist, LASERS will take the following successive steps to achieve resolution:
 - a. A letter will be sent to the chief executive at the agency, vendor, or firm from the LASERS executive director outlining our concerns and relevant issues with a request for response and action. If necessary, a meeting with key members from both parties should be held.

- b. At this point, if satisfactory resolution is not achieved, then a similar letter will be sent from the executive director and the LASERS board chair to the following parties, as applicable:
 - i. Board chair governing this agency, vendor, or firm
 - ii. Governor
 - iii. Legislative Auditor

In addition, if the issues exist with a vendor or firm in which LASERS has a contractual relationship, consideration may also be given to the termination of the contract depending on the nature of the issue and forgo the process noted directly above. As part of this process, deadlines for resolution will be established.

E. CONSULTING SERVICES

1. The audit services division will present status reports of each consulting project to the executive director and audit committee, as necessary. In addition, a final report will be presented upon the completion of the consulting project.
2. Consulting project agreements will be developed at the start of each project and will be agreed upon by the division director and audit director. If necessary, the agreement may be approved by the executive director and/or audit committee. This agreement will be used to ensure that audit services has provided the agreed upon scope of consulting services to the organization.

F. POLICY REVIEW

The audit director will review this policy at least once every three (3) years to ensure that it remains relevant and appropriate.

G. HISTORY

This policy was adopted on January 27, 2006.

This policy was last revised on December 17, 2010.

This policy was last reviewed on June 23, 2022.