



July 6, 2021

TO: Each Trustee,
Board of Retirement

SUBJECT: Board of Retirement Meeting on July 7, 2021 – Agenda Item VII.B.

Following you will find the supplemental document for the above-mentioned meeting:

1. Approval of the Revised Audit Committee Charter
(Revision to the memo dated June 30, 2021)

June 30, 2021

TO: Each Trustee,
Board of Retirement

FROM: Audit Committee
Joseph Kelly, Chair
Shawn R. Kehoe, Vice-Chair
Vivian H. Gray, Secretary
Alan J. Bernstein
Keith Knox
Ronald A. Okum
Gina V. Sanchez

FOR: July 7, 2021 Board of Retirement Meeting
July 14, 2021 Board of Investments Meeting

SUBJECT: **Approval of the Revised Audit Committee Charter**

RECOMMENDATION

That the Board of Retirement and Board of Investments approve and adopt the revised Audit Committee Charter.

BACKGROUND

The Institute of Internal Auditors (IIA) recommends that an audit committee formally define its purpose, authority, and responsibilities in a charter. In addition, the IIA recommends periodic reviews of the charter to ensure the charter is aligned with industry best practices and organizational changes. LACERA's Audit Committee Charter (Charter) was established in 2004, and has been updated throughout the years, most recently in December 2020.

Internal Audit and the Audit Committee Chair proposed revisions to the Charter at the April 23, 2021 Audit Committee. Internal Audit proposed minor edits to the charter while the Chair proposed a more significant revision. The Chair's proposed revision was to:

Delete from section VII. (Responsibilities) A.1. **Internal Audit Activity**

Recommend to the Boards a budget to achieve the Plan plus a contingent budget for additional work related to audit findings or other unplanned work.

Add Section VII. (Responsibilities) F. **Audit Committee and Internal Audit Budget**

LACERA will provide appropriate funding, as determined by the Audit Committee for compensation ~~and Internal Audit Budget for compensation to the Financial to the~~

Financial Auditor, to any Professional Service Provider that the Audit Committee chooses to engage, and for payment of ordinary administrative expenses of the Audit Committee that are necessary or appropriate in carrying out its duties.

During the April 23, 2021 Audit Committee meeting, Committee members discussed the merits of having a dedicated budget contingency fund for the Committee versus the ability to obtain all necessary funding through the proposed new language. The Committee concluded unanimously that the new language provided the Audit Committee with the necessary funding and they agreed to striking the language that provided for the contingency. Furthermore, the revised language is consistent with the rulemaking promulgations from the Securities and Exchange Commission (SEC).

Attached are the materials presented to the Audit Committee regarding the proposed Charter revisions, including the red-lined and clean versions of the proposed Charter, for the Board's review.

IT IS THEREFORE RECOMMENDED THAT THE BOARD approve and adopt the revised Audit Committee Charter.

RPB:cl

Attachment:

Audit Committee Materials Regarding Audit Committee Charter Revisions

April 27, 2021

TO: Each Trustee,
Board of Retirement
Board of Investments

FROM: Audit Committee
Joseph Kelly, Chair
Shawn R. Kehoe, Vice Chair
Vivian H. Gray, Secretary
Alan J. Bernstein
Keith Knox
Ronald A. Okum
Gina V. Sanchez

FOR: May 5, 2021 Board of Retirement Meeting
May 19, 2021 Board of Investments Meeting

SUBJECT: Approval of the Revised Audit Committee Charter

RECOMMENDATION

That the Board of Retirement and Board of Investments approve and adopt the revised Audit Committee Charter.

BACKGROUND

The Institute of Internal Auditors (IIA) recommends that an audit committee formally define its purpose, authority, and responsibilities in a charter. In addition, the IIA recommends periodic reviews of the charter to ensure the charter is aligned with industry best practices and organizational changes. LACERA's Audit Committee Charter (Charter) was established in 2004, and has been updated throughout the years, most recently in December 2020.

At the February 19, 2021 Audit Committee meeting, staff recommended the Committee:

- A. Review and approve the proposed Internal Audit FY 2022 Budget Request to be presented to the Boards for approval.
- B. Provide direction to staff on the amount of contingency funding to be requested to fund the Audit Reserve Fund.

The Committee unanimously approved the proposed Internal Audit FY 2022 Budget Request to be presented to the Boards for approval. After discussion, the Committee voted to recommend to the Boards to fund the contingency budget in the amount of \$250,000 but asked staff to bring the Charter to the April meeting for additional consideration.

Internal Audit and the Audit Committee Chair proposed revisions to the Charter at the April 23, 2021 Audit Committee. Internal Audit proposed minor edits to the charter while the Chair proposed a more significant revision. The Chair's proposed revision was to:

Delete from section VII. (Responsibilities) A.1. **Internal Audit Activity**

Recommend to the Boards a budget to achieve the Plan plus a contingent budget for additional work related to audit findings or other unplanned work.

Add Section VII. (Responsibilities) F. **Audit Committee and Internal Audit Budget**

LACERA will provide appropriate funding, as determined by the Audit Committee for compensation and Internal Audit Budget for compensation to the Financial Service Provider that the Audit Committee chooses to engage, and for payment of ordinary administrative expenses of the Audit Committee that are necessary or appropriate in carrying out its duties.

During the April 23, 2021 Audit Committee meeting, Committee members discussed the merits of having a dedicated budget contingency fund for the Committee versus the ability to obtain all necessary funding through the proposed new language. The Committee concluded unanimously that the new language provided the Audit Committee with the necessary funding and they agreed to striking the language that provided for the contingency.

Attached are the materials presented to the Audit Committee regarding the proposed Charter revisions, including the red-lined and clean versions of the proposed Charter, for the Board's review.

IT IS THEREFORE RECOMMENDED THAT THE BOARDS approve and adopt the revised Audit Committee Charter.

RPB:cl

Attachment:

Audit Committee materials regarding Audit Committee Charter revisions



April 15, 2021

TO: 2021 Audit Committee
Joseph Kelly, Chair
Shawn R. Kehoe, Vice Chair
Vivian H. Gray, Secretary
Alan J. Bernstein
Keith Knox
Ronald A. Okum
Gina V. Sanchez

Audit Committee Consultant
Robert H. Griffin

FROM: Richard P. Bendall 
Chief Audit Executive

Christina Logan 
Principal Internal Auditor

FOR: April 23, 2021 Audit Committee Meeting

SUBJECT: Revisions to the Audit Committee Charter

RECOMMENDATION

- a) Provide direction to staff on the proposed revisions to the Audit Committee Charter,
- b) Upon approval, recommend to the Board of Retirement and Board of Investments to adopt the revised Audit Committee Charter.

BACKGROUND

The Institute of Internal Auditors (IIA) recommends that an audit committee formally define its purpose, authority, and responsibilities in a charter. In addition, the IIA recommends periodic reviews of the charter to ensure the charter is aligned with industry best practices and organizational changes.

LACERA's Audit Committee Charter (Charter) was established in 2004, and has been updated throughout the years, most recently in December 2020 (Attachment B). The IIA's current model charter is provided for your reference (Attachment C).

At the February Audit Committee meeting, it was requested that we bring the Charter to this meeting for additional discussion. We have attached a red-line version (Attachment D) and a clean version (Attachment E).

PROPOSED REVISIONS

The Audit Committee Chair is proposing the revisions below to the Charter. The Chair has provided a memo detailing the reasoning for his proposal (Attachment A).

VII. Responsibilities A. Internal Audit Activity – replacing the language with a new section under **VII. Responsibilities G. Budget**. The wording for the new section is derived from Deloitte’s Sample Audit Committee Charter but tailored for LACERA.

PROPOSED EDITS

Internal Audit and the Audit Committee Chair are proposing the following minor edits to the Charter:

- **IV. Authority** - Remove the third paragraph since two of the three points were already under **VII. Responsibilities B. Professional Service Provider Activity**.
- **V. Audit Committee and Consultant** - Corrected the job title for the Los Angeles County Treasurer to be consistent with CERL and corrected a grammar error.
- **VI. Audit Committee Meetings** – Added to the fourth paragraph that materials are published to LACERA’s website and removed from the sixth paragraph unnecessary language.
- **VII. Responsibilities B. Professional Service Providers** – Corrected “External Financial Auditor” to “Financial Auditor” to be consistent throughout the Charter and added the third point from **IV. Authority**.

RECOMMENDATION

We recommend the Audit Committee Provide direction to staff on the proposed revisions to the Audit Committee Charter, and upon approval, recommend to the Board of Retirement and Board of Investments to adopt the revised Audit Committee Charter.

Attachments

RPB:cl

April 16, 2021

TO: Audit Committee
FROM: Joseph Kelly, Chair *JK*
SUBJECT: Audit Committee Funding

This memorandum responds to a discussion at the February 19, 2021 Audit Committee meeting regarding Item V. B. a recommendation that the Audit Committee approve the Internal Audit Proposed Fiscal Year (FY) 2021-2022 Budget and a contingent budget for additional work related to audit findings or other unplanned work. Section VII. A. 1.C. of the Audit Committee Charter requires the Committee to recommend to the Boards a budget to achieve the audit plan, plus a contingent budget.

In the meeting, we discussed replacing the contingent budget language with a statement that LACERA would commit to provide the Committee the funding necessary for the Committee to conduct its mission. The reasons for this included the availability of unspent operating funds in Internal Audit's operating budget as a source to fund unplanned audits, the limitations in the use of the contingent budget to only one area of Committee responsibility (i.e., audit), and the potential that any contingent budget the Committee approved may be insufficient to fund the costs of unplanned audits. Discussion followed regarding the mechanisms through which LACERA would be able to incorporate such a commitment into its budgetary practices. In the end, the Committee approved a contingent budget in the amount of \$250,000.

Discussion of an agency commitment to provide appropriate funding.

In presenting charter revisions for the Committee's consideration in calendar year 2020, staff had relied primarily on a sample charter promulgated by the Institute of Internal Auditors - Global (IIA) and a review of peer pension fund charters. The IIA sample charter was designed to illustrate common practices across multiple jurisdictions, including international jurisdictions, and, as such, the IIA cautioned that the generic nature of this document required customization. Like the charter the Audit Committee approved in December 2020, the IIA sample charter grants to the Audit Committee the authority to approve the appointment, compensation, and work of the Financial Auditor hired to audit financial statements and approve the appointment, compensation, and work of other Professional Service Providers to perform non-financial statement audits, reviews, or investigations. The IIA sample charter is silent on the budgetary impact to the organization of the granting of this authority to the Audit Committee. Yet, the charter the Audit Committee approved in December 2020, introduced the concept of a contingent budget and capped that contingent budget at \$500,000.

Deloitte also publishes a *Sample Audit Committee Charter*¹ based on its observations of selected companies and the requirements of the Securities and Exchange Commission (SEC), the New York Stock Exchange (NYSE), and the National Association of Securities Dealers and Nasdaq. The *Sample Audit Committee Charter* delegates to the Audit Committee the same responsibilities regarding the appointment and compensation of the financial auditor and other professional service providers as does the IIA sample charter, but Deloitte addresses the budgetary impact of this delegation as follows: ***The issuer [company] will provide appropriate funding, as determined by the audit committee, for compensation to the independent auditor, to any advisers that the audit committee chooses to engage, and for payment of ordinary administrative expenses of the audit committee that are necessary or appropriate in carrying out its duties.*** [Rule 10A-3(b)(5) of the Exchange Act, NYSE Corporate Governance Rule 303A.06, and NASDAQ Corporate Governance Rule 5605(c)(3)].

This language Deloitte recommends regarding Audit Committee funding is sourced from the SEC. Specifically, effective April 25, 2003, the SEC, as directed by the Sarbanes-Oxley Act of 2002 (SOX), adopted a new rule related to audit committee requirements. These requirements related to the independence of audit committee members; the audit committee's responsibility to select and oversee the independent accountant; procedures for handling complaints regarding accounting practices; the authority of the audit committee to engage advisors; and funding for the independent auditor and any outside advisors engaged by the audit committee. LACERA does not issue securities that are listed on national securities exchanges and is therefore not subject to this rule. However, organizations that are not subject to the rule consider its provisions to be best practice and many adopt its provisions, nonetheless, and many of the provisions of this rule are found in the IIA's sample Audit Committee Charter.

In promulgating this rule, the SEC provided the following commentary regarding Audit Committee funding which I found particularly insightful and applicable to the question at hand.

E. Funding

An audit committee's effectiveness may be compromised if it is dependent on management's discretion to compensate the independent auditor or the advisors employed by the committee, especially when potential conflicts of interest with management may be apparent. Accordingly, as proposed, the final rule requires the issuer to provide for appropriate funding, as determined by the audit committee, in its capacity as a committee of the board of directors, for payment of compensation:

¹ <https://www2.deloitte.com/content/dam/Deloitte/us/Documents/center-for-board-effectiveness/us-audit-committee-resource-guide-appendix-a.pdf>

- *To any registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the listed issuer; and*
- *To any advisors employed by the audit committee.*

This requirement will further the standard relating to the audit committee's responsibility to appoint, compensate, retain and oversee the outside auditor. It also will add meaning to the standard relating to the audit committee's authority to engage independent advisors. Not only could an audit committee be hindered in its ability to perform its duties objectively by not having control over the ability to compensate these advisors, but the role of the advisors also could be compromised if they are required to rely on management for compensation. Thus, absent such a provision, both the audit committee and the advisors could be less willing to address disagreements or other issues with management.

Commenters supported this requirement. We also requested comment on whether there should be limits on the amount of compensation that could be requested by the audit committee. The overwhelming majority of commenters did not support compensation limits, arguing that to do otherwise would subvert the intent of the requirement. These commenters argued that audit committee members' own fiduciary duties to the issuer and natural oversight by the board of directors over the audit committee would address any concerns over abuse. The final rule does not set funding limits.

Some commenters believed it would be appropriate to supplement the funding requirements. While the Commission's proposal would address the compensation of advisors, it would not provide assurance that the audit committee itself can obtain the funding it needs to carry out its duties. Specifically, these commenters believed the final rule should also state that the issuer must provide appropriate funding for ordinary administrative expenses of the audit committee. We find merit in this suggestion. An audit committee's effectiveness may be compromised if it is dependent on management's discretion to pay for the committee's expenses, especially when potential conflicts of interest with management may be apparent. Accordingly, the final rule provides that, in addition to funding for advisors, the issuer must provide appropriate funding for ordinary administrative expenses of the audit committee that are necessary or appropriate in carrying out its duties.

The Government Finance Officers Association (GFOA), a well-respected public sector finance organization, includes the following in its recommendations regarding the establishment of audit committees by state and local governments²: ***The audit committee should be adequately funded and should be authorized to engage the services of financial experts, legal counsel, and other appropriate specialists, as***

² <https://www.gfoa.org/materials/audit-committees>

necessary to fulfill its responsibilities. However, the GFOA also notes that one should not interpret this recommended practice as limiting the full governing body from exercising ultimate authority.

Analysis of contingent budget with a cap, or an agency commitment to provide appropriate funding

By its very nature, the contingent budget with its current cap of \$250,000 puts guiderails around the Audit Committee's spending authority. Some trustees may believe that is prudent given the fact that the organization's two governing boards, the Board of Retirement and Board of Investment, had never granted budgetary authority to any of its committees before they narrowly approved the granting of budgetary authority to this committee, and that any discretionary use of budgetary authority could be minimized through a very focused audit planning process. I concur that the audit planning process should be thorough and, if it is, would reduce the likelihood that the Audit Committee would need to retain advisory firms beyond those included in the plan. But, establishing guiderails could compromise, at a minimum, the perception that the Audit Committee can achieve its objectives. The Audit Committee in this organization is an important component in the system of internal controls designed to protect the organization's financial assets, which are approaching nearly \$70 billion. Deviations in Committee responsibility and support from recommended best practice could compromise the effectiveness of that system of internal controls, certainly in perception if not also in practice. To put that \$70 billion figure in perspective, it is greater than the market capitalization of each of the following well-known firms: Colgate-Palmolive, BMW, and Marsh & McClellan. This organization's 180,000 members deserve an internal control system that meets or exceeds that which the recommended practices would allow.

There are several mechanisms in place that should, individually and collectively, give comfort to each trustee that this Committee would act responsibly should the boards commit to provide it appropriate funding.

- Fiduciary duty - As commenters in the SEC rulemaking note, chief among these mechanisms are audit committee members' own fiduciary duties. I have served as a trustee for nearly ten years and although we may disagree from time to time on different issues, each one of us consistently holds high the fiduciary duty of loyalty and care.
- Number of Committee Members – at seven members, three from each board with the County Treasurer serving ex officio, each board is well represented. As well, the size of the group also allows for greater representation of differing opinions, which can be discussed and deliberated, enhancing the quality of decisions.
- Oversight – As commenters in the SECF rulemaking noted, natural oversight by the boards over the audit committee would address any concerns over abuse.

This Committee's authorities are those which the boards grant to it. If despite consistent application of our fiduciary duties and quality of decision-making, we run amok in the application of the boards' commitment to provide appropriate funding, then we should expect the boards to engage with the Committee on their concerns.

Application of a commitment to provide appropriate funding

Santos Kreimann, Steven Rice, Richard Bendall and I met to discuss the impact of this language, should the Audit Committee adopt it, on LACERA's budget practices. Mr. Kreimann stated that if the Audit Committee engaged a firm related to a matter that had not been included in the Audit Plan, he would first look to the Audit Division's operating budget to determine if any projected savings were available to fund that expenditure, in whole or in part. Secondly, he would identify budgetary savings from the overall budget to transfer to the Audit Division operating budget to fund the additional services. If the projected savings were not sufficient, then, depending on the dollar amount of the deficiency, he may present a budget adjustment for additional appropriation to each board.

Conclusion and Recommendation

I consider the SEC rulemaking and GFOA to be best practice in this area, which leads me to conclude that the Audit Committee charter should include a statement that LACERA will provide appropriate funding to the Audit Committee, replacing reference to a contingent budget. Applying a limit or a cap to that broad organizational commitment could compromise this organization's comprehensive system of internal controls. Committee abuse of this commitment can be minimized if not curtailed in its entirety through consistent adherence by trustees to their fiduciary duties, the number of trustees on the committee which leaves each board well represented and allows for deliberation of differing opinions, and general oversight by the boards. In my analysis I weight the negative impact to our system of internal controls more heavily than I do the likelihood of Committee abuse of this commitment.

Given this, the Audit Committee Charter before your Committee includes the deletion of the requirement that the Committee recommend a contingent budget and includes the addition of the following language:

LACERA will provide appropriate funding, as determined by the Audit Committee, for compensation to the Financial Auditor, to any Professional Service Provider that the Audit Committee chooses to engage, and for payment of ordinary administrative expenses of the Audit Committee that are necessary or appropriate in carrying out its duties.

Thank you for your consideration of this information and recommendation.

C: Santos Kreimann
Richard Bendall
Steven Rice
Johanna Fontenot
JJ Popowich



Audit Committee Charter

December 2020

A decorative graphic at the bottom of the page consisting of several overlapping, semi-transparent geometric shapes in shades of blue and grey. The shapes are arranged in a way that creates a sense of depth and movement. The year "2020" is prominently displayed in a large, bold, blue font on the right side of the graphic.

2020



AUDIT COMMITTEE CHARTER

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AUDIT COMMITTEE CHARTER

I. CHARTER

This Charter establishes the authority and responsibilities of the Audit Committee, as assigned by Los Angeles County Employees Retirement Association's (LACERA) Board of Retirement and Board of Investments (Boards). The Audit Committee Charter is a living document and should be reviewed at least every three years.

II. PURPOSE AND ASSIGNED FIDUCIARY OVERSIGHT DUTIES

In November 2003, LACERA's Boards established the LACERA Audit Committee.

The purpose of the Audit Committee is to assist the Boards in fulfilling their fiduciary oversight duties for the:

- A.** Internal Audit Activity
- B.** Professional Service Provider Activity
- C.** Financial Reporting Process
- D.** Values and Ethics, and
- E.** Organizational Governance

III. PRINCIPLES OF THE AUDIT COMMITTEE

The Audit Committee will conduct itself in accordance with LACERA's Code of Ethical Conduct and the following core principles from the Institute of Internal Auditors' (IIA) Code of Ethics. The Audit Committee expects the Boards, Management, and staff will also adhere to these requirements.

Integrity – The Audit Committee Members will perform their work with honesty, diligence, and responsibility. The Audit Committee expects and will encourage transparency when fulfilling its duties. Communications between Committee Members, Management, staff, and/or Professional Service Providers will be open, direct, and complete. Subject to applicable laws and organizational limitations, Internal Audit will regularly provide the Audit Committee with updates on audit and consulting projects completed and related findings and follow-up.

Independence & Objectivity - The Audit Committee will perform its responsibilities in an independent manner and in compliance with fiduciary duty without exception. Audit Committee Members will disclose any conflicts of interest (actual or perceived) to the Committee.

Confidentiality – The Audit Committee Members will be prudent in the use and protection of information acquired during the course of its duties.



Competency - Audit Committee Members will receive formal orientation training on the purpose and mandate of the Committee and LACERA's objectives. Audit Committee Members are obligated to prepare for and participate in Committee meetings.

Professional Standards - The Audit Committee will ensure all related work will be handled with the highest professional standards consistent with auditing standards of practice and industry guidelines.

IV. AUTHORITY

The Audit Committee will have unrestricted access to Management and staff, and any relevant information it considers necessary to discharge its duties. All employees are directed to cooperate with the Committee and its requests. If access to requested information is denied due to legal or confidentiality reasons, the Audit Committee and/or CAE will follow a prescribed, Board approved mechanism for resolution of the matter.

The Audit Committee has the authority to conduct or authorize investigations into any matters within its scope of duties, including engaging independent counsel and/or other advisors it deems necessary.

The Audit Committee is empowered to:

1. Approve the appointment, compensation, and work of the Financial Auditor hired to audit LACERA's financial statements.
2. Approve the appointment, compensation, and work of other Professional Service Providers to perform non-financial statement audits, reviews, or investigations, subject to limitations due to confidentiality, legal standards, and/or where approval will clearly impair the purpose or methods of the audit.
3. Resolve any significant disagreements regarding risks, findings, and/or payment between Management and the Financial and/or Other Service Providers.

V. AUDIT COMMITTEE COMPOSITION AND CONSULTANT

The Audit Committee will consist of seven members: three elected annually from each Board and the ex-officio member of both Boards, the LA County's Treasurer and Tax Collector. If any elected Audit Committee member leaves Board service or resigns from the Audit Committee prior to the completion of their term, the Board of the departing member, will elect a new Audit Committee member at the next regularly scheduled Board meeting.



The Committee shall have the authority to approve the hiring of the Audit Committee Consultant as an advisor through a Request for Proposal process. The Audit Committee Consultant will be designated as the audit technical and financial expert, to advise the Committee on audit and financial matters. The Audit Committee Consultant's contract will be for three years.

At the first Committee meeting of each calendar year, the Committee shall elect a Chairman, Vice Chair and Secretary, each to serve for a term of one year or until his or her successor is duly elected and qualified, whichever is less. In the event of a vacancy in the office of Chair, the Vice Chair shall immediately assume the office of Chair for the remainder of the term. In the event of a vacancy in the office of Vice Chair or Secretary, the Committee shall elect one of its members to fill such vacancy for the remainder of the term, at its next regular meeting.

VI. AUDIT COMMITTEE MEETINGS

The Audit Committee will conduct regular meetings at least four times per year, with authority to convene additional meetings, as circumstances require. The time frame between Audit Committee meetings should not exceed four months.

All Committee Members are expected to attend each meeting.

All meetings of the Audit Committee shall be as noticed as joint meetings with the Board of Retirement and Board of Investments to allow for participation of all trustees in open and closed session Audit Committee discussions, provided that non-committee trustees may not make or second motions or vote and provided further that closed sessions to discuss the CAE's annual assessment and the Committee's recommendation to the Boards regarding the appointment, discipline, dismissal, and/or removal of the CAE shall be noticed for attendance by Committee members only.

Regular meeting notices and agendas will be posted at least 72 hours in advance of the regular meetings and will be made available to the public in accordance with the Ralph M. Brown Act (Government Code Sections 54950, et seq.). Public documents referred to in the agenda will be made available for review at the office of the staff secretary to the Committee. The Committee will invite members of Management, Internal Auditors, Financial Auditors, all other Professional Service Providers, and/or others to attend meetings and provide pertinent information, as necessary.

Special meetings of the Committee may be called in the manner provided by Government Code Section 54956(a). The Committee will have such other powers as provided in the Brown Act.

Robert's Rules of Order, except as otherwise provided herein, shall guide the Committee in its proceedings; however, the Chair of the Committee shall have the same rights to vote and participate in discussions as any other member of the Committee without relinquishing the chair. The order of business shall be as determined by formal action of the Committee. Four members of the seven-member Audit Committee, excluding the Audit Committee Consultant, constitute a quorum.



The Secretary of the Committee shall cause to be recorded in the minutes the time and place of each meeting of the Committee, the names of the members present, all official acts of the Committee, the votes given by members except when the action is unanimous, and when requested by a member, that member's dissent or approval with his or her reasons, and shall cause the minutes to be written forthwith and presented for approval at the next regular meeting.

VII. RESPONSIBILITIES

A. Internal Audit Activity

1. Internal Audit Strategy and Annual Plan
 - a. Review and provide input on Internal Audit's annual risk assessment
 - b. Review and approve Internal Audit's Annual Audit Plan (Plan) and resource plan, make recommendations concerning audit projects.
 - c. Recommend to the Boards a budget to achieve the Plan plus a contingent budget for additional work related to audit findings or other unplanned work.
 - d. Review and monitor Internal Audit's activity relative to its Plan. Review and approve all major changes to the Plan.
2. Internal Audit Engagement & Follow-Up
 - a. Review and discuss engagement reports to take the following action(s):
 - i. accept and file report,
 - ii. instruct staff to forward report to Boards or Committees,
 - iii. make recommendations to the Boards or Committees regarding actions as may be required based on audit findings and/or,
 - iv. provide further instruction to staff.
 - b. Monitor Internal Audit's recommendations to ensure Management has adequately and timely addressed the risk(s) identified, either through implementing a new policy, procedure, or process, or accepting the associated risk.
 - c. Inquire whether any evidence of fraud has been identified during internal or external audit engagements, and evaluate what additional actions, if any, should be taken.
 - d. Inquire whether any audit or non-audit engagements have been completed but not reported to the Audit Committee; if so, inquire whether any matters of significance arose from such work.
 - e. Review and advise Management and the Boards on the results of any special investigations.



3. Standards Conformance
 - a. Approve the Internal Audit Charter.
 - b. Ensure the Internal Audit Division conforms with the IIA's International Standards for the Professional Practice of Internal Audit, particularly the independence of Internal Audit and its organizational structure.
 - c. Ensure the Internal Audit Division has a quality assurance and improvement program (QAIP), and that the results of these periodic assessments are presented to the Audit Committee.
 - d. Ensure the Internal Audit Division has an external quality assurance review every five years. Review the results of the external quality assurance review and monitor the implementation of related recommendations.

Advise the Boards about any recommendations for the continuous improvement of the internal audit activity.

4. Chief Audit Executive (CAE)

Since the CAE reports to the Chief Executive Officer (CEO) for administrative purposes, but to the Audit Committee for functional purposes, the Audit Committee will be responsible for the following:

- a. Make recommendations to both Boards regarding the appointment, discipline, dismissal, and/or removal of the CAE, which will be addressed by the Boards in a joint meeting. Both Boards will make the final decisions as to the appointment, discipline, dismissal, and/or removal of the CAE. The CEO has authority to administer minor discipline, which is limited to counseling memos and written warnings, with notice of such discipline to be provided to the Committee and the Boards at their next meetings. Consideration by the Boards and the Committee concerning the appointment, discipline, dismissal, and/or removal of the CAE will be made in executive session under Government Code Section 54957(b).
- b. Perform the CAE's annual assessment with qualitative input from the CAE and CEO. The Committee's discussion regarding the CAE's annual performance evaluation will be made in executive session under Government Code Section 54957(b).
- c. Administer the CAE's annual salary adjustment using the Boards' established compensation structure.

B. Professional Service Provider Activity

The Audit Committee is responsible for the oversight of all work performed by professional service providers (Service Providers) for audits, reviews, or investigations, including the audit of LACERA's financial statements.



1. Approve the appointment and compensation of the External Financial Auditor, hired to perform an independent audit of LACERA's financial statements. Oversee the work of the Financial Auditor, including review of the Financial Auditor's proposed audit scope and approach, as well as coordination with Internal Audit and Management.
2. Approve the appointment and compensation of other Professional Service Providers, hired to perform non-financial statement audits, reviews or consulting, subject to limitations due to confidentiality, legal standards, and/or where approval will clearly impair the purpose or methods of the audit.
3. Review the Professional Service Providers, including the Financial Auditor, and Management the results of the work performed, any findings and recommendations, Management's responses, and actions taken to implement the audit recommendations.

C. Financial Reporting Process

The Audit Committee is responsible for the oversight of the independent audit of LACERA's financial statement, including but not limited to overseeing the resolution of audit findings in areas such as internal control, legal, regulatory compliance, and ethics.

1. Review significant accounting and reporting issues, including complex or unusual transactions and highly judgmental areas, recent professional and regulatory pronouncements, and understand their impact on the financial statements.
2. Review with Management and the Financial Auditors the results of the audit, including any difficulties encountered.
3. Review the annual financial statements, consider whether they are complete, consistent with information known to Committee members, and reflect appropriate accounting principles.
4. Review with Management and the Financial Auditors all matters required to be communicated to the Committee under *Generally Accepted Auditing Standards*.

D. Values and Ethics

1. Review and assess LACERA's Code of Ethical Conduct established by the Boards and Management.
2. Annually, review Management's process for communicating LACERA's Code of Ethical Conduct to Trustees, Management, and staff, and for monitoring compliance therewith.



3. Review reports received relating to conflicts of interest and ethics issues, and if appropriate, make a recommendation to the Boards.

E. Organizational Governance

To obtain reasonable assurance with respect to LACERA's governance process, the Audit Committee will review and provide advice on the governance process established and maintained, and the procedures in place to ensure they are operating as intended.

1. Risk Management

- a. Annually review LACERA's risk profile.
- b. Obtain from the CAE an annual report on Management's implementation and maintenance of an appropriate enterprise wide risk management process. Provide advice on the risk management processes established and maintained, and the procedures in place to ensure that they are operating as intended.
- c. Provide oversight on significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by Management and the Boards.

2. Fraud

- a. Oversee Management's arrangements for the prevention and detection of fraud, including ensuring adequate time is spent discussing and raising awareness about fraud and the Hotline.
- b. Review a summary of Hotline reports, and if appropriate make a recommendation to the Boards.

3. System of Internal Controls

- a. Consider the effectiveness of LACERA's internal control system, including information technology security and control, as well as all other aspects of LACERA's operations.
- b. Understand the scope of Internal and External Auditors' review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with Management's responses.
- c. Review and provide advice on control of LACERA as a whole and its individual divisions.

4. System of Compliance

- a. Annually, review the effectiveness of Management's system of compliance with laws, regulations, policies, and procedures that are business critical.



- b. As needed, review the observations and findings of any examinations by regulatory agencies.
- c. Obtain regular updates from Management and LACERA's Legal Office regarding compliance matters.
- d. At least annually, review reported activity to ensure issues of fraud, noncompliance, and/or inappropriate activities are being addressed.

F. Other Responsibilities

- 1. Report to the Boards as needed about the Audit Committee's activities, issues, and related recommendations.
- 2. Provide an open avenue of communication between Internal Audit, all Professional Service Providers, including the Financial Auditor, Management, and the Boards.
- 3. Perform other activities related to this Charter as requested by the Boards.
- 4. Review and assess the adequacy of the Committee's Charter at least every three years, requesting the Boards' approval for proposed changes.

VIII. APPROVAL

This Charter was reviewed by the Audit Committee on December 11, 2020 and approved by the Board of Investments and Board of Retirement on December 16, 2020. This Charter is thereby effective December 16, 2020 and is hereby signed by the following persons who have authority and responsibilities under this Charter.

Gina V Sanchez

Gina Sanchez

Chair, Audit Committee

1/13/2021

Date

David Green

David Green

Chair, Board of Investments

1/13/21

Date

Herman B. Santos

Herman Santos

Chair, Board of Retirement

1/13/2021

Date

Signature: 
Gina V Sanchez (Jan 14, 2021 14:00 PST)

Email: gsanchez@lacera.com

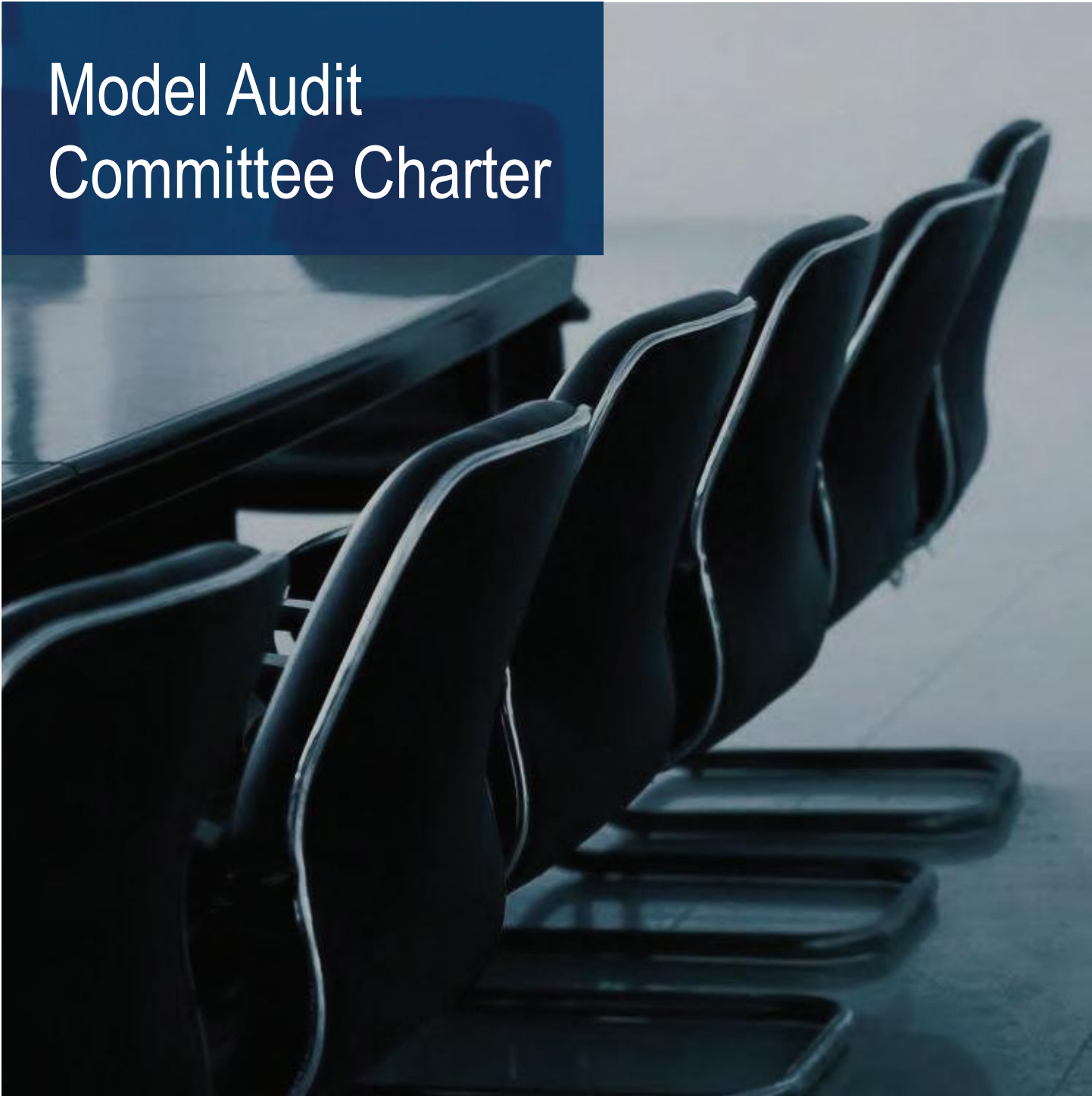
Signature: 
Herman Santos (Jan 20, 2021 14:13 PST)

Email: hermasantos49@gmail.com

Signature: 
David Green (Jan 14, 2021 14:09 PST)

Email: davidgreen37@sbcglobal.net

Model Audit Committee Charter



Revised: March 2017

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Preface

The Model Audit Committee Charter is designed to illustrate common or leading practices typically set out in an audit committee charter. The generic nature of this draft is intended to encourage customization.

The document may not reflect all legal or regulatory requirements that exist in the every jurisdiction. Additionally, stakeholder expectations may influence the inclusion or deletion of certain practices.

In drafting an audit committee charter, care should be exercised to customize the charter, including replacing bracketed, blue text with language that accurately reflects the user's situation.

Organizational Principles

Introduction [Optional]

The audit committee plays an important role in providing oversight of the organization's governance, risk management, and internal control practices. This oversight mechanism also serves to provide confidence in the integrity of these practices. The audit committee performs its role by providing independent oversight to the governing body e.g. board.

Background [Optional]

The audit committee was established on [date]. At that time, the charter for the committee was established. The charter, which governs the work of the committee, was reviewed and updated on [date].

Purpose

The purpose of the audit committee is to provide a structured, systematic oversight of the organization's governance, risk management, and internal control practices. The committee assists the board and management by providing advice and guidance on the adequacy of the organization's initiatives for:

- Values and ethics.
- Governance structure.
- Risk management.
- Internal control framework.
- Oversight of the internal audit activity, external auditors, and other providers of assurance.
- Financial statements and public accountability reporting.

In broad terms, the audit committee reviews each of the items noted above and provides the board with independent advice and guidance regarding the adequacy and effectiveness of management's practices and potential improvements to those practices.

Mandate [Optional]

The mandate for the establishment of the audit committee was derived from [Insert text; the exact source of the mandate will vary among jurisdictions and depend on the location, government structure, type of public sector services, and relationship to other government entities. This section is typical for public sector organizations and may come in the form of laws, regulations, policies and procedures, or bylaws.].

Authority

The audit committee charter sets out the authority of the audit committee to carry out the responsibilities established for it by the board as articulated within the Audit Committee Charter.

In discharging its responsibilities, the audit committee will have unrestricted access to members of management, employees, and relevant information it considers necessary to discharge its duties. The committee also will have unrestricted access to records, data, and reports. If access to requested documents is denied due to legal or confidentiality reasons, the Audit Committee and/or CAE will follow a prescribed, board approved mechanism for resolution of the matter.

The audit committee is entitled to receive any explanatory information that it deems necessary to discharge its responsibilities. The organization's management and staff should cooperate with audit committee requests.

The audit committee may engage independent counsel and/or other advisors it deems necessary to carry out its duties.

The audit committee is empowered to:

- Appoint, compensate, and oversee all audit and non-audit services performed by auditors, including the work of any registered public accounting firm employed by the organization. **[Note: This requirement may not be applicable in the public sector if the external auditor is established by legislation; for example, an Auditor General.]**
- Resolve any disagreements between management and the external auditor regarding financial reporting and other matters.
- Preapprove all auditing and non-audit services performed by auditors.

Composition of the Audit Committee

The audit committee will consist of **[Insert number; at least three]** members that are independent of the organization. The members should collectively possess sufficient knowledge of audit, finance, specific industry knowledge, IT, law, governance, risk, and control. Because the responsibilities of the audit committee evolve in response to regulatory, economic, and reporting developments, it is important to periodically re-evaluate members' competencies and the overall balance of skills on the committee in response to emerging needs.

The Chair of the Audit Committee

The board will designate the chair of the audit committee and appointment committee members.

Terms of Office

The term of office for an audit committee member is **[Insert number; typically three to four]** years. Continuance of audit committee members will be reviewed annually. To ensure continuity

within the audit committee, the appointment of members should be staggered. [Note: In some jurisdictions there are limits to the number of terms which independent members of the committee may serve, if this is the case such limits may be reflected in the charter.]

Quorum

The quorum for the audit committee will be a majority of the members.

Operational Principles

Audit Committee Values

The audit committee will conduct itself in accordance with the code of values and ethics of the organization and [Add reference to additional pertinent legislation/regulations/policies]. The audit committee expects that management and staff of the organization will adhere to these requirements.

Communications

The audit committee expects that all communication with management and staff of the organization as well as with any external assurance providers will be direct, open, and complete.

Work Plan

The audit committee chair will collaborate with senior management and the chief audit executive (CAE) to establish a work plan to ensure that the responsibilities of the audit committee are scheduled and will be carried out.

Meeting Agenda

The chair will establish agendas for audit committee meetings in consultation with audit committee members, senior management, and the CAE.

Information Requirements

The audit committee will establish and communicate its requirements for information, which will include the nature, extent, and timing of information. Information will be provided to the audit committee at least one week prior to each audit committee meeting.

Executive Sessions

The audit committee will schedule, and hold if necessary, a private session with the chief executive officer (CEO), the chief financial officer (CFO), the CAE, external assurance providers, and with any other officials that the audit committee may deem appropriate at each of its meetings.

Preparation and Attendance

Audit committee members are obligated to prepare for and participate in committee meetings.

Conflict(s) of Interest

Audit committee members should adhere to the organizations code of conduct and any values and ethics established by the organization. It is the responsibility of audit committee members to disclose any conflict of interest or appearance of a conflict of interest to the committee. If there is any question as to whether audit committee member(s) should recuse themselves from a vote, the committee should vote to determine whether the member should recuse himself or herself.

Orientation and Training

Audit committee members will receive formal orientation training on the purpose and mandate of the committee and on the organization's objectives. A process of continuing education will be established.

Operational Procedures

Meetings

The audit committee will meet at least **[Insert number; at least four is generally recommended]** times annually or more frequently as the committee deems necessary. The time frame between audit committee meetings should not exceed four months.

Minutes

Minutes will be prepared in accordance with applicable law, regulation, bylaw, policy, procedure, and/or other applicable requirements. Meeting minutes will be provided in draft format at least two weeks after the audit committee meeting.

Required Attendance

The CAE and **[Insert text; include the title of the person to whom the CAE reports and the title of the person responsible for managing the external audit relationship]** are required to attend all audit committee meetings.

Secretariat Services

The CAE (or another appropriate designee) will facilitate and coordinate meetings as well as provide ancillary support to the committee, as time and resources permit.

Remuneration of Committee Members

Committee members may be reimbursed for travel and committee-related expenses. **[If applicable, a policy should be established and outlined in the legal basis and/or a formal travel policy that applies to all committee members.]**

Payment rates and allowances for committee members' time and/or services are established formally in **[Insert text regarding laws, regulations, or in written policy and procedures by the governing body]**.

Professional Indemnity Insurance: **[Professional indemnity insurance arrangements that are suitable to both the member and the organization should be established. Insert text regarding agreed-upon arrangements]**.

Responsibilities

It is the responsibility of the audit committee to provide the board with independent, objective advice on the adequacy of management's arrangements with respect to the following aspects of the management of the organization:

Values and Ethics

To obtain reasonable assurance with respect to the organization's values and ethics practices, the audit committee will:

- Review and assess the policies, procedures, and practices established by the governing body to monitor conformance with its code of conduct and ethical policies by all managers and staff of the organization.
- Provide oversight of the mechanisms established by management to establish and maintain high ethical standards for all of the managers and staff of the organization.
- Review and provide advice on the systems and practices established by management to monitor compliance with laws, regulations, policies, and standards of ethical conduct and identify and deal with any legal or ethical violations.

Organizational Governance

To obtain reasonable assurance with respect to the organization's governance process, the audit committee will review and provide advice on the governance process established and maintained within the organization and the procedures in place to ensure that they are operating as intended.

Risk Management

To obtain reasonable assurance with respect to the organization's risk management practices, the audit committee will:

- Annually review the organization's risk profile.
- Obtain from the CAE an annual report on management's implementation and maintenance of an appropriate enterprise wide risk management process.

- Provide oversight on significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the board.
- Provide oversight of the adequacy of the combined assurance being provided.
- Review and provide advice on the risk management processes established and maintained by management and the procedures in place to ensure that they are operating as intended.

Fraud

To obtain reasonable assurance with respect to the organization's procedures for the prevention and detection of fraud, the audit committee will:

- Oversee management's arrangements for the prevention and deterrence of fraud.
- Ensure that appropriate action is taken against known perpetrators of fraud.
- Challenge management and internal and external auditors to ensure that the entity has appropriate antifraud programs and controls in place to identify potential fraud and ensure that investigations are undertaken if fraud is detected.

Control

To obtain reasonable assurance with respect to the adequacy and effectiveness of the organization's controls in responding to risks within the organization's governance, operations and information systems, the audit committee will:

- Consider the effectiveness of the organization's control framework, including information technology security and control.
- Review and provide advice on the control of the organization as a whole and its individual units.
- Receive reports on all matters of significance arising from work performed by other providers of financial and internal control assurance to senior management and the board.

Compliance

The audit committee will:

- Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any instances of noncompliance.
- Review the observations and conclusions of internal and external auditors and the findings of any regulatory agencies.

- Review the process for communicating the code of conduct to the organization's personnel and for monitoring compliance.
- Obtain regular updates from management and the organization's legal counsel regarding compliance matters.

Oversight of the Internal Audit Activity and Other Assurance Providers

Internal Audit Activity

To obtain reasonable assurance with respect to work of the internal audit activity, the audit committee will provide oversight related to:

Internal Audit Charter and Resources

- Review and approve the internal audit charter at least annually. The charter should be reviewed to ensure that it accurately reflects the internal audit activity's purpose, authority, and responsibility, consistent with the mandatory guidance of The IIA's International Professional Practices Framework and the scope and nature of assurance and consulting services, as well as changes in the financial, risk management, and governance processes of the organization and reflects developments in the professional practice of internal auditing.
- Advise the board about increases and decreases to the requested resources to achieve the internal audit plan. Evaluate whether any additional resources are needed permanently or should be provided through outsourcing.

CAE Performance

- Advise the board regarding the qualifications and recruitment, appointment, and removal of the CAE.
- Provide input to management related to evaluating the performance of the CAE.
- Recommend to management or the governing body the appropriate compensation of the CAE.

Internal Audit Strategy and Plan

- Review and provide input on the internal audit activity's strategic plan, objectives, performance measures, and outcomes.
- Review and approve proposed risk-based internal audit plan and make recommendations concerning internal audit projects.
- Review and approve the internal audit plan and engagement work program, including reviewing internal audit resources necessary to achieve the plan.
- Review the internal audit activity's performance relative to its audit plan.

Internal Audit Engagement and Follow Up

- Review internal audit reports and other communications to management.
- Review and track management's action plans to address the results of internal audit engagements.
- Review and advise management on the results of any special investigations.
- Inquire of the CAE whether any internal audit engagements or non-audit engagements have been completed but not reported to the committee; if so, inquire whether any matters of significance arose from such work.
- Inquire of the CAE whether any evidence of fraud has been identified during internal audit engagements and evaluate what additional actions, if any, should be taken.

Standards Conformance

- Inquire of the CAE about steps taken to ensure that the internal audit activity conforms with The IIA's *International Standards for the Professional Practice of Internal Auditing (Standards)*.
- Ensure that the internal audit activity has a quality assurance and improvement program and that the results of these periodic assessments are presented to the audit committee.
- Ensure that the internal audit activity has an external quality assurance review every five years.
- Review the results of the independent external quality assurance review and monitor the implementation of the internal audit activity's action plans to address any recommendations.
- Advise the board about any recommendations for the continuous improvement of the internal audit activity.

External Auditors

To obtain reasonable assurance with respect to work of the external assurance providers, the audit committee will meet with the external assurance providers during the planning phase of the engagement, the presentation of the audited financial statements, and the discussion of the results of engagements and recommendations for management.

The audit committee will:

- Review the external auditors' proposed audit scope and approach, including coordination of audit effort with the internal audit activity. **[Note: This may not be applicable in a public sector setting.]**
- Review the performance of the external auditors, and exercise final approval on the appointment or discharge of the auditors. **[Note: This may not be applicable in a public sector setting.]**

- Obtain statements from the external auditors about their relationships with the organization, including non-audit services performed in the past, and discuss the information with the external auditors to review and confirm their independence.
- Have regularly scheduled exclusive meetings with external auditors to discuss any sensitive matters.
- Monitor management's progress on action plans.

To obtain reasonable assurance that management has acted on the results and recommendations of internal and external audit engagements, the audit committee will regularly review reports on the progress of implementing approved management action plans and audit recommendations resulting from completed audit engagements.

Financial Statements and Public Accountability Reporting

The audit committee is responsible for oversight of the independent audit of the government entity's financial statements, including but not limited to overseeing the resolution of audit findings in areas such as internal control, legal, regulatory compliance, and ethics.

The audit committee will:

- Review with management and the external auditors the results of audit engagements, including any difficulties encountered.
- Review significant accounting and reporting issues, including complex or unusual transactions and highly judgmental areas, and recent professional and regulatory pronouncements, and understand their impact on the financial statements.
- Review the annual financial statements, and consider whether they are complete, consistent with information known to committee members, and reflect appropriate accounting principles.
- Review other sections of the annual report and related regulatory filings and consider the accuracy and completeness of the information before it is released.
- Review with management and the external auditors all matters required to be communicated to the audit committee under generally accepted external auditing standards.
- Understand strategies, assumptions and estimates that management has made in preparing financial statements, budgets, and investment plans.
- Understand how management develops interim financial information and the nature and extent of internal and external auditor involvement in the process.
- Review interim financial reports with management and external auditors before filing with regulators, and consider whether they are complete and consistent with the information known to committee members.

Other Responsibilities

In addition, the audit committee will:

- Perform other activities related to this charter as requested by the governing body.
- Institute and oversee special investigations as needed.
- Regularly evaluate its performance and that of its individual members. **[Note: Annual assessments are recommended.]**

Reporting on Audit Committee Performance

The audit committee will report to the board annually, summarizing the committee's activities and recommendations. The report may be delivered during an audit committee meeting attended by the board or during a regularly scheduled meeting of the board.

The report should include:

- A summary of the work the audit committee performed to fully discharge its responsibilities during the preceding year.
- A summary of management's progress in addressing the results of internal and external audit engagement reports.
- An overall assessment of management's risk, control, and compliance processes, including details of any significant emerging risks or legislative changes impacting the governing organization.
- Details of meetings, including the number of meetings held during the relevant period and the number of meetings each member attended.
- Provide information required, if any, by new or emerging corporate governance developments.
- The committee may report to the governing body at any time regarding any other matter it deems of sufficient importance.

Approval/Signatures

Chief Executive Officer _____ Date _____

Audit Committee Chair _____ Date _____

Chairman of the Board _____ Date _____

ABOUT THE IIA

The Institute of Internal Auditors (IIA) is the internal audit profession's most widely recognized advocate, educator, and provider of standards, guidance, and certifications. Established in 1941, The IIA today serves more than 190,000 members from more than 170 countries and territories. The association's global headquarters are in Lake Mary, Fla., USA. For more information, visit www.globaliia.org.

DISCLAIMER

The IIA publishes this document for informational and educational purposes and, as such, is only intended to be used as a guide. This guidance material is not intended to provide definitive answers to specific individual circumstances. The IIA recommends that you always seek independent expert advice relating directly to any specific situation. The IIA accepts no responsibility for anyone placing sole reliance on this guidance.

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Audit Committee Charter

April 2021

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2021

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AUDIT COMMITTEE CHARTER

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AUDIT COMMITTEE CHARTER

I. CHARTER

This Charter establishes the authority and responsibilities of the Audit Committee, as assigned by Los Angeles County Employees Retirement Association’s (LACERA) Board of Retirement and Board of Investments (Boards). The Audit Committee Charter is a living document and should be reviewed at least every three years.

II. PURPOSE AND ASSIGNED FIDUCIARY OVERSIGHT DUTIES

In November 2003, LACERA’s Boards established the LACERA Audit Committee.

The purpose of the Audit Committee is to assist the Boards in fulfilling their fiduciary oversight duties for the:

- A. Internal Audit Activity
- B. Professional Service Provider Activity
- C. Financial Reporting Process
- D. Values and Ethics, and
- E. Organizational Governance
- F. [Audit Committee and Internal Audit Budget](#)

III. PRINCIPLES OF THE AUDIT COMMITTEE

The Audit Committee will conduct itself in accordance with LACERA’s Code of Ethical Conduct and the following core principles from the Institute of Internal Auditors’ (IIA) Code of Ethics. The Audit Committee expects the Boards, Management, and staff will also adhere to these requirements.

Integrity – The Audit Committee Members will perform their work with honesty, diligence, and responsibility. The Audit Committee expects and will encourage transparency when fulfilling its duties. Communications between Committee Members, Management, staff, and/or Professional Service Providers will be open, direct, and complete. Subject to applicable laws and organizational limitations, Internal Audit will regularly provide the Audit Committee with updates on audit and consulting projects completed and related findings and follow-up.

Independence & Objectivity - The Audit Committee will perform its responsibilities in an independent manner and in compliance with fiduciary duty without exception. Audit Committee Members will disclose any conflicts of interest (actual or perceived) to the Committee.

Confidentiality – The Audit Committee Members will be prudent in the use and protection of information acquired during the course of its duties.

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Competency - Audit Committee Members will receive formal orientation training on the purpose and mandate of the Committee and LACERA’s objectives. Audit Committee Members are obligated to prepare for and participate in Committee meetings.

Professional Standards - The Audit Committee will ensure all related work will be handled with the highest professional standards consistent with auditing standards of practice and industry guidelines.

IV. AUTHORITY

The Audit Committee will have unrestricted access to Management and staff, and any relevant information it considers necessary to discharge its duties. All employees are directed to cooperate with the Committee and its requests. If access to requested information is denied due to legal or confidentiality reasons, the Audit Committee and/or CAE will follow a prescribed, Board approved mechanism for resolution of the matter.

The Audit Committee has the authority to conduct or authorize investigations into any matters within its scope of duties, including engaging independent counsel and/or other advisors it deems necessary.

V. AUDIT COMMITTEE COMPOSITION AND CONSULTANT

The Audit Committee will consist of seven members: three elected annually from each Board and the ex-officio member of both Boards, the Los Angeles County Treasurer. If any elected Audit Committee member leaves Board service or resigns from the Audit Committee prior to the completion of his or her term, the Board of the departing member, will elect a new Audit Committee member at the next regularly scheduled Board meeting.

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¶ Approve the appointment, compensation, and work of the Financial Auditor hired to audit LACERA’s financial statements.
¶ Approve the appointment, compensation, and work of other Professional Service Providers to perform non-financial statement audits, reviews, or investigations, subject to limitations due to confidentiality, legal standards, and/or where approval will clearly impair the purpose or methods of the audit.
¶ Resolve any significant disagreements regarding risks, findings, and/or payment between Management and the Financial and/or Other Service Providers.

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The Committee shall have the authority to approve the hiring of the Audit Committee Consultant as an advisor through a Request for Proposal process. The Audit Committee Consultant will be designated as the audit technical and financial expert, to advise the Committee on audit and financial matters. The Audit Committee Consultant’s contract will be for three years.

At the first Committee meeting of each calendar year, the Committee shall elect a Chair, Vice Chair and Secretary, each to serve for a term of one year or until his or her successor is duly elected and qualified, whichever is less. In the event of a vacancy in the office of Chair, the Vice Chair shall immediately assume the office of Chair for the remainder of the term. In the event of a vacancy in the office of Vice Chair or Secretary, the Committee shall elect one of its members to fill such vacancy for the remainder of the term, at its next regular meeting.

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VI. AUDIT COMMITTEE MEETINGS

The Audit Committee will conduct regular meetings at least four times per year, with authority to convene additional meetings, as circumstances require. The time frame between Audit Committee meetings should not exceed four months.

All Committee Members are expected to attend each meeting.

All meetings of the Audit Committee shall be as noticed as joint meetings with the Board of Retirement and Board of Investments to allow for participation of all trustees in open and closed session Audit Committee discussions, provided that non-committee trustees may not make or second motions or vote and provided further that closed sessions to discuss the CAE’s annual assessment and the Committee’s recommendation to the Boards regarding the appointment, discipline, dismissal, and/or removal of the CAE shall be noticed for attendance by Committee members only.

Regular meeting notices and agendas will be posted at least 72 hours in advance of the regular meetings and will be made available to the public in accordance with the Ralph M. Brown Act (Government Code Sections 54950, et seq.). Public documents referred to in the agenda will be made available for review at the office of the staff secretary to the Committee and also published on the LACERA website, lacera.com. The Committee will invite members of Management, Internal Auditors, Financial Auditors, all other Professional Service Providers, and/or others to attend meetings and provide pertinent information, as necessary.

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Special meetings of the Committee may be called in the manner provided by Government Code Section 54956(a). The Committee will have such other powers as provided in the Brown Act.

Robert’s Rules of Order, except as otherwise provided herein, shall guide the Committee in its proceedings; however, the Chair of the Committee shall have the same rights to vote and participate in discussions as any other member of the Committee without relinquishing the chair. The order of business shall be as determined by formal action of the Committee. Four members of the seven-member Audit Committee, constitute a quorum.

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The Secretary of the Committee shall cause to be recorded in the minutes the time and place of each meeting of the Committee, the names of the members present, all official acts of the Committee, the votes given by members except when the action is unanimous, and when requested by a member, that member’s dissent or approval with his or her reasons, and shall cause the minutes to be written forthwith and presented for approval at the next regular meeting.

VII. RESPONSIBILITIES

A. Internal Audit Activity

- 1. Internal Audit Strategy and Annual Plan
 - a. Review and provide input on Internal Audit’s annual risk assessment
 - b. Review and approve Internal Audit’s Annual Audit Plan (Plan) and resource plan, make recommendations concerning audit projects.
 - c. Review and monitor Internal Audit’s activity relative to its Plan. Review and approve all major changes to the Plan.
- 2. Internal Audit Engagement & Follow-Up
 - a. Review and discuss engagement reports to take the following action(s):
 - i. accept and file report,
 - ii. instruct staff to forward report to Boards or Committees,
 - iii. make recommendations to the Boards or Committees regarding actions as may be required based on audit findings and/or,
 - iv. provide further instruction to staff.
 - b. Monitor Internal Audit’s recommendations to ensure Management has adequately and timely addressed the risk(s) identified, either through implementing a new policy, procedure, or process, or accepting the associated risk.
 - c. Inquire whether any evidence of fraud has been identified during internal or external audit engagements, and evaluate what additional actions, if any, should be taken.
 - d. Inquire whether any audit or non-audit engagements have been completed but not reported to the Audit Committee; if so, inquire whether any matters of significance arose from such work.
 - e. Review and advise Management and the Boards on the results of any special investigations.

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3. Standards Conformance

- a. Approve the Internal Audit Charter.
- b. Ensure the Internal Audit Division conforms with the IIA’s International Standards for the Professional Practice of Internal Audit, particularly the independence of Internal Audit and its organizational structure.
- c. Ensure the Internal Audit Division has a quality assurance and improvement program (QAIP), and that the results of these periodic assessments are presented to the Audit Committee.
- d. Ensure the Internal Audit Division has an external quality assurance review every five years. Review the results of the external quality assurance review and monitor the implementation of related recommendations.

Advise the Boards about any recommendations for the continuous improvement of the internal audit activity.

4. Chief Audit Executive (CAE)

Since the CAE reports to the Chief Executive Officer (CEO) for administrative purposes, but to the Audit Committee for functional purposes, the Audit Committee will be responsible for the following:

- a. Make recommendations to both Boards regarding the appointment, discipline, dismissal, and/or removal of the CAE, which will be addressed by the Boards in a joint meeting. Both Boards will make the final decisions as to the appointment, discipline, dismissal, and/or removal of the CAE. The CEO has authority to administer minor discipline, which is limited to counseling memos and written warnings, with notice of such discipline to be provided to the Committee and the Boards at their next meetings. Consideration by the Boards and the Committee concerning the appointment, discipline, dismissal, and/or removal of the CAE will be made in executive session under Government Code Section 54957(b).
- b. Perform the CAE’s annual assessment with qualitative input from the CAE and CEO. The Committee’s discussion regarding the CAE’s annual performance evaluation will be made in executive session under Government Code Section 54957(b).
- c. Administer the CAE’s annual salary adjustment using the Boards’ established compensation structure.

B. Professional Service Provider Activity

The Audit Committee is responsible for the oversight of all work performed by professional service providers (Service Providers) for audits, reviews, or investigations, including the audit of LACERA’s financial statements.

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1. Approve the appointment and compensation of the Financial Auditor, hired to perform an independent audit of LACERA’s financial statements. Oversee the work of the Financial Auditor, including review of the Financial Auditor’s proposed audit scope and approach, as well as coordination with Internal Audit and Management.
2. Approve the appointment and compensation of other Professional Service Providers, hired to perform non-financial statement audits, reviews or consulting, subject to limitations due to confidentiality, legal standards, and/or where approval will clearly impair the purpose or methods of the audit.
3. Review the Professional Service Providers, including the Financial Auditor, and Management the results of the work performed, any findings and recommendations, Management’s responses, and actions taken to implement the audit recommendations.
4. Resolve any significant disagreements regarding risks, findings and/or compensation between management and Professional Service Providers

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C. Financial Reporting Process

The Audit Committee is responsible for oversight of the independent audit of LACERA’s financial statements, including but not limited to overseeing the resolution of audit findings in areas such as internal control, legal, regulatory compliance, and ethics.

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1. Review significant accounting and reporting issues, including complex or unusual transactions and highly judgmental areas, recent professional and regulatory pronouncements, and understand their impact on the financial statements.
2. Review with Management and the Financial Auditors the results of the audit, including any difficulties encountered.
3. Review the annual financial statements, consider whether they are complete, consistent with information known to Committee members, and reflect appropriate accounting principles.
4. Review with Management and the Financial Auditors all matters required to be communicated to the Committee under *Generally Accepted Auditing Standards*.

D. Values and Ethics

1. Review and assess LACERA’s Code of Ethical Conduct established by the Boards and Management.
2. Annually, review Management’s process for communicating LACERA’s Code of Ethical Conduct to Trustees, Management, and staff, and for monitoring compliance therewith.

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3. Review reports received relating to conflicts of interest and ethics issues, and if appropriate, make a recommendation to the Boards.

E. Organizational Governance

To obtain reasonable assurance with respect to LACERA's governance process, the Audit Committee will review and provide advice on the governance process established and maintained, and the procedures in place to ensure they are operating as intended.

1. Risk Management

- a. Annually review LACERA's risk profile.
- b. Obtain from the CAE an annual report on Management's implementation and maintenance of an appropriate enterprise-wide risk management process. Provide advice on the risk management processes established and maintained, and the procedures in place to ensure that they are operating as intended.
- c. Provide oversight on significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by Management and the Boards.

2. Fraud

- a. Oversee Management's arrangements for the prevention and detection of fraud, including ensuring adequate time is spent discussing and raising awareness about fraud and the Hotline.
- b. Review a summary of Hotline reports, and if appropriate make a recommendation to the Boards.

3. System of Internal Controls

- a. Consider the effectiveness of LACERA's internal control system, including information technology security and control, as well as all other aspects of LACERA's operations.
- b. Understand the scope of Internal and External Auditors' review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with Management's responses.
- c. Review and provide advice on control of LACERA as a whole and its individual divisions.

4. System of Compliance

- a. Annually, review the effectiveness of Management's system of compliance with laws, regulations, policies, and procedures that are business critical.

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- b. As needed, review the observations and findings of any examinations by regulatory agencies.
- c. Obtain regular updates from Management and LACERA’s Legal Office regarding compliance matters.
- d. At least annually, review reported activity to ensure issues of fraud, noncompliance, and/or inappropriate activities are being addressed.

F. Audit Committee and Internal Audit Budget

LACERA will provide appropriate funding, as determined by the Audit Committee, for compensation to the Financial Auditor, to any Professional Service Provider that the Audit Committee chooses to engage, and for payment of ordinary administrative expenses of the Audit Committee that are necessary or appropriate in carrying out its duties.

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G. Other Responsibilities

- 1. Report to the Boards as needed about the Audit Committee’s activities, issues, and related recommendations.
- 2. Provide an open avenue of communication between Internal Audit, all Professional Service Providers, including the Financial Auditor, Management, and the Boards.
- 3. Perform other activities related to this Charter as requested by the Boards.
- 4. Review and assess the adequacy of the Committee’s Charter at least every three years, requesting the Boards’ approval for proposed changes.

VIII. APPROVAL

This Charter was reviewed by the Audit Committee on April 23, 2021 and approved by the Board of Investments and Board of Retirement on May XX, 2021. This Charter is thereby effective May XX, 16, 2021 and is hereby signed by the following persons who have authority and responsibilities under this Charter.

5/XX/2021
Joseph Kelly
 Chair, Audit Committee

5/XX/2021
Keith Knox
 Chair, Board of Investments

5/XX/2021
Alan Bernstein
 Chair, Board of Retirement

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Audit Committee Charter

April 2021

A decorative graphic at the bottom of the page consisting of several overlapping, semi-transparent geometric shapes in shades of blue and grey. The year "2021" is prominently displayed in a large, bold, blue font on the right side of the graphic.

2021



AUDIT COMMITTEE CHARTER

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AUDIT COMMITTEE CHARTER

I. CHARTER

This Charter establishes the authority and responsibilities of the Audit Committee, as assigned by Los Angeles County Employees Retirement Association's (LACERA) Board of Retirement and Board of Investments (Boards). The Audit Committee Charter is a living document and should be reviewed at least every three years.

II. PURPOSE AND ASSIGNED FIDUCIARY OVERSIGHT DUTIES

In November 2003, LACERA's Boards established the LACERA Audit Committee.

The purpose of the Audit Committee is to assist the Boards in fulfilling their fiduciary oversight duties for the:

- A.** Internal Audit Activity
- B.** Professional Service Provider Activity
- C.** Financial Reporting Process
- D.** Values and Ethics, and
- E.** Organizational Governance
- F.** Audit Committee and Internal Audit Budget

III. PRINCIPLES OF THE AUDIT COMMITTEE

The Audit Committee will conduct itself in accordance with LACERA's Code of Ethical Conduct and the following core principles from the Institute of Internal Auditors' (IIA) Code of Ethics. The Audit Committee expects the Boards, Management, and staff will also adhere to these requirements.

Integrity – The Audit Committee Members will perform their work with honesty, diligence, and responsibility. The Audit Committee expects and will encourage transparency when fulfilling its duties. Communications between Committee Members, Management, staff, and/or Professional Service Providers will be open, direct, and complete. Subject to applicable laws and organizational limitations, Internal Audit will regularly provide the Audit Committee with updates on audit and consulting projects completed and related findings and follow-up.

Independence & Objectivity - The Audit Committee will perform its responsibilities in an independent manner and in compliance with fiduciary duty without exception. Audit Committee Members will disclose any conflicts of interest (actual or perceived) to the Committee.

Confidentiality – The Audit Committee Members will be prudent in the use and protection of information acquired during the course of its duties.



Competency - Audit Committee Members will receive formal orientation training on the purpose and mandate of the Committee and LACERA's objectives. Audit Committee Members are obligated to prepare for and participate in Committee meetings.

Professional Standards - The Audit Committee will ensure all related work will be handled with the highest professional standards consistent with auditing standards of practice and industry guidelines.

IV. AUTHORITY

The Audit Committee will have unrestricted access to Management and staff, and any relevant information it considers necessary to discharge its duties. All employees are directed to cooperate with the Committee and its requests. If access to requested information is denied due to legal or confidentiality reasons, the Audit Committee and/or CAE will follow a prescribed, Board approved mechanism for resolution of the matter.

The Audit Committee has the authority to conduct or authorize investigations into any matters within its scope of duties, including engaging independent counsel and/or other advisors it deems necessary.

V. AUDIT COMMITTEE COMPOSITION AND CONSULTANT

The Audit Committee will consist of seven members: three elected annually from each Board and the ex-officio member of both Boards, the Los Angeles County Treasurer. If any elected Audit Committee member leaves Board service or resigns from the Audit Committee prior to the completion of his or her term, the Board of the departing member, will elect a new Audit Committee member at the next regularly scheduled Board meeting.

The Committee shall have the authority to approve the hiring of the Audit Committee Consultant as an advisor through a Request for Proposal process. The Audit Committee Consultant will be designated as the audit technical and financial expert, to advise the Committee on audit and financial matters. The Audit Committee Consultant's contract will be for three years.

At the first Committee meeting of each calendar year, the Committee shall elect a Chair, Vice Chair and Secretary, each to serve for a term of one year or until his or her successor is duly elected and qualified, whichever is less. In the event of a vacancy in the office of Chair, the Vice Chair shall immediately assume the office of Chair for the remainder of the term. In the event of a vacancy in the office of Vice Chair or Secretary, the Committee shall elect one of its members to fill such vacancy for the remainder of the term, at its next regular meeting.



VI. AUDIT COMMITTEE MEETINGS

The Audit Committee will conduct regular meetings at least four times per year, with authority to convene additional meetings, as circumstances require. The time frame between Audit Committee meetings should not exceed four months.

All Committee Members are expected to attend each meeting.

All meetings of the Audit Committee shall be as noticed as joint meetings with the Board of Retirement and Board of Investments to allow for participation of all trustees in open and closed session Audit Committee discussions, provided that non-committee trustees may not make or second motions or vote and provided further that closed sessions to discuss the CAE's annual assessment and the Committee's recommendation to the Boards regarding the appointment, discipline, dismissal, and/or removal of the CAE shall be noticed for attendance by Committee members only.

Regular meeting notices and agendas will be posted at least 72 hours in advance of the regular meetings and will be made available to the public in accordance with the Ralph M. Brown Act (Government Code Sections 54950, et seq.). Public documents referred to in the agenda will be made available for review at the office of the staff secretary to the Committee and also published on the LACERA website, lacera.com. The Committee will invite members of Management, Internal Auditors, Financial Auditors, all other Professional Service Providers, and/or others to attend meetings and provide pertinent information, as necessary.

Special meetings of the Committee may be called in the manner provided by Government Code Section 54956(a). The Committee will have such other powers as provided in the Brown Act.

Robert's Rules of Order, except as otherwise provided herein, shall guide the Committee in its proceedings; however, the Chair of the Committee shall have the same rights to vote and participate in discussions as any other member of the Committee without relinquishing the chair. The order of business shall be as determined by formal action of the Committee. Four members of the seven-member Audit Committee, constitute a quorum.



The Secretary of the Committee shall cause to be recorded in the minutes the time and place of each meeting of the Committee, the names of the members present, all official acts of the Committee, the votes given by members except when the action is unanimous, and when requested by a member, that member's dissent or approval with his or her reasons, and shall cause the minutes to be written forthwith and presented for approval at the next regular meeting.

VII. RESPONSIBILITIES

A. Internal Audit Activity

1. Internal Audit Strategy and Annual Plan
 - a. Review and provide input on Internal Audit's annual risk assessment.
 - b. Review and approve Internal Audit's Annual Audit Plan (Plan) and resource plan, make recommendations concerning audit projects.
 - c. Review and monitor Internal Audit's activity relative to its Plan. Review and approve all major changes to the Plan.
2. Internal Audit Engagement & Follow-Up
 - a. Review and discuss engagement reports to take the following action(s):
 - i. accept and file report,
 - ii. instruct staff to forward report to Boards or Committees,
 - iii. make recommendations to the Boards or Committees regarding actions as may be required based on audit findings and/or,
 - iv. provide further instruction to staff.
 - b. Monitor Internal Audit's recommendations to ensure Management has adequately and timely addressed the risk(s) identified, either through implementing a new policy, procedure, or process, or accepting the associated risk.
 - c. Inquire whether any evidence of fraud has been identified during internal or external audit engagements, and evaluate what additional actions, if any, should be taken.
 - d. Inquire whether any audit or non-audit engagements have been completed but not reported to the Audit Committee; if so, inquire whether any matters of significance arose from such work.
 - e. Review and advise Management and the Boards on the results of any special investigations.



3. Standards Conformance
 - a. Approve the Internal Audit Charter.
 - b. Ensure the Internal Audit Division conforms with the IIA's International Standards for the Professional Practice of Internal Audit, particularly the independence of Internal Audit and its organizational structure.
 - c. Ensure the Internal Audit Division has a quality assurance and improvement program (QAIP), and that the results of these periodic assessments are presented to the Audit Committee.
 - d. Ensure the Internal Audit Division has an external quality assurance review every five years. Review the results of the external quality assurance review and monitor the implementation of related recommendations.

Advise the Boards about any recommendations for the continuous improvement of the internal audit activity.

4. Chief Audit Executive (CAE)

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Joseph Kelly
Chair, Audit Committee

5/XX/2021

Date

Keith Knox
Chair, Board of Investments

5/XX/2021

Date

Alan Bernstein
Chair, Board of Retirement

5/XX/2021

Date