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LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION
300 N. LAKE AVENUE, SUITE 650, PASADENA, CA

Attention: Written public comment must be submitted via email to PublicComment@lacera.com no later than 5:00 p.m. the day before the scheduled meeting.

AGENDA

A SPECIAL MEETING OF THE AUDIT COMMITTEE

AND BOARD OF RETIREMENT AND BOARD OF INVESTMENTS*

LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

300 N. LAKE AVENUE, SUITE 810, PASADENA, CALIFORNIA 91101

9:00 A.M., FRIDAY, MAY 8, 2020

This meeting will be conducted by the Audit Committee under the Governor's Executive Order No. N-29-20. Any person may view or listen to the meeting online at <https://attendee.gotowebinar.com/register/5890251322076375820> or by dialing (877) 309-2074, Access Code 885-898-821.

The Committee may take action on any item on the agenda and agenda items may be taken out of order.

2020 AUDIT COMMITTEE MEMBERS

Gina V. Sanchez, Chair
Keith Knox, Vice Chair
Herman B. Santos, Secretary
Vivian H. Gray
David Green

AUDIT COMMITTEE CONSULTANT

Rick Wentzel

I. CALL TO ORDER

II. APPROVAL OF MINUTES

A. Approval of the Minutes of the Special Audit Committee Meeting of March 4, 2020

III. PUBLIC COMMENT

(**Public comment requests must be submitted via email to PublicComment@lacera.com no later than 5:00 p.m. the day before the scheduled meeting. You may provide a written comment or request the ability to speak. If you are requesting to speak, please include your contact information, agenda item, and meeting date.)

May 8, 2020

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IV. NON-CONSENT ITEMS

- A. Recommendation, as submitted by Richard Bendall, Chief Audit Executive and Christina Logan, Senior Internal Auditor: That the Committee: a) Provide direction to staff on the proposed revisions to the Audit Committee Charter; and b) Upon approval, recommend to the Board of Retirement and Board of Investments to adopt the revised Audit Committee Charter. (Memo dated May 1, 2020)

- B. Recommendation, as submitted by Richard Bendall, Chief Audit Executive and Leisha Collins, Principal Internal Auditor: That the Committee considers and recommends the establishment of an Audit Reserve Fund in the amount of \$500,000 to be funded from contingency monies and secure the Boards' delegated authority to access such reserve funds at the sole discretion of the Audit Committee based on a preliminary finding from existing audit activities that merit further investigation. (Memo dated May 1, 2020)

- C. Recommendation, as submitted by Richard Bendall, Chief Audit Executive and Leisha Collins, Principal Internal Auditor: That the Committee: a) Direct staff to terminate the current Audit Committee Consultant Agreement, effective July 1, 2020, and negotiate and enter into a new Audit Committee Consultant Agreement with Rick Wentzel, Sole Practitioner, at the same rate and terms as the current agreement with Gran Thornton, for the period of July 1, 2020 to December 31, 2020, terminable at LACERA's convenience; and b) Direct staff to immediately initiate a Request for Proposal (RFP) to hire a new Audit Committee Consultant. (Memo dated May 1, 2020)

V. ITEMS FOR STAFF REVIEW

VI. GOOD OF THE ORDER

(For Information Purposes Only)

VI. ADJOURNMENT

**The Board of Retirement and Board of Investments have adopted a policy permitting any member of the Boards to attend a standing committee meeting open to the public. In the event five (5) or more members of either the Board of Retirement and/or the Board of Investments (including members appointed to the Committee) are in attendance, the meeting shall constitute a joint meeting of the Committee and the Board of Retirement and/or Board of Investments. Members of the Board of Retirement and Board of Investments who are not members of the Committee may attend and participate in a meeting of a Board Committee but may not vote on any matter discussed at the meeting. Except as set forth in the Committee's Charter, the only action the Committee may take at the meeting is approval of a recommendation to take further action at a subsequent meeting of the Board.*

Documents subject to public disclosure that relate to an agenda item for an open session of the Board and/or Committee that are distributed less than 72 hours prior to the meeting will be available for public inspection at the time they are distributed to a majority of the members of any such Board and/or Committee at LACERA's offices at 300 N. Lake Avenue, Suite 820, Pasadena, CA 91101 during normal business hours [e.g., 8:00 a.m. to 5:00 p.m. Monday through Friday].

***Requests for reasonable modification or accommodation of the telephone public access and Public Comments procedures stated in this agenda from individuals with disabilities, consistent with the Americans with Disabilities Act of 1990, may call the Board Offices at (626) 564-6000, Ext. 4401/4402 from 8:30 a.m. to 5:00 p.m. Monday through Friday or email PublicComment@lacera.com, but no later than 48 hours prior to the time the meeting is to commence.*

MINUTES OF THE SPECIAL MEETING OF THE AUDIT COMMITTEE OF THE
BOARD OF RETIREMENT AND BOARD OF INVESTMENTS
LOS ANGELES COUNTY EMPLOYEES RETIREMENT ASSOCIATION

300 N. LAKE AVENUE, SUITE 810, PASADENA, CA 91101

8:00 A.M., WEDNESDAY, MARCH 4, 2020

PRESENT: Gina V. Sanchez, Chair

Keith Knox, Vice Chair

Vivian H. Gray

David Green

ABSENT: Herman B. Santos, Secretary

MEMBERS AT LARGE

Thomas Walsh

Wayne Moore

STAFF, ADVISORS, PARTICIPANTS

Richard Bendall, Chief Audit Executive

Santos H. Kreimann, Chief Executive Officer

Steven P. Rice, Chief Counsel

Leisha Collins, Principal Internal Auditor

Summy Voong, Senior Internal Auditor

Kristina Sun, Senior Internal Auditor

Gabriel Tafoya, Senior Internal Auditor

Nathan Amick, Internal Auditor

Rick Wentzel, Audit Committee Consultant

I. CALL TO ORDER

The meeting was called to order at 8:04 a.m., in the Board Room of Gateway Plaza.

II. APPROVAL OF THE MINUTES

- A. Approval of the Minutes of the Special Meeting of August 7, 2019 and the Regular Audit Committee Meeting of December 5, 2019.

Mr. Green made a motion, Mr. Knox seconded, to approve the minutes of the Special Audit Committee meeting of August 7, 2019 and the Regular Audit Committee Meeting of December 5, 2019. The motion passed unanimously.

III. PUBLIC COMMENT

There were no requests from the public to speak.

IV. NON-CONSENT ITEMS

- A. Recommendation as submitted by Richard Bendall, Chief Audit Executive: That the Audit Committee review the 2020 meeting calendar and schedule Audit Committee Meetings for June, August, October, and December of 2020.

Ms. Sanchez made a motion, Mr. Knox seconded to approve staff recommendations including the following revisions: Audit Committee Meetings to be held in June, August, October, and December 2020. The motion passed unanimously.

IV. NON-CONSENT ITEMS (Continued)

- B. Recommendation as submitted by Richard Bendall, Chief Audit Executive: That the Audit Committee review and approve the FYE 2020 Internal Audit Plan Amendments.

Mr. Knox made a motion, Mr. Green seconded, to approve staff's recommendations. The motion passed unanimously.

- C. Recommendation, as submitted by Richard Bendall, Chief Audit Executive and Summy Voong, Senior Internal Auditor: That the Audit Committee review and discuss the Benefits' Exception Report Audit and provide the following action(s):

1. Accept and file report;
2. Instruct staff to forward report to Boards or Committees and/or,
3. Provide further instruction to staff. (Memo dated November 22, 2019)

Mr. Knox made a motion, Mr. Green seconded, to accept and file the report. The motion passed unanimously.

- D. Recommendation, as submitted by Richard Bendall, Chief Audit Executive and Kristina Sun, Senior Internal Auditor: That the Audit Committee review and discuss the Timekeeping Audit and provide the following action(s):

1. Accept and file report;
2. Instruct staff to forward report to Boards or Committees and/or,
3. Provide further instruction to staff. (Memo dated November 22, 2019)

Mr. Green made a motion, Mr. Knox seconded, to accept and file the report. The motion passed unanimously.

V. REPORTS

- A. Internal Audit Risk Assessment Process
Richard Bendall, Chief Audit Executive
(Memo dated February 20, 2020)

Mr. Bendall provided an overview of the Risk Assessment Process and answered questions from the Committee. This Report was received and filed.

- B. Hotline Status Reporting
Richard Bendall, Chief Audit Executive
(Verbal Presentation)

Mr. Bendall and Ms. Ton were present and answered questions from the Committee. This Report was received and filed.

- C. Recommendation Follow-Up Report
Richard Bendall, Chief Audit Executive
(For Information Only) (Memo dated on February 20, 2020)

Mr. Bendall and Mr. Tafoya were present and answered questions from the Committee. This Report was received and filed.

- D. Real Estate Advisor Review
Richard Bendall, Chief Audit Executive
(For Information Only) (Memo dated on February 20, 2020)

Ms. Collins and Ms. Ton were present and answered questions from the Committee. This Report was received and filed.

- E. Continuous Auditing Program (CAP)
Richard Bendall, Chief Audit Executive
(For Information Only) (Memo dated on February 20, 2020)

Mr. Tafoya and Mr. Amick were present and answered questions from the Committee. This Report was received and filed.

V. REPORTS (Continued)

- F. Continuous Auditing Program (CAP)
Richard Bendall, Chief Audit Executive
(For Information Only) (Memo dated on February 20, 2020)

Mr. Tafoya and Mr. Amick were present and answered questions from the Committee. This Report was received and filed.

- G. Status of Other External Audits Not Conducted at the Discretion of Internal Audit
Richard Bendall, Chief Audit Executive
(For Information Only) (Discussion)

Mr. Bendall and Mr. Rice were present and answered questions from the Committee. This Report was received and filed.

- H. **Attorney-Client Privilege/Confidential Memo**
Human Resources Compliance Audit [by Liebert Cassidy Whitmore]
Recommendation Follow-Up
Richard Bendall, Chief Audit Executive
(For Information Only) (Memo dated on February 20, 2020)

Mr. Bendall was present and answered questions from the Committee. This Report was received and filed.

VI. REPORT ON STAFF ACTION ITEMS

The Board requested that the Human Resources Compliance Audit memo be revised and presented in the June 2020 meeting.

VII. CONSULTANT COMMENTS

Rick Wentzel, Audit Committee Consultant
(Verbal Presentation)

VIII. GOOD OF THE ORDER

(For Information Purposes only)

There were no comments during Good of the Order.

March 4, 2020

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IX. ADJOURNMENT


There being no further business to come before the Committee, the meeting was adjourned at 9:03 a.m.

May 1, 2020

TO: 2020 Audit Committee
Gina Sanchez, Chair
Keith Knox, Vice Chair
Herman B. Santos, Secretary
Vivian H. Gray
David Green

Rick Wentzel
Audit Committee Consultant

FROM: Richard Bendall 
Chief Audit Executive

Christina Logan 
Senior Internal Auditor

FOR: May 8, 2020 Audit Committee Meeting

SUBJECT: Revisions to 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. The IIA's current model charter is provided for your reference (Attachment A).

LACERA's Audit Committee Charter (Charter) was established in 2004, and has been updated throughout the years, most recently in March 2018 (Attachment B) for administrative changes.

Internal Audit is proposing additional revisions to better align with the model charter, to formalize the principles that should guide the Audit Committee, and to expand and add

clarity the Audit Committee's responsibilities. Attachments C is the red-line version of the revised Charter and Attachment D is a clean version of the revised Charter.

The significant revisions which expand the Committee's responsibilities can be found in the red-line version of the Charter:

- **Appointment and compensation of the financial auditor and other professional service providers** (page 3 under the Authority section & page 9 under the Responsibilities – Professional Service Providers) In the previous Charter, the Committee would recommend the appointment and compensation of these firms to the Boards for their approval. However, we found from our review of the model and peer charters that audit committees are assigned this responsibility. We believe this additional responsibility aligns better with the Committee's responsibilities for overseeing the financial reporting process and Internal Audit's work.
- **Recommend a budget to the Boards** (page 6 under Responsibilities – Internal Audit Activity) In the previous Charter, we did not link the budget with Internal Audit's Annual Plan. However, we found from our review of the model charter, that audit committees are assigned this responsibility and this additional responsibility will enhance our budgeting process.
- **Risk Management** (page 10 under Responsibilities – Organizational Governance) In the previous Charter, we did not include risk management. However, we found from our review of the model and peer charters that audit committees are assigned this responsibility. We believe by adding this responsibility, LACERA will be better able to address future risks.

CONCLUSION

Staff recommends the Audit Committee approve the revised Charter or provide Internal Audit with further direction. Upon approval, staff recommends the Committee forward a recommendation to the Board of Retirement and Board of Investments to adopt the revised Audit Committee Charter.

RB:/cl

Attachments:

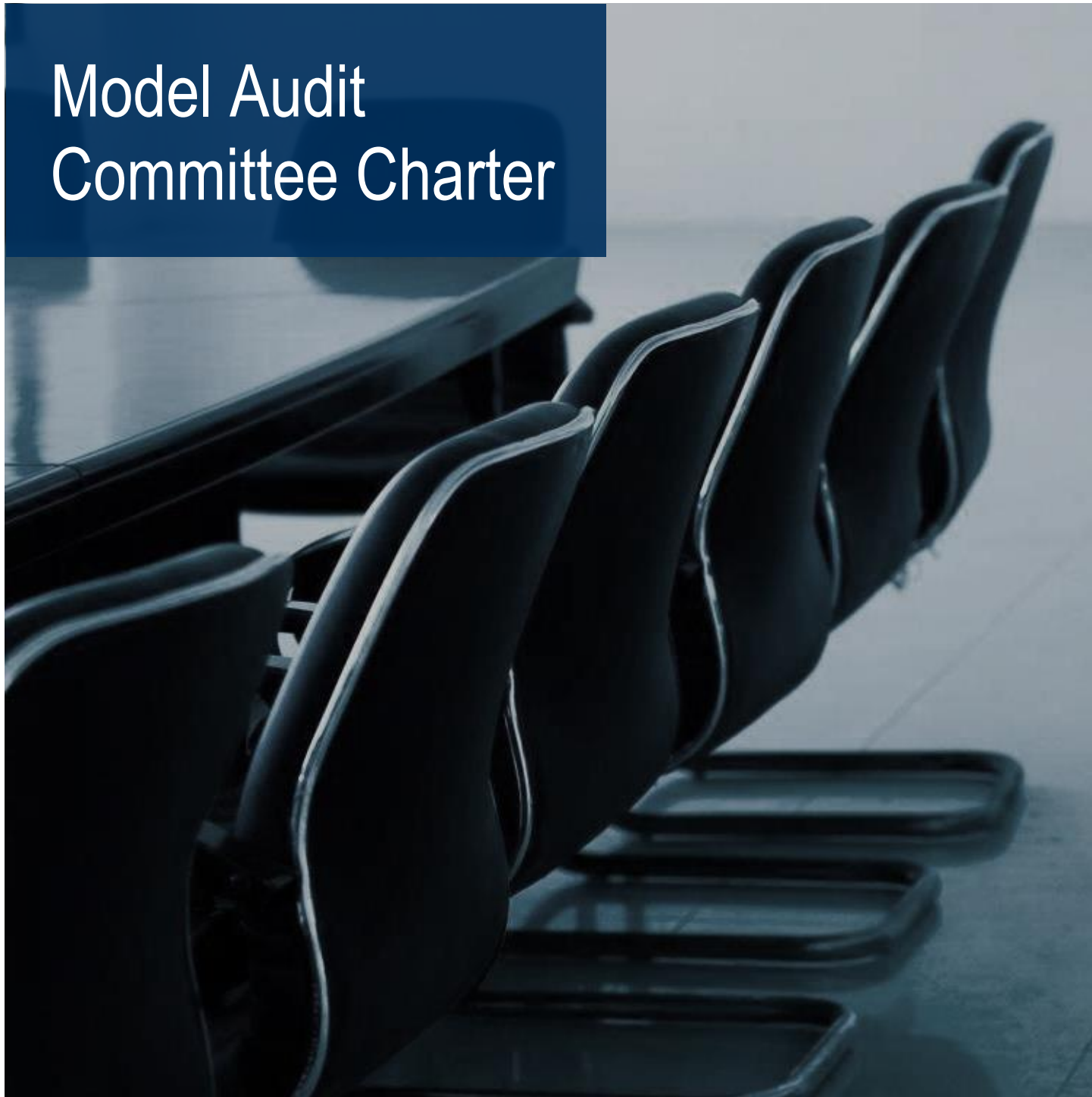
A: March 2017 IIA Model Audit Charter

B. March 2018 Audit Committee Charter

C: Red-line Version of Revised Audit Committee Charter

D: Clean Version of Revised Audit Committee Charter

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 organization's 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

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**The Institute of
Internal Auditors**

Global

Global Headquarters
The Institute of Internal Auditors
1035 Greenwood Blvd., Suite 401
Lake Mary, FL 32746, USA
Phone: +1-407-937-1111
Fax: +1-407-937-1101
www.theiia.org

Audit Committee Charter

March 2018



2018



AUDIT COMMITTEE CHARTER

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AUDIT COMMITTEE CHARTER

I. PURPOSE

In November 2003, the Los Angeles County Employees Retirement Association's Board of Retirement and Board of Investments established the LACERA Audit Committee.

The purpose of this "Audit Committee Charter" is to govern the Audit Committee that assists the Boards of Retirement and Investments (Boards) in fulfilling their fiduciary oversight responsibilities for the financial reporting process, the system of internal controls, the audit processes, and the organization's method for monitoring compliance with laws and regulations. The Audit Committee Charter is a living document and may be amended for procedural and administrative matters upon majority vote of the Audit Committee.

II. AUTHORITY

The Audit Committee has the authority to conduct or authorize investigations into any matters within its scope of responsibility.

It shall have the following authorities:

- A. Meet with LACERA's officers, Internal Auditors, External Auditors, or consultants as necessary.
- B. Seek any information it requires from employees, all of whom are directed to cooperate with the Committee's requests, or consultants, as necessary.
- C. Resolve any disagreements or coordinate between Management, Internal Audit, and/or External Audit.
- D. Oversee the work of Internal and External Audit, and any other consultants hired to assist the Audit Committee in fulfilling its fiduciary duties.
- E. Make recommendations to the Boards regarding:
 1. The appointment, compensation, and work of the External Auditor employed to audit LACERA's financial statements.
 2. The appointment, compensation, and work of accountants or other consultants to perform audits, reviews, or investigations related to financial or operational matters (when the cost is expected to exceed the Chief Executive Officer's discretionary allowance for such contracts).
 3. Such other matters as the Committee encounters in its work.



III. AUDIT COMMITTEE COMPOSITION AND CONSULTANT

The Audit Committee will consist of the chair and vice-chair of the Boards of Retirement and Investments, plus one additional Board member elected annually by each Board, for a total of four to six members¹. Board chairs and vice-chairs that leave Board service will be replaced automatically on the Audit Committee, when the Board replaces its missing officer while other Committee membership remains intact. 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. If Audit Committee voting results in a tie, the Committee will forward the recommendation to the appropriate Board for consideration and final decision.

The Committee shall have the authority to approve the hiring of the audit consultant as an advisor. The audit consultant will be designated as the audit technical and financial expert, to advise the Committee on audit and financial matters. The audit consultant's contract will be for three years with the option for the Audit Committee to choose to extend the contract for an additional two-year period.

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.

IV. AUDIT COMMITTEE MEETINGS

The Audit Committee will conduct regular meetings at least three times per year, with authority to convene additional meetings, as circumstances require. All Committee members are expected to attend each meeting.

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, External Auditors, and/or others to attend meetings and provide pertinent information, as necessary.

¹ The number of Committee members is dependent upon the designated Chair and Vice Chair appointments to the Boards of Retirement and Investments. If both Boards were to elect the same individuals to the positions of Chair and/or Vice Chair, the Audit Committee would be comprised of four or five Board Members.



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 a six-member Audit Committee or three members of a four or five-member Audit Committee, excluding the audit 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.

V. RESPONSIBILITIES

The Audit Committee will carry out the following responsibilities to fulfill their fiduciary oversight responsibilities:

A. Internal Audit

1. Approve the Internal Audit Charter.
2. Ensure the independence of Internal Audit.
3. Approve the Annual Audit Plan and all major changes to the Plan. Review and monitor Internal Audit's activity relative to its Plan.
4. Review, with the Chief Audit Executive (CAE), Internal Audit's resource plan, activities, and organizational structure.
5. Monitor Internal Audit's recommendations to ensure Management has adequately addressed the risk(s) identified, either through implementing a new policy, procedure, or process, or accepting the associated risk.
6. Review and discuss engagement reports to take the following action(s):
 - a. accept and file report and/or,
 - b. instruct staff to forward report to Boards or Committees and/or,
 - c. provide further instruction to staff.

**B. Chief Audit Executive**

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:

1. 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).
2. 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).
3. Administer the CAE's annual salary adjustment using the Boards' established compensation structure.

C. External Audit

1. Make recommendations to the Board of Retirement regarding the appointment, compensation, and the work of the External Auditor.
2. Oversee the work of the External Auditor, including review of the External Auditor's proposed audit scope and approach, as well as coordination with Internal Audit and Management.
3. Review the findings and recommendations of the External Auditor, Management's responses, and actions taken to implement the audit recommendations.
4. Approve all non-compliance work.

D. Monitoring the Financial Reporting Process

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 External 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 External Auditors all matters required to be communicated to the Committee under *Generally Accepted Auditing Standards*.

E. Monitoring Management's System of Internal Controls

1. Consider the effectiveness of LACERA's internal control system, including information technology security and control.
2. 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.

F. Monitoring Management's System of Compliance

1. Annually, review the effectiveness of Management's system of compliance with laws, regulations, policies, and procedures that are business critical.
2. As needed, review the findings of any examinations by regulatory agencies, and any auditor observations.
3. Annually, review Management's process for communicating LACERA's Code of Ethics to company personnel, and for monitoring compliance therewith.
4. Annually, review reported activity to ensure issues of fraud, noncompliance, and/or inappropriate activities are being addressed.

G. Conflicts and Ethics

Audit Committee members must comply with the BOR, BOI, and LACERA's Code of Ethics. Specific to the Audit Committee:

1. Avoid actual or potential conflict of interest or ethics issues. Members will notify the Audit Committee Chair and Vice Chair, the CEO, and Legal Counsel of such issues concerning themselves and other Audit Committee members related to the business of the Audit Committee.
2. Review reports received relating to conflict of interest and ethics issues, and if appropriate, make a recommendation to the Boards.

H. 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, the External Auditors, 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 annually, requesting the Boards' approval for proposed changes, and ensure appropriate disclosure as may be required by law or regulation.



5. Communicates public disclosures related to the purpose, authority, function, and responsibility of the Audit Committee.

VI. APPROVAL OF PROCEDURAL AND ADMINISTRATIVE UPDATES

This Audit Committee Charter (“AC Charter”) was updated for procedural and administrative matters, and approved by the Audit Committee on March 21, 2018. This updated AC Charter is thereby effective this day and is hereby signed by the Audit Committee Chair,

Joseph Kelly

Chair, Audit Committee

Date

VII. APPROVAL OF AUDIT COMMITTEE CHARTER

This Audit Committee Charter (“AC Charter”) was reviewed by the Audit Committee on December 14, 2016, and approved by the Board of Retirement and Board of Investments on January 11, 2017 and January 12, 2017, respectively. This AC Charter is thereby effective January 12, 2017 and is hereby signed by the following persons who have authority and responsibilities under this Charter.

Shawn R. Kehoe

Chair, Board of Retirement

January 24, 2017

Date

David Green

Chair, Board of Investments

January 24, 2017

Date

Audit Committee Charter

May 2020

2020



AUDIT COMMITTEE CHARTER

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Commented [CL1]: Need to update still



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, and may be amended for procedural and administrative matters upon majority vote of the Audit Committee.~~

Commented [CL2]: This concept is consistent with our 2018 Charter.

Commented [CL3]: Strike wording for procedural and administrative; changes should be approved by the Boards.

II. PURPOSE AND ASSIGNED FIDUCIARY OVERSIGHT DUTIES

In November 2003, LACERA’s Boards the Los Angeles County Employees Retirement Association’s Board of Retirement and Board of Investments 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

Commented [CL4]: This concept is consistent with our 2018 charter but adds more clarity, from Model Charter.

~~is “Audit Committee Charter” is to govern the Audit Committee that assists the Boards of Retirement and Investments (Boards) in fulfilling their fiduciary oversight responsibilities for the financial reporting process, the system of internal controls, the audit processes, and the organization’s method for monitoring compliance with laws and regulations. The Audit Committee Charter is a living document and may be amended for procedural and administrative matters upon majority vote of the Audit Committee.~~

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.

Commented [CL5]: This section is new...the concept of a defining principles is consistent with the Model Charter and LACERA’s updated Board Charters.

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.

Commented [CL6]: We had similar points, but this wording is summarized from Model Charter.

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. ~~of responsibility.~~

Commented [CL7]: From the Model Charter.

The Audit Committee is empowered to:

Commented [CL8]: Revised to be consistent with Model Charter and templates reviewed.

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 disagreements between Management and the Financial and/or Other Service Providers.

It shall have the following authorities:

- A. Meet with LACERA's officers, Internal Auditors, External Auditors, or consultants as necessary.
- B. Seek any information it requires from employees, all of whom are directed to cooperate with the Committee's requests, or consultants, as necessary.
- C. Resolve any disagreements or coordinate between Management, Internal Audit, and/or External Audit.
- D. Oversee the work of Internal and External Audit, and any other consultants hired to assist the Audit Committee in fulfilling its fiduciary duties.
- E. Make recommendations to the Boards regarding:
 1. The appointment, compensation, and work of the External Auditor employed to audit LACERA's financial statements.
 2. The appointment, compensation, and work of accountants or other consultants to perform audits, reviews, or investigations related to financial or operational matters (when the cost is expected to exceed the Chief Executive Officer's discretionary allowance for such contracts).
 3. Such other matters as the Committee encounters in its work.

Commented [CL9]: Now in first paragraph of Authority.

Commented [CL10]: See third paragraph of Authority

Commented [CL11]: See Responsibilities Internal Audit Activity



III.V. AUDIT COMMITTEE COMPOSITION AND CONSULTANT

The Audit Committee will consist of the chair and vice-chair of the Boards of Retirement and Investments, plus one additional Board member elected annually by each Board, for a total of four to six members¹. Board chairs and vice-chairs that leave Board service will be replaced automatically on the Audit Committee, when the Board replaces its missing officer while other Committee membership remains intact. 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. If Audit Committee voting results in a tie, the Committee will forward the recommendation to the appropriate Board for consideration and final decision.

The Committee shall have the authority to approve the hiring of the audit consultant as an advisor [through a Request for Proposal process](#). The audit consultant will be designated as the audit technical and financial expert, to advise the Committee on audit and financial matters. The audit consultant's contract will be for three years [with the option for the Audit Committee to choose to extend the contract for an additional two-year period](#).

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.

IV.VI. AUDIT COMMITTEE MEETINGS

The Audit Committee will conduct regular meetings at least [four three](#) 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.

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, External Auditors,](#) and/or others to attend meetings and provide pertinent information, as necessary.

Commented [CL12]: Consistent with Model and provides more flexibility

¹ The number of Committee members is dependent upon the designated Chair and Vice Chair appointments to the Boards of Retirement and Investments. If both Boards were to elect the same individuals to the positions of Chair and/or Vice Chair, the Audit Committee would be comprised of four or five Board Members.



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 a six-member Audit Committee or three members of a four or five-member Audit Committee, excluding the audit 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

The Audit Committee will carry out the following responsibilities to fulfill ~~its their~~ fiduciary oversight ~~duties~~ 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.
- ~~a-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 ~~and/or,~~
 - ii. instruct staff to forward report to Boards or Committees ~~and/or,~~
 - ~~iii.~~ make recommendations to the Boards or Committees regarding actions as may be required based on audit findings and/or,
 - ~~iiii.~~ 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

Commented [CL13]: Consistent with our 2018 Charter but broken out for more clarity.

Commented [CL14]: Consistent with Model Charter

Commented [CL15]: Consistent with our 2018 Charter but broken out for more clarity.



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.
- ~~b.~~ Review and advise Management and the Boards on the results of any special investigations.

Commented [CL16]: From Model Charter

3. Standards Conformance

- ~~e.~~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.
- ~~d.~~ Advise the Boards about any recommendations for the continuous improvement of the internal audit activity.

Commented [CL17]: From Model Charter

~~2.4.~~ 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.

- a. ~~Review, with the Chief Audit Executive (CAE), Internal Audit’s resource plan, activities, and organizational structure.~~

Commented [CL18]: Addressed under Internal Audit Strategy and Audit Plan



B. Professional Service Provider Activity ~~External Audit~~

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~~ Make recommendations to the Board of Retirement regarding the appointment and compensation, and the work of the External Financial Auditor, ~~hired to perform an independent audit of LACERA's financial statements.~~ Oversee the work of the Financial External Auditor, including review of the Financial External 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 ~~of the External Auditor, findings and recommendations of the External Auditor,~~ Management's responses, and actions taken to implement the audit recommendations.
4. ~~Approve all non-compliance work.~~

C. ~~Monitoring the~~ 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 External 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 External Auditors all matters required to be communicated to the Committee under *Generally Accepted Auditing Standards*.

D. Values and Ethics

Commented [CL19]: From Model



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, ~~s to company personnel~~, and for monitoring compliance therewith.
- ~~1.3.~~ 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.
~~Review a summary of Helpline reports received, and if relating to conflict of interest and ethics issues, and if appropriate, make a recommendation to the Boards.~~

~~1.3.~~ Monitoring Management's 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.



~~a-c. Review and provide advice on control of LACERA as a whole and its individual divisions.~~

Commented [CL20]: From Model Charter

4. Monitoring Management's 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, ~~and any auditor observations.~~
- c. Annually, review Management's process for communicating LACERA's Code of Ethics to company personnel, and for monitoring compliance therewith.
- d. Obtain regular updates from Management and LACERA's Legal Office regarding compliance matters.
- ~~e. At least annually, review reported activity to ensure issues of fraud, noncompliance, and/or inappropriate activities are being addressed.~~

Commented [CL21]: Addressed in Professional Service Provider Activity

Commented [CL22]: Addressed under Values & Ethics

B. Conflicts and Ethics

Audit Committee members must comply with the BOR, BOI, and LACERA's Code of Ethics. Specific to the Audit Committee:

- ~~1. Avoid actual or potential conflict of interest or ethics issues. Members will notify the Audit Committee Chair and Vice Chair, the CEO, and Legal Counsel of such issues concerning themselves and other Audit Committee members related to the business of the Audit Committee.~~
- ~~2.1. Review reports received relating to conflict of interest and ethics issues, and if appropriate, make a recommendation to the Boards.~~

Commented [CL23]: Moved under Principles

Commented [CL24]: Moved under Fraud

G.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, the External Auditors, 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 annually, requesting the Boards' approval for proposed changes, ~~and ensure appropriate disclosure as may be required by law or regulation.~~
- ~~5. Communicates public disclosures related to the purpose, authority, function, and responsibility of the Audit Committee.~~

VI.VIII. APPROVAL OF PROCEDURAL AND ADMINISTRATIVE UPDATES



This Audit Committee Charter (“AC Charter”) was updated for procedural and administrative matters, and approved by the Audit Committee on March 21, 2018. This updated AC Charter is thereby effective this day and is hereby signed by the Audit Committee Chair. This Charter was reviewed by the Audit Committee on May XX, 2020, and approved by the Board of Investments and Board of Retirement on May XX, 2020 and May XX, 2020, respectively. This Charter is thereby effective May XX, 2020 and is hereby signed by the following persons who have authority and responsibilities under this Charter.

Commented [CL25]: Must be reviewed by AC and approved by Boards.

Gina Sanchez
Chair, Audit Committee

Date

David Green
Chair, Board of Investments

Date

Herman Santos
Chair, Board of Retirement

Date

VII. APPROVAL OF AUDIT COMMITTEE CHARTER



This Audit Committee Charter ("AC Charter") was reviewed by the Audit Committee on December 14, 2016, and approved by the Board of Retirement and Board of Investments on January 11, 2017 and January 12, 2017, respectively. This AC Charter is thereby effective January 12, 2017 and is hereby signed by the following persons who have authority and responsibilities under this Charter.

Shawn R. Kehoe
Chair, Board of Retirement

January 24, 2017
Date

David Green
Chair, Board of Investments

January 24, 2017
Date

Commented [CL26]: Remove

Audit Committee Charter

May 2020



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 disagreements between Management and the Financial and/or Other Service Providers.

V. AUDIT COMMITTEE COMPOSITION AND CONSULTANT

The Audit Committee will consist of the chair and vice-chair of the Boards of Retirement and Investments, plus one additional Board member elected annually by each Board, for a total of four to six members¹. Board chairs and vice-chairs that leave Board service will be replaced automatically on the Audit Committee when the Board replaces its missing officer while other Committee membership remains intact. 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

¹ The number of Committee members is dependent upon the designated Chair and Vice Chair appointments to the Boards of Retirement and Investments. If both Boards were to elect the same individuals to the positions of Chair and/or Vice Chair, the Audit Committee would be comprised of four or five Board Members.



regularly scheduled Board meeting. If Audit Committee voting results in a tie, the Committee will forward the recommendation to the appropriate Board for consideration and final decision.

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

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 a six-member Audit Committee or three members of a four or five-member Audit Committee, excluding the audit 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 May XX, 2020, and approved by the Board of Investments and Board of Retirement on May XX, 2020 and May XX, 2020, respectively. This Charter is thereby effective May XX, 2020 and is hereby signed by the following persons who have authority and responsibilities under this Charter.

Gina Sanchez
Chair, Audit Committee

Date

David Green
Chair, Board of Investments


Date

Herman Santos
Chair, Board of Retirement

Date

May 1, 2020

TO: 2020 Audit Committee
Gina Sanchez, Chair
Keith Knox, Vice Chair
Herman B. Santos, Secretary
Vivian H. Gray
David Green

FROM: Richard Bendall 
Chief Audit Executive

Leisha Collins 
Principal Internal Auditor

FOR: May 8, 2020 Audit Committee Meeting

SUBJECT: Internal Audit Proposed FYE 2021 Budget

RECOMMENDATION:

Staff recommends that the Audit Committee consider and recommend the establishment of an Audit Reserve Fund in the amount of \$500,000 to be funded from contingency monies and secure the Boards' delegated authority to access such reserve funds at the sole discretion of the Audit Committee based on a preliminary finding from existing audit activities that merit further investigation.

The Chief Audit Executive (CAE) prepares and submits the Internal Audit (IA) Budget Request each fiscal year to the Chief Executive Officer. In the past, the Audit Committee has provided input to IA on staffing and the proposed audit plan that contracts with external consultants. However, the Audit Committee has not been formally included in the annual budget development process. Based on staff's current review of the Audit Committee Charter, we determined that best practice is for the Audit Committee to have its own independent funding allocation as part of the final budget.

The budget process is currently in progress for Fiscal Year 2020-2021, and has been reviewed by the JOGC and advanced to the two Boards to be considered during budget hearing and ultimately for final approval. However, at the request of the Audit Committee Chair, we are providing the Internal Audit section (Attachment A) of the current draft budget proposal for the Committees consideration and further input.

In comparison to FY 2019-2020, there were no significant increases for Salaries and Employee Benefits, however, Services and Supplies (S&S) decreased from \$539,500 to \$460,800. The most significant portion of the S&S budget relates to external audit service costs under Professional and Specialized Services for \$400,000. We anticipate the following audit service expenses to be incurred for projects in our FYE 2021 Audit Plan:

Audit/Project	Est. Cost
External Audit for FYE 2020	135,000
Real Estate Manager Audits	75,000
IT Penetration Audits	50,000
IT Risks/Network Security Audit	40,000
External Quality Assurance & Improvement Program Review	25,000
Contingency for unplanned investigations or audits	75,000
TOTAL	400,000

In addition, in order to provide the Audit Committee with the means to fund its own audits independently without the need for further Board approval, it is proposed that an Audit Reserve Fund of \$500,000, be established against available contingency funds. The Audit Committee would be granted delegated authority to access such funds in its sole discretion to conduct further audit work based on a preliminary finding from existing audit activities overseen by Internal Audit which merits additional investigation.

Staff recommends that the Audit Committee consider and recommend the establishment of an Audit Reserve Fund in the amount of \$500,000 to be funded from contingency monies and secure the Boards' delegated authority to access such reserve funds at the sole discretion of the Audit Committee based on a preliminary finding from existing audit activities that merit further investigation.

RB:lc

Attachment A: Internal Audit Proposed FYE 2021 Budget

INTERNAL AUDIT

FISCAL YEAR 2020-2021

Mission

To support LACERA's mission, through independent, objective assurance and consulting activities.

Budget Request Highlights

INTRODUCTION

The purpose of Internal Audit is to provide independent and objective assurance services, and consulting services designed to add value and improve LACERA's operations. The mission of Internal Audit is to enhance and protect LACERA's organizational values by providing risk-based and objective assurance, advice, and insight. Internal Audit brings a systematic, disciplined approach to evaluating and improving the effectiveness of governance, risk management, and control processes to help LACERA accomplish its mission.

Internal Audit assists the organization in meeting its control objectives through:

- Evaluating risk exposure relating to achievement of LACERA's strategic objectives.
- Evaluating the reliability and integrity of information and the means used to identify, measure, classify, and report such information.
- Evaluating the systems established to ensure compliance with those policies, procedures, laws, and regulations, which could have a significant impact on LACERA.
- Evaluating the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
- Evaluating the effectiveness and efficiency with which resources are employed.
- Evaluating operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operation or programs are being carried out as planned.
- Monitoring and evaluating governance processes.

NOTABLE ACHIEVEMENTS AND CONTRIBUTIONS

All staff within Internal Audit are Certified Public Accountants, Certified Internal Auditors, or Certified Information Systems Auditors. Some have more than one

certification and other relevant certifications such as certified fraud examiner and certified information security designations. Included in the performance of our annual audit plan, Internal Audit developed, oversaw, or contributed significantly, in a consulting capacity, to the following notable achievements and ongoing efforts within LACERA.

- New externally managed Ethics Hotline
- External Audit of LACERA (initiation of first SOC1 over OPEB Census data)
- Triennial actuarial review and audit
- Real estate advisor compliance and operational audits
- Business Continuity Process (BCP)
- LA County audit of LACERA
- Cyber Security Training Program

STAFFING

As the organization has progressed, so has the complexity of audits resulting in the need for more experienced auditors. Our budget request for Fiscal Year 2020-2021 includes the deletion of one currently vacant Internal Auditor position and the addition of one Senior Internal Auditor to better align staffing levels with the amount of complex work. Retaining one Internal Auditor position will be sufficient to cover the amount of routine audit work.

Furthermore, a classification study has been requested to convert one of the budgeted Senior Internal Auditor positions to a Senior Information Technology Auditor. A compensation study has also been requested for the Principal Internal Auditor Classification.

SERVICES AND SUPPLIES

Each fiscal year, Internal Audit prepares a risk-based Audit Plan, approved by the Audit Committee. The Audit Plan defines the allocation of audit resources and communicates Internal Audit planned activities and resource requirements. This provides the basis for the Chief Audit Executive (CAE) to ensure that Internal Audit resources are appropriate, sufficient, and effectively deployed. Internal Audit continues to leverage the use of external resources to better meet the needs of the organization and ensure the Audit Plan is completed. The cost associated with these resources are a significant portion of the budget, \$400,000, which is for the external financial audit, external IT security audits, and real estate advisor audits. The remainder of approximately \$50,000 is budgeted as a contingency amount for specialized ad hoc external audit needs. We have reduced this from \$450,000 budgeted in the current Fiscal Year to more closely reflect our anticipated needs and still provide a small amount for contingency. We have reduced our total S&S budget from \$539,500 in the current Fiscal Year to \$475,000 for Fiscal Year 2020-2021.

LACERA
FISCAL YEAR 2020-2021
BASIS FOR SERVICES & SUPPLIES

DRAFT
INTERNAL AUDIT

	PROPOSED BUDGET 2020-2021	CURRENT YEAR 2019-2020			COMPARISON OF PROPOSED BUDGET TO PROJECTION		COMPARISON OF PROPOSED BUDGET TO 19-20 BUDGET		JUSTIFICATION
		YTD			\$ CHANGE	% CHANGE	\$ CHANGE	% CHANGE	
		BUDGET	(12-31-19)	PROJECTION					
9180 TRANSPORTATION & TRAVEL									
9181 TRANSPORTATION	\$1,600	\$5,000	\$1,333	\$2,300	(\$700)	-30.4%	(\$3,400)	-68.0%	
9182 TRAVEL	9,900	23,000	8,059	13,700	(3,800)	-27.7%	(13,100)	-57.0%	Travel for Investment purposes
TOTAL	11,500	28,000	9,392	16,000	(4,500)	-28.1%	(16,500)	-58.9%	
9300 OFFICE SUPPLIES & EQUIPMENT									
9302 SPECIAL ORDERS/MINOR EQUIP	1,700	2,000	344	1,400	300	21.4%	(300)	-15.0%	
TOTAL	1,700	2,000	344	1,400	300	21.4%	(300)	-15.0%	
9500 PROFESSIONAL & SPECIALIZED SERVICES									
9541 AUDITS	400,000	450,000	101,526	325,000	75,000	23.1%	(50,000)	-11.1%	Plante Moran, Real Estate, IT Security, etc.
9702 AUDIT COMMITTEE CONSULTANT	21,000	21,000	2,450	12,000	9,000	75.0%	0	0.0%	
TOTAL	421,000	471,000	103,976	337,000	84,000	24.9%	(50,000)	-10.6%	
9960 EDUCATIONAL EXPENSES									
9961 MEMBERSHIPS	7,500	7,500	5,515	6,000	1,500	25.0%	0	0.0%	IIA, CPA, AGA. APPFA, etc.
9962 REGISTRATION FEES	14,300	25,000	3,050	18,000	(3,700)	-20.6%	(10,700)	-42.8%	
9963 EDUCATIONAL MATERIALS	4,000	5,000	1,076	3,500	500	14.3%	(1,000)	-20.0%	
TOTAL	25,800	37,500	9,641	27,500	(1,700)	-6.2%	(11,700)	-31.2%	
9980 MISCELLANEOUS									
9986 MISCELLANEOUS	800	1,000	192	500	300	60.0%	(200)	-20.0%	
	800	1,000	192	500	300	60.0%	(200)	-20.0%	
GRAND TOTAL	\$460,800	\$539,500	\$123,544	\$382,400	\$78,400	20.5%	(\$78,700)	-14.6%	

LACERA
FISCAL YEAR 2020-2021
SALARIES AND EMPLOYEE BENEFITS SUMMARY

DRAFT
INTERNAL AUDIT

	PROPOSED BUDGET 2020-2021	CURRENT YEAR 2019-2020			COMPARISON OF PROPOSED BUDGET TO PROJECTION		COMPARISON OF PROPOSED BUDGET TO 19-20 BUDGET	
		YTD			\$ CHANGE	% CHANGE	\$ CHANGE	% CHANGE
		BUDGET	(12-31-19)	PROJECTION				
Total LACERA Salaries	\$1,336,307	\$1,168,866	\$520,706	\$1,154,800	\$181,507	15.7%	\$167,441	14.3%
Total Agency Temp Salaries	0	0	0	0	0	#DIV/0!	0	#DIV/0!
Employee Benefits (Variable)	654,147	564,194	238,540	566,800	87,347	15.4%	89,953	15.9%
Employee Benefits (Other)	87,757	85,212	37,606	84,800	2,957	3.5%	2,545	3.0%
OPEB Contribution	36,867	25,312	16,226	25,200	11,667	46.3%	11,555	45.6%
Stipends	0	0	0	0	0	#DIV/0!	0	#DIV/0!
Overtime	4,800	3,000	390	1,000	3,800	380.0%	1,800	60.0%
Bilingual Bonus	0	0	0	0	0	#DIV/0!	0	#DIV/0!
Sick Leave Buyback	1,500	1,500	0	0	1,500	#DIV/0!	0	0.0%
Rideshare Allowance	1,500	3,000	496	1,900	(400)	-21.1%	(1,500)	-50.0%
Transportation Allowance	0	0	0	0	0	#DIV/0!	0	#DIV/0!
ADJUSTED GROSS S&EB	\$2,122,877	\$1,851,084	\$813,963	\$1,834,500	\$288,377	15.7%	\$271,793	14.7%
Salary Differential	0	0	-	-	-	-	0	#DIV/0!
TOTAL S&EB	\$2,122,877	\$1,851,084	\$813,963	\$1,834,500	\$288,377	15.7%	\$271,793	14.7%

*All amounts rounded to the nearest dollar.

Note: All Permanent Salaries and Employee Benefits include amounts through 11/30/19, except Agency Temporary includes amounts through 12/31/19 and Rideshare Allowance includes amounts through 8/31/19.

LACERA
FISCAL YEAR 2020-2021
BUDGET SUMMARY

DRAFT
INTERNAL AUDIT

	PROPOSED BUDGET 2020-2021	CURRENT YEAR 2019-2020		COMPARISON OF PROPOSED BUDGET TO PROJECTION		COMPARISON OF PROPOSED BUDGET TO 19-20 BUDGET		
		YTD		PROJECTION	\$ CHANGE	% CHANGE	\$ CHANGE	% CHANGE
		BUDGET	(12-31-19)					
Salaries & Employees Benefits	\$2,122,877	\$1,851,084	\$813,963	\$1,834,500	\$288,377	15.7%	\$271,793	14.7%
Services & Supplies	460,800	539,500	123,544	382,400	\$78,400	20.5%	(78,700)	-14.6%
OPERATING BUDGET	\$2,583,677	\$2,390,584	\$937,507	\$2,216,900	\$366,777	16.5%	\$193,093	8.1%

2020 - 2021 PROPOSED BUDGET



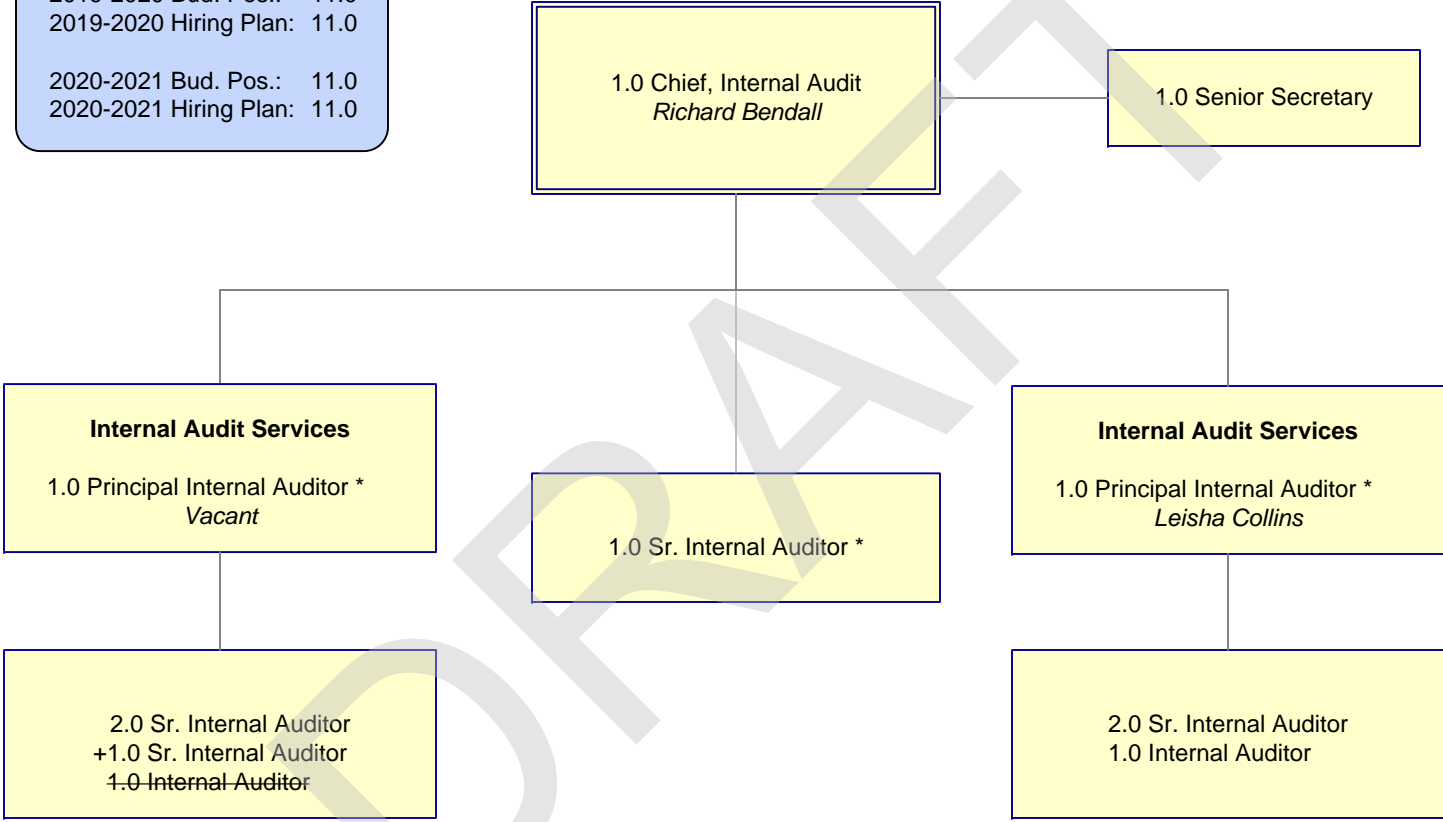
*All amounts rounded to the nearest dollar.

INTERNAL AUDIT

FISCAL YEAR 2020-2021

DRAFT

2019-2020 Bud. Pos.: 11.0
 2019-2020 Hiring Plan: 11.0
 2020-2021 Bud. Pos.: 11.0
 2020-2021 Hiring Plan: 11.0



+ Added position
 — Deleted position
 * Classification study for the position requested

LACERA
FISCAL YEAR 2020-2021

SALARIES

DRAFT

INTERNAL AUDIT


2020-2021 BUDGET

FILLED POSITIONS		# POS.	SCHEDULE	ACTUAL MO. RATE	ANNUAL AMOUNT			
00774A	CHIEF, INTERNAL AUDIT	1	LS12	15,358	184,301			
00762A	PRINCIPAL INTERNAL AUDITOR	2	114C	21,857	262,281			
00763A	SENIOR INTERNAL AUDITOR	5	107L	45,818	549,811			
00764A	INTERNAL AUDITOR	1	101H	8,646	103,751			
00439A	SENIOR SECRETARY	1	88H	5,165	61,981			
POSITIONS		10			1,162,125			
VACANT POSITIONS		# POS.	SCHEDULE	1ST STEP MO. RATE	ANNUAL AMOUNT	FILLED AT 12 MONTHS	FILLED AT 9 MONTHS	FILLED AT 6 MONTHS
00763A	SENIOR INTERNAL AUDITOR	1	107L	7,815	93,779		70,334	
00764A	INTERNAL AUDITOR	1	107L	6,432	77,182			
00764A	INTERNAL AUDITOR	(1)	101H	6,432	77,182			
POSITIONS		1			70,334	0	70,334	0
TOTAL POSITIONS		11						
GROSS SALARIES					1,232,459			
ANTICIPATED MOU SALARY INCREASE**					21,568			
ANTICIPATED STEP AND/OR MERIT SALARY INCREASE					15,007			
BONUS					67,272			
120-DAY RETIREE(S)					0			
TOTAL SALARIES					1,336,307			

MAPP Tier I and Tier II positions are shown at actual salaries as of 1/1/20.
 Represented/Non-Represented positions are shown at actual salaries as of 1/1/20.
 Represented positions shown in blue
 Vacancies are shown at the 1st Step
 *All amounts rounded to the nearest dollar.
 ** Gross salaries are multiplied by 1.75% to calculate anticipated MOU increase

May 1, 2020

TO: 2020 Audit Committee
Gina Sanchez, Chair
Keith Knox, Vice Chair
Herman B. Santos, Secretary
Vivian H. Gray
David Green

FROM: Richard Bendall 
Chief Audit Executive

Leisha Collins 
Principal Internal Auditor

FOR: May 8, 2020 Audit Committee Meeting

SUBJECT: Audit Committee Consultant Contract

RECOMMENDATION:

- A.** Direct staff to terminate the current Audit Committee Consultant Agreement, effective July 1, 2020, and negotiate and enter into a new Audit Committee Consultant Agreement with Rick Wentzel, Sole Practitioner, at the same rate and terms as the current agreement with Grant Thornton, for the period of July 1, 2020 to December 31, 2020, terminable at LACERA's convenience; and
- B.** Direct staff to immediately initiate a Request for Proposal (RFP) to hire a new Audit Committee Consultant.

BACKGROUND

The Audit Committee Consultant Agreement (Agreement) was executed in March 2016 between LACERA and Rick Wentzel of Grant Thornton, LLP. The term of the Agreement ends December 31, 2020; however, Mr. Wentzel has informed us that he will be retiring from Grant Thornton in July 2020 and his firm has elected to terminate the consultant agreement upon his retirement. Mr. Wentzel's last Audit Committee meeting will be the June 28 meeting under the Grant Thornton contract.

Mr. Wentzel has expressed interest in continuing in the capacity of the Audit Committee Consultant, but as a Sole Practitioner, for the duration of the Agreement at the same rate and terms in the current contract with Grant Thornton, which include termination for convenience. Staff recommends this option, as it will provide a good opportunity and a timeline that will allow staff to work with the Committee to evaluate the role of the Consultant and changes the Committee may want to make while initiating the RFP. Staff requests the Committee provide direction on how to proceed in relation to the hiring of your Audit Committee Consultant as stated in our recommendation.