



December 15, 2020

TO: Each Trustee,
Board of Retirement
Board of Investments

SUBJECT: Joint BOR & BOI Meeting on December 16, 2020 – Item IV. A.

Attached you will find Green Folder Items as it pertains to the following agenda items:

Item IV. A. - Supplemental Memo Regarding Approval of the Revised Audit Committee Charter (Memo dated December 15, 2020)



December 15, 2020

TO: Each Trustee,
Board of Retirement
Board of Investments

FROM: Richard Bendall ^{RFB}
Chief Audit Executive
Christina Logan ^{CL}
Senior Internal Auditor

FOR: December 16, 2020 Joint Board of Retirement & Board of Investments Meeting

SUBJECT: **Supplemental Memo Regarding Approval of the Revised Audit Committee Charter**

BACKGROUND

This memo is to provide supplemental information as to the background and rationale for the proposed revised Audit Committee Charter, particularly in reference to the portion of the changes relating to the composition of the Committee.

June 24, 2020 Joint Board Meeting

At the June 24, 2020 joint board meeting, the Boards approved and adopted a revised Audit Committee Charter (Charter). The revised Charter better aligned with the Institute of Internal Auditors (IIA) model charter and formalized the principles that should guide the Audit Committee. The revisions expanded the Audit Committee's responsibilities to include appointing and compensating the financial auditor and other professional service providers, recommending an Internal Audit budget to the Boards, and assessing LACERA's risk management.

In addition, the boards also separately 1) approved the establishment of a \$500,000 audit reserve fund against contingency funds, and 2) delegated authority to the Audit Committee to access that reserve fund in its sole discretion based on a preliminary finding from existing audit activities that merit further investigation.

August 19, 2020 Audit Committee meeting

At the August 19, 2020 Audit Committee meeting, Internal Audit proposed changing the Audit Committee's composition to include both boards trustees and outside public members. The IIA's best practice guidance for audit committees' states that the key to an

audit committee's effectiveness is having members with an appropriate mix of skills and experience relevant to the organization's responsibilities, and independence from management.

We proposed adding outside public members to provide financial expertise consistent with Sarbanes-Oxley's requirements and additional independence from Management. However, the discussion during the meeting reflected the Committee members and other Trustees in attendance were not in support of the proposal and suggested staff perform additional research and bring the topic back for a subsequent discussion.

October 21, 2020 Audit Committee Meeting

At the October 21, 2020 Audit Committee meeting, Internal Audit presented to the Committee, "Strengthening the Audit Committee" (Attachment A). The goal of the presentation was to explain the importance of strong audit committees, that accountability and independence are the cornerstones of strong audit committees, and the ever-changing responsibilities for audit committees. The presentation included three suggestions for the Committee's consideration:

1. To increase accountability, develop an Annual Audit Committee Education Plan to address these expectations as an Audit Committee.

[Staff cited best practice guidance by the IIA and Deloitte supporting the importance of a knowledgeable and informed audit committee in all areas over which they have oversight (see Attachment A, slide page 10)]

2. To demonstrate independence, Audit Committee composition should exclude current Board officers.

[Staff cited best practice guidance by the IIA, Grant Thornton and others supporting the exclusion of board officers from the Audit Committee (see Attachment A, slide page 11)]

3. Each Board elect two trustees to participate on the Audit Committee with the Treasurer and Tax Collector (TTC), (the ex-officio member of both boards) becoming a permanent member of the Committee.

[Staff cited that the ex-officio trustee in their position as TTC brings to the Audit Committee a solid business perspective of key operations including internal controls, administration, banking, finance, investments and information technology (see Attachment A, slide page 12)]

Staff proposed the second suggestion to strengthen both the actual and perceived independence between the Boards and the Committee. While the Boards do not directly manage LACERA's operations, they do have oversight over organizational policies and priorities. The Committee had a lengthy discussion about the second suggestion but was strongly opposed to excluding board officers from eligibility to being on the Committee.

The Committee discussed that board officers could keep an independent mindset and there was no evidence of actual or perceived conflicts by the Chairs or Vice Chairs in their role on the Audit Committee since the inception of the Committee. The Committee also discussed the value of adding the ex-officio TTC as a permanent member and ultimately decided to adopt suggestion 3 but not suggestion 2. It was believed these changes to the Committee composition provided for enhanced independence while not precluding any trustees from eligibility for election to the Committee.

Accordingly, a motion was proposed and unanimously approved by the Committee to modify the Committee's composition to include "two elected Trustees from each Board and the Treasurer and Tax Collector, the ex-officio trustee on both Boards."

December 11, 2020 Audit Committee Meeting

At the December 11, 2020 Audit Committee meeting, staff brought the Audit Committee Charter to the Committee for approval (see Attachment B). The revised Charter modified the Audit Committee composition to a five-member Committee made up of two elected Trustees from each Board and the Treasurer and Tax Collector, the ex-officio trustee on both Boards. This change replaces the variable 4 to 6 - member Committee that may result from the current Charter with a constant 5 - member Committee. The variance in the current charter results due to the mandatory membership of the board Chairs and Vice-Chairs when the occupants of those positions overlap between the two boards.

Internal Audit also added a new paragraph to the Charter to reflect that all Audit Committee meetings will be noticed as joint meetings to allow for all Trustees to participate in open and closed sessions of Committee discussions, except for closed sessions relating to the Chief Audit Executive personnel matters.

RB:/cl

Attachments



October 9, 2020

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

Audit Committee Consultant
Rick Wentzel

FROM: Richard P. Bendall 
Chief Audit Executive

FOR: October 21, 2020 Audit Committee Meeting

SUBJECT: **Strengthening the Audit Committee**

Staff will provide the attached presentation, on Strengthening the Audit Committee, at the October 2020 Audit Committee meeting.

Attachments

RPB

Strengthening the Audit Committee



Audit Committee
October 21, 2020

Strong Audit Committees

Why are strong audit committees important?

“Strong audit committees **build TRUST** and **CONFIDENCE** in how organizations are managed and strengthen independence of the audit activity.” IIA

How do you build a strong audit committee?

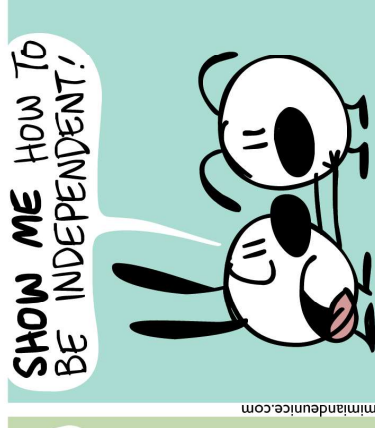
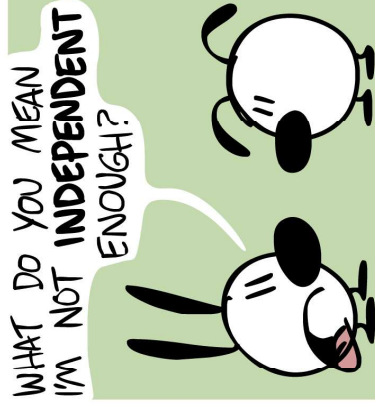
“**Accountability & Independence**” Grant Thornton



Accountability & Independence

Questions to Consider:

- What does accountability look like for audit committees?
- Who is the Audit Committee accountable to?
- How is Audit Committee accountability demonstrated?
- What does independence look like?
- What impairs independence?
- How do we ensure independence?



Best Practice Guidance

Researched best practice guidance:

- Institute of Internal Auditors (IIA)
- Deloitte's Center for Board Effectiveness
- Grant Thornton's Not-For-Profit Audit Committee Guide
- KPMG's Audit Committee Guide
- PwC's Governance Insight Center



Deloitte.



pwc



Grant Thornton

Evolving Expectations for Audit Committees

Sarbanes-Oxley Act of 2002

1. Appointing, monitoring, and compensating external financial auditor
2. Hiring of consultants / advisors within its scope of duties
3. Monitoring of Whistleblower and Corporate Ethics policies and procedures

Why were these changes made?



ARTHUR ANDERSEN



Adelphia
COMMUNICATIONS

What was the goal?

ACCOUNTABILITY & INDEPENDENCE

Evolving Expectations for Audit Committees

“The expectations of audit committees are higher than ever. Shareholders rely on audit committees to maintain oversight while keeping up with increasingly complex financial reporting requirements and a changing regulatory landscape. **Setting the appropriate tone at the top has never been more important for audit committees and boards as a whole.**” Deloitte

Today’s boards are increasingly being asked to up their game—by regulators, investors and proxy advisors. Audit committee **workloads are growing and often include overseeing complex areas such as cybersecurity**. PwC

“Audit committees play a **significant role in improving and providing transparency** around governance, risk management, and internal control practices of public sector organizations.” IIA

Evolving Expectations for Audit Committees

“Independent Audit Committees help public sector organizations meet taxpayers’ increasing demands for **transparency and accountability** by providing oversight over the following management practices:”

Internal Audit Activity	External Assurance Providers	Values & Ethics	Organizational Governance
Financial Statements & Public Accountability Reports	Management Action Plans	Internal Controls Framework	Risk Management

“In addition to being independent from the organization, audit committee members are expected to:

- Conduct their work in a diligent and professional manner
- Demonstrate inquisitiveness, outspokenness, and courageousness
- Collectively be knowledgeable of finance and accounting, business, auditing, risk management, compliance, and information technology.” IIA

Goal: Strengthen the Audit Committee

Based on the evolving expectations for audit committees, we created a phased approach to address these expectations and in turn strengthen the Audit Committee:

Phase	Description of Work	Status
1	Identify, clarify, & document new responsibilities <ul style="list-style-type: none">• Researched IIA Model Charter, best practices, and peer charters• Revised Audit Committee Charter	Completed June 2020
2	Determine how to address new responsibilities <ul style="list-style-type: none">• Researched IIA best practices and guidance, Public Accounting Firms guidance	In Process
3	Implement changes	January 2021
4	Assess effectiveness of changes	December 2021

Phase 1: Identify, Clarify, & Document New Responsibilities

The Audit Committee Charter was revised and approved by the Audit Committee, Board of Retirement, and Board of Investments in June 2020 to address the new expectations.

Revisions included:

- Defining the “Principles of the Audit Committee”
- Aligning with Sarbanes-Oxley so the Committee approves the appointment of the Financial Auditor
- Clarifying the Committee’s “Responsibilities,” especially regarding “Values and Ethics” and “Organizational Governance”

Phase 2: Determine How to Address New Responsibilities

Collective Knowledge

Expectation

1. “Collectively (be) knowledgeable of finance and accounting, business, auditing, risk management, compliance, and information technology.” IIA
2. Address emerging risks
3. Address evolving areas of responsibilities

Best Practice Guidance

“To rise to these challenges, it is critical for audit committees to stay informed as the pace of change accelerates.” Deloitte

Suggestion for Consideration

To increase accountability, develop an Annual Audit Committee Education Plan to address these expectations as an Audit Committee.

Phase 2: Determine How to Address New Responsibilities

Demonstrate Independence

Best Practice Guidance

“If the audit committee or its members are involved in making decisions, **its objectivity may be impaired**, which, in turn, may negatively impact its ability to remain independent.” IIA

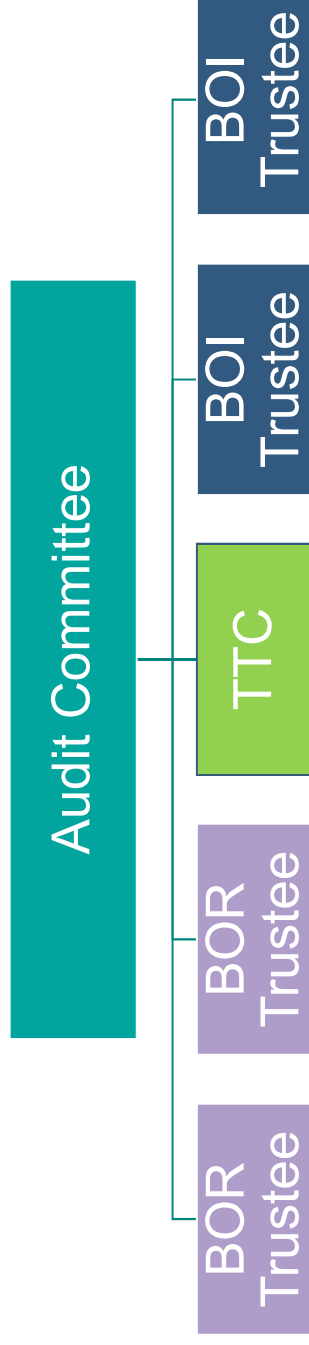
“Furthermore, in order for the Audit Committee to act as the conscience of the organization, it is important that it be independent of relationships that could compromise this integrity. Therefore, **it is best that no officers of the board serve on the audit committee...**” Grant Thornton

Suggestion for Consideration

To demonstrate independence, Audit Committee composition should exclude current Board officers.

Phase 2: Determine How to Address New Responsibilities

Audit Committee Composition



Suggestion for Consideration

- Each Board will elect two trustees to participate on the Audit Committee
- Treasurer Tax Collector (TTC) will become a permanent member of the Audit Committee
 - ❖ Brings a solid business perspective of key operations: Internal Controls Administration, Banking, Finance, Investments and Information Technology

Questions / Comments / Feedback








November 30, 2020

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

Audit Committee Consultant
Rick Wentzel

FROM: Richard P. Bendall 
Chief Audit Executive

Leisha E. Collins 
Principal Internal Auditor

Christina Logan 
Senior Internal Auditor

FOR: December 11, 2020 Audit Committee Meeting

SUBJECT: **Revisions to Audit Committee Charter**

RECOMMENDATION:

- a) Approve the revised Audit Committee Charter.
- b) Upon approval, recommend to the Board of Retirement and Board of Investments to approve and adopt the revised Audit Committee Charter.

REVISIONS

During the October 2020 Audit Committee meeting, Internal Audit discussed strengthening the Audit Committee by changing the composition for future Audit Committees. We proposed and the Audit Committee voted to approve modifying the composition to a five-member Committee made up of two elected Trustees from each Board and the Treasurer Tax Collector, the ex-officio on both Boards. This change is reflected in the red-line version of the Audit Committee Charter (Charter) (Attachment A) on pages 3 -6 for your approval.

Internal Audit also, added a new paragraph to the Charter to reflect that all Audit Committee meetings will be noticed as joint meetings to allow for all Trustees to participate in open and closed sessions of Committee discussions. This addition is reflected in the red-line version of the Charter on page 5.

CONCLUSION

Staff recommends the Audit Committee approve the revised Audit Committee Charter and upon approval, recommend to the Board of Retirement and Board of Investments to approve and adopt the revised Audit Committee Charter.

RPB:lec:cl

Attachments:

- A: Red-line Version of Revised Audit Committee Charter
- B: Clean Version of Revised Audit Committee Charter

ATTACHMENT A



Audit Committee Charter

December 2020

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A decorative graphic at the bottom of the page consists of several overlapping, semi-transparent geometric shapes in shades of blue and grey. The year "2020" is prominently displayed in a large, bold, blue font within one of the shapes.

2020



AUDIT COMMITTEE CHARTER

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AUDIT COMMITTEE CHARTER

I. CHARTER

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

II. PURPOSE AND ASSIGNED FIDUCIARY OVERSIGHT DUTIES

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

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

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

III. PRINCIPLES OF THE AUDIT COMMITTEE

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

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

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

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



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

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

IV. AUTHORITY

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

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

The Audit Committee is empowered to:

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

V. AUDIT COMMITTEE COMPOSITION AND CONSULTANT

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

Deleted: 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.

Deleted: 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.

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

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

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VI. AUDIT COMMITTEE MEETINGS

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

All Committee Members are expected to attend each meeting.

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

Regular meeting notices and agendas will be posted at least 72 hours in advance of the regular meetings and will be made available to the public in accordance with the Ralph M. Brown Act (Government Code Sections 54950, et seq.). Public documents referred to in the agenda will be made available for review at the office of the staff secretary to the Committee. 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

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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. ~~Three~~ members of ~~the~~ five-member Audit Committee, excluding the ~~Audit Committee Consultant~~, constitute a quorum.

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

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VII. RESPONSIBILITIES

A. Internal Audit Activity

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



3. Standards Conformance

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

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

4. Chief Audit Executive (CAE)

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

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

B. Professional Service Provider Activity

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



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

C. Financial Reporting Process

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

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

D. Values and Ethics

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



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

E. Organizational Governance

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

1. Risk Management
 - a. Annually review LACERA's risk profile.
 - b. Obtain from the CAE an annual report on Management's implementation and maintenance of an appropriate enterprise wide risk management process. Provide advice on the risk management processes established and maintained, and the procedures in place to ensure that they are operating as intended.
 - c. Provide oversight on significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by Management and the Boards.
2. Fraud
 - a. Oversee Management's arrangements for the prevention and detection of fraud, including ensuring adequate time is spent discussing and raising awareness about fraud and the Hotline.
 - b. Review a summary of Hotline reports, and if appropriate make a recommendation to the Boards.
3. System of Internal Controls
 - a. Consider the effectiveness of LACERA's internal control system, including information technology security and control, as well as all other aspects of LACERA's operations.
 - b. Understand the scope of Internal and External Auditors' review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with Management's responses.
 - c. Review and provide advice on control of LACERA as a whole and its individual divisions.
4. System of Compliance
 - a. Annually, review the effectiveness of Management's system of compliance with laws, regulations, policies, and procedures that are business critical.



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

F. Other Responsibilities

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

VIII. APPROVAL

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

Gina Sanchez
 Chair, Audit Committee

Date

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David Green
 Chair, Board of Investments

Date

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Herman Santos
 Chair, Board of Retirement

Date

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ATTACHMENT B

LACERA

Los Angeles County Employees Retirement Association

Audit Committee Charter

December 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
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III. PRINCIPLES OF THE AUDIT COMMITTEE

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

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

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

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



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

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

IV. AUTHORITY

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

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

The Audit Committee is empowered to:

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

V. AUDIT COMMITTEE COMPOSITION AND CONSULTANT

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



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

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

VI. AUDIT COMMITTEE MEETINGS

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

All Committee Members are expected to attend each meeting.

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

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

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

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



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

VII. RESPONSIBILITIES

A. Internal Audit Activity

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



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

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

4. Chief Audit Executive (CAE)

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

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

B. Professional Service Provider Activity

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



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

C. Financial Reporting Process

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

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

D. Values and Ethics

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



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

E. Organizational Governance

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

1. Risk Management

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

2. Fraud

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

3. System of Internal Controls

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

4. System of Compliance

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



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

F. Other Responsibilities

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

VIII. APPROVAL

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

Gina Sanchez
Chair, Audit Committee

Date

David Green
Chair, Board of Investments

Date

Herman Santos
Chair, Board of Retirement

Date