

# IN PERSON & VIRTUAL BOARD MEETING



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TO PROVIDE PUBLIC COMMENT

Members of the public may address the Committee orally and in writing. To provide Public Comment, you should visit the above link and complete the request form by selecting whether you will provide oral or written comment from the options located under Options next to the Committee meeting.

**Attention:** If you have any questions, you may email [PublicComment@lacera.com](mailto:PublicComment@lacera.com). If you would like to make a public comment during the committee meeting, review the Public Comment instructions.

## AGENDA

A REGULAR 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, CA 91101

9:00 A.M., THURSDAY, JUNE 20, 2024

*This meeting will be conducted by the Audit Committee and Board of Retirement and Board of Investments both in person and by teleconference under California Government Code Section 54953 (b)(f).*

Teleconference Locations for Trustees and the Public under California Government Code Section 54953(b).  
Bellagio Hotel and Casino | 3600 S. Las Vegas Blvd, Las Vegas, NV 89109

*Any person may view the meeting in person at LACERA's offices or online at <https://LACERA.com/leadership/board-meetings>.*

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

### COMMITTEE TRUSTEES:

Debbie Martin (BOI), Chair  
Wayne Moore (BOR), Vice Chair  
Vivian Gray (BOR), Secretary  
Nancy Durazo (BOR), Trustee  
Jason Green (BOI), Trustee  
Nicole Mi (BOI), Trustee  
Elizabeth Ginsberg, Ex-Officio

### AUDIT COMMITTEE CONSULTANT

Larry Jensen

- I. CALL TO ORDER
- II. PLEDGE OF ALLEGIANCE

III. PROCEDURE FOR TELECONFERENCE MEETING ATTENDANCE UNDER AB 2449, California Government Code Section 54953 (f)

- A. Just Cause
- B. Action on Emergency Circumstance Requests
- C. Statement of Persons Present at Teleconference Locations

IV. APPROVAL OF THE MINUTES

- A. Approval of the Minutes of the Regular Meeting of March 18, 2024

V. PUBLIC COMMENT

(Members of the public may address the Committee orally and in writing. To provide Public Comment, you should visit <https://LACERA.com/leadership/board-meetings> and complete the request form by selecting whether you will provide oral or written comment from the options located under Options next to the Committee meeting.

If you select oral comment, we will contact you via email with information and instruction as to how to access the meeting as a speaker. You will have up to 3 minutes to address the Committee. Oral comment requests will be accepted up to the close of the Public Comment item on the agenda.

If you select written comment, please input your written public comment or documentation on the above link as soon as possible and up to the close of the meeting. Written comment will be made part of the official record of the meeting. If you would like to remain anonymous at the meeting without stating your name, please leave the name field blank in the request form. If you have any questions, you may email [PublicComment@lacera.com](mailto:PublicComment@lacera.com).)

VI. NON-CONSENT ITEMS

- A. **2024 Audit, Compliance, Risk, Ethics (ACRE) Committee Charter Recommendation** as submitted by, Steven P. Rice, Chief Counsel, Richard P. Bendall, Chief Audit Executive, Christina Logan, Principal Internal Auditor, Allison E. Barrett, Senior Staff Counsel: That the Committee (1) review and approve the 2024 Audit Compliance, Risk, and Ethics (ACRE) Committee Charter, (2) and upon approval, recommend to the Board of Retirement and Board of Investments to approve and adopt the 2024 ACRE Committee Charter.  
(Presentation) (Memo dated June 5, 2024)

VI. NON-CONSENT ITEMS (Continued)

B. **Updated Internal Audit Charter**

Recommendation as submitted by Christina Logan, Principal Internal Auditor: That the Committee approve the Internal Audit's Revised Charter (Memo dated May 17, 2024)

C. **Ethics and Compliance Program Charter**

Recommendation as submitted by Shawn R. Kehoe, Chair, on behalf of the Board of Retirement, and Patrick L. Jones, Chair, on behalf of the Board of Investments: That the Committee review and approve the proposed Ethics and Compliance Program Charter and recommend it to the Board of Retirement and Board of Investments (Boards) for final approval. (Memo dated June 4, 2024) (Supplemental Memo dated June 4, 2024)

D. **Approval Fiscal Year 2024 – 2025 Internal Audit Plan**

Recommendation as submitted by Richard P. Bendall, Chief Audit Executive: That the Committee review and approve the FYE 2025 Audit Plan (Presentation) (Memo dated June 6, 2024)

E. **LACERA's Rehired Retirees Program Audit Fiscal Year Ended June 30, 2023, and 2024**

Recommendation as submitted by George Lunde, Senior Internal Auditor: That the Committee review and discuss the following engagement report to take the following action(s):

1. Accept and file report;
2. Instruct staff to forward report to Boards or Committees;
3. Make recommendations to the Boards or Committees regarding actions as may be required based on audit findings; and/or

4. Provide further instruction to staff.

(Presentation) (Memo dated June 4, 2024)

VII. REPORTS

A. **Los Angeles County Employee Retirement Association Pre-Audit Communication**

Christina Logan, Principal Internal Auditor  
Nathan K. Amick, Senior Internal Auditor  
(Presentation) (Memo dated May 31, 2024)

VII. REPORTS (Continued)

B. **Fiscal Year Ending 2024 Audit Plan Status Report**

Nathan K. Amick, Senior Internal Auditor  
(Presentation) (Memo dated June 4, 2024)

C. **Recommendation Follow-Up Report**

Nathan Amick, Senior Internal Auditor  
(For Information Only) (Memo dated May 31, 2024)

D. **Recommendation Follow-Up Sensitive Information Technology Areas**

Gabriel Tafoya, Senior Internal Auditor  
(For Information Only) (Memo dated June 3, 2024)

E. **Ethics Hotline Status Report**

Leisha E. Collins, Principal Internal Auditor  
(For Information Only) (Memo dated June 3, 2024)

F. **Internal Audit Staffing Activity Report**

Richard P. Bendall, Chief Audit Executive  
(For Information Only) (Memo dated June 5, 2024)

G. **Status of Other External Audits Not Conducted at the Discretion of Internal Audit**

Richard P. Bendall, Chief Audit Executive  
(Verbal Update)

VIII. CONSULTANT COMMENTS

Larry Jensen, Audit Committee Consultant  
(Verbal Presentation)

IX. ITEMS FOR STAFF REVIEW

(This item summarizes requests and suggestions by individual trustees during the meeting for consideration by staff. These requests and suggestions do not constitute approval or formal action by the Board, which can only be made separately by motion on an agenda item at a future meeting.)

X. ITEMS FOR FUTURE AGENDAS

(This item provides an opportunity for trustees to identify items to be included on a future agenda as permitted under the Board's Regulations.)

XI. GOOD OF THE ORDER  
(For Information Purposes Only)

XII. 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.***

**Any documents subject to public disclosure that relate to an agenda item for an open session of the Committee, that are distributed to members of the Committee 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 Committee, at LACERA's offices at 300 North Lake Avenue, Suite 820, Pasadena, California during normal business hours from 9:00 a.m. to 5:00 p.m. Monday through Friday and will also be posted on [lacera.com](http://lacera.com) at the same time, Board Meetings | LACERA.**

***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 REGULAR 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, CA 91101

9:00 A.M., MONDAY, MARCH 18, 2024

This meeting was conducted by the Audit Committee, Board of Investments, and Board of Retirement both in person and by teleconference under California Government Code Section 54953 (f).

COMMITTEE TRUSTEES

PRESENT:       Debbie Martin, Chair  
  
                  Wayne Moore, Vice Chair  
  
                  Vivian H. Gray, Secretary (Joined the meeting at 9:14 a.m.)  
  
                  Nancy M. Durazo, BOR Trustee  
  
                  Jason E. Green, BOI Trustee  
  
                  Herman B. Santos, BOI Trustee  
  
                  Keith Knox, Ex-Officio (Left at 11:00 a.m.)

OTHER TRUSTEES

Nicole Mi, Board of Investments

STAFF, ADVISORS AND PARTICIPANTS

Santos H. Kreimann, Chief Executive Officer

Luis A. Lugo, Deputy Chief Executive Officer

Laura Guglielmo, Assistant Executive Officer

JJ Popowich, Assistant Executive Officer

STAFF, ADVISORS, PARTICIPANTS (Continued)

Steven P. Rice, Chief Counsel

Jonathan Grabel, Chief Investment Officer

Ted Granger, Chief Financial Officer

Carly Ntoya, Human Resources Director

Kathy Delino, Chief Information Technology Officer

Chaitanya Errande, Information Security Officer

Summy Voong, Information Technology Manager

Richard P. Bendall, Chief Audit Executive

Leisha E. Collins, Principal Internal Auditor

Nathan K. Amick, Senior Internal Auditor

Gabriel Tafoya, Senior Internal Auditor

George Lunde, Senior Internal Auditor

Larry Jensen, Audit Committee Consultant

I. CALL TO ORDER

This meeting was called to order by Acting Vice Chair Knox at 9:00 a.m. in the Board Room of Gateway Plaza.

II. PLEDGE OF ALLEGIANCE

Trustee Santos led the Trustees and staff in reciting the Pledge of Allegiance.

III. ELECTIONS OF OFFICERS (Election of Chair, Vice Chair, and Secretary)

A. Chair of the Audit Committee



III. ELECTIONS OF OFFICERS (Election of Chair, Vice Chair, and Secretary)  
(Continued)

Trustee Debbie Martin was nominated to the position of Chair of the Audit Committee by Trustee Santos. Hearing no other nominations, the nominations were closed. Trustee Knox declared Ms. Martin as Chair of the Audit Committee for 2024.

B. Vice Chair of the Audit Committee

Trustee Moore was nominated to the position of Vice Chair of the Audit Committee by Trustee Santos. Hearing no other nominations, the nominations were closed. Trustee Knox declared Trustee Moore as Vice Chair of the Audit Committee for 2024.

C. Secretary of the Audit Committee

Trustee Gray was nominated to the position of Secretary of the Audit Committee by Trustee Santos. Hearing no other nominations, the nominations were closed. Trustee Knox declared Trustee Gray as Secretary of the Audit Committee for 2024.

IV. PROCEDURE FOR TELECONFERENCE MEETING ATTENDANCE  
UNDER AB 2449

- A. Just Cause
- B. Action on Emergency Circumstance Requests
- C. Statement of Persons Present at Teleconference Locations

No requests were received for Just Cause (A) or Emergency Circumstances (B).

V. APPROVAL OF MINUTES

A. Approval of the Minutes of the Regular Meeting of December 14, 2023

Trustee Knox made a motion, Trustee Santos seconded, to approve the minutes of the regular meeting of December 14, 2023. The motion passed by the following roll call vote:

Yes: Durazo, Green, Knox, Martin, Moore, Santos,

VI. PUBLIC COMMENT

There were no requests from the public to speak.

VII. NON-CONSENT ITEMS

A. **Proposed 2024 Audit Committee Meeting Dates**

Recommendation as submitted by Richard P. Bendall, Chief Audit Executive: That the Committee review and approve the proposed 2024 Audit Committee meeting dates.  
(Memo dated February 23, 2024)

Mr. Bendall was present to answer questions from the Committee.

Trustee Santos made a motion, Trustee Moore seconded, to approve the meeting dates for 2024. The motion passed by the following roll call vote:

Yes: Durazo, Green, Knox, Martin, Moore, Santos

No: None

B. **Internal Audit Proposed Fiscal Year 2024 – 2025 Budget Request**

(Trustee Vivian Gray arrived at 9:14 a.m.)

Recommendation as submitted by Richard P. Bendall, Chief Audit Executive: That the Committee approve the Internal Audit Proposed Fiscal Year 2024 - 2025 Budget Request, and upon approval, direct staff to include it in LACERA's Administrative Budget for Board approval. (Memo dated March 6, 2024)

VII. NON-CONSENT ITEMS (Continued)

Messrs. Bendall, Kreimann, Jensen and Ms. Guglielmo were present to answer questions from the Committee.

Trustee Green made a motion, Trustee Knox seconded, to approve staff's recommendations. The motion passed by the following roll call vote:

Yes: Durazo, Gray, Green, Knox, Martin, Moore, Santos

No: None

C. **Bank of America Wire Transfer Audit**

Recommendation as submitted by Nathan K. Amick, Senior Internal Auditor: That the Committee review and discuss the following engagement report and take the following action(s):

1. Accept and file report;
2. Instruct staff to forward report to Boards or Committees;
3. Make recommendations to the Boards or Committees regarding actions as may be required based on audit findings; and/or
4. Provide further instruction to staff.  
(Presentation) (Memo dated March 5, 2024)

Mr. Amick provided a brief presentation and answered questions from the Committee.

Trustee Moore made a motion, Trustee Knox seconded, to accept and file the report. The motion passed by the following roll call vote:

Yes: Durazo, Gray, Green, Knox, Martin, Moore, Santos

No: None

VII. NON-CONSENT ITEMS (Continued)

D. **Procurement of Goods Audit**

Recommendation as submitted by Gabriel Tafoya, Senior Internal Auditor: That the Committee review and discuss the engagement report and take the following action(s):

1. Accept and file report;
2. Instruct staff to forward report to Boards or Committees;
3. Make recommendations to the Boards or Committees regarding actions as may be required based on audit findings; and/or
4. Provide further instruction to staff.

(Memo dated March 6, 2024)

Mr. Tafoya provided a brief presentation. Messrs. Bendall, Kreimann and Ms. Contreras were present to answer questions from the Committee.

Trustee Moore made a motion, Trustee Gray seconded, to accept and file the report. This item was received and filed. The motion passed by the following roll call vote:

Yes: Durazo, Gray, Green, Knox, Martin, Moore, Santos,

No: None

VIII. REPORTS

A. **2024 Audit Committee Orientation**

Christina Logan, Principal Internal Auditor

Nathan K. Amick, Senior Internal Auditor

(Presentation) (Memo dated March 5, 2024)

Messrs. Amick and Bendall provided a brief presentation and addressed questions from the Committee. This item was received and filed.

VIII. REPORTS (Continued)

B. **Annual Audit Planning for Fiscal Year 2024 - 2025**

Richard P. Bendall, Chief Audit Executive  
(Presentation) (Memo dated March 6, 2024)

Mr. Bendall provided a brief presentation and was present to answer questions from the Committee. This item was received and filed.

C. **Fiscal Year Ending 2024 Audit Plan Status Report**

Richard P. Bendall, Chief Audit Executive  
Nathan K. Amick, Senior Internal Auditor  
(Presentation) (Memo dated March 5, 2024)

This item was received and filed.

D. **Management's Compliance Report**

Steven P. Rice, Chief Counsel  
Luis A. Lugo, Deputy Chief Executive Officer  
(For Information Only) (Memo dated March 4, 2024)

This item was received and filed.

E. **Recommendation Follow-Up**

Nathan K. Amick, Senior Internal Auditor  
(For Information Only) (Memo dated March 5, 2024)

This item was received and filed.

F. **Recommendation Follow-Up Sensitive Information Technology Areas**

Gabriel Tafoya, Senior Internal Auditor  
(For Information Only) (Memo dated March 6, 2024)

This item was received and filed.

G. **Ethics Hotline Status Update**

Leisha E. Collins, Principal Internal Auditor  
(For Information Only) (Memo dated March 5, 2024)

This item was received and filed.

VIII. REPORTS (Continued)

H. **Internal Audit Staffing Activity Report**

Richard P. Bendall, Chief Audit Executive  
(For Information Only) (Memo dated March 5, 2024)

This item was received and filed.

I. **Status of Other External Audits Not Conducted at the Discretion of Internal Audit**

Richard P. Bendall, Chief Audit Executive  
(Verbal Update)

Mr. Bendall stated that there was nothing to report.

IX. CONSULTANT COMMENTS

Larry Jensen, Audit Committee Consultant  
(Verbal Presentation)

Mr. Jensen provided comments to the Committee.

X. ITEMS FOR STAFF REVIEW

There were no items to report.

XI. ITEMS FOR FUTURE AGENDAS

There were no items to report.

XII. GOOD OF THE ORDER

(For Information Purposes Only)

The Committee thanked staff for their work.

### XIII. EXECUTIVE SESSION

#### A. Potential Threats to Public Services or Facilities (Pursuant to Subdivision (a) of California Government Code Section 54957)

Consultation with: LACERA Chief Executive Officer Santos H. Kreimann, Deputy Chief Executive Officer Luis Lugo, Chief, Executive Audit Executive, Richard P. Bendall, Information Technology Kathy Delino, Information Security Officer Chaitanya Errande, and Other LACERA Staff.

There was nothing to report.

### XIV. ADJOURNMENT

There being no further business to come before the Committee, the meeting was adjourned at 11:05 a.m.



June 5, 2024

TO: 2024 Audit Committee:  
Debbie Martin, (BOI), Chair  
Wayne Moore, (BOR), Vice Chair  
Vivian Gray, (BOR), Secretary  
Nancy Durazo, (BOR) Trustee  
Jason Green, (BOI), Trustee  
Nicole Mi, (BOI), Trustee  
Elizabeth Ginsberg, (BOR/BOI)

Audit Committee Consultant  
Larry Jensen

FROM: Steven P. Rice *SPR*  
Chief Counsel

Richard P. Bendall *RPB*  
Chief Audit Executive

Christina Logan *CL*  
Principal Internal Auditor

Allison E. Barrett *AEB*  
Senior Staff Counsel

FOR: June 20, 2024 Audit Committee Meeting

SUBJECT: 2024 Audit, Compliance, Risk, and Ethics (ACRE) Committee Charter

### **RECOMMENDATION**

That the Committee (1) review and approve the 2024 Audit Compliance, Risk, and Ethics (ACRE) Committee Charter, (2) and upon approval, recommend to the Board of Retirement and Board of Investments to approve and adopt the 2024 ACRE Committee Charter.

### **LEGAL AUTHORITY**

The Board of Retirement and Board of Investments (Boards) have constitutionally mandated fiduciary duties of care, skill, prudence, and diligence in the administration of LACERA's retirement system.<sup>1</sup> Prudence and diligence require meaningful oversight. Accordingly, the Boards designate committees to support their fiduciary oversight duties.<sup>2</sup>

In November 2003, the LACERA Boards established the Audit Committee to assist the Boards in fulfilling their fiduciary oversight duties for internal audit activity, in addition to values, ethics, and organizational governance. The Audit Committee's responsibilities over organizational governance include the assessment of the adequacy of LACERA's System of Compliance, with an annual review of management's compliance with laws, regulations, policies and procedures.<sup>3</sup>

<sup>1</sup> Constitution of the State of California, Article XVI, Sec. 17.

<sup>2</sup> Board of Retirement Regulations (adopted pursuant to Government Code section 31525), Section II, No. 8; Bylaws Board of Investments, Sec. I, No. 4; Sec. II, No. 8.

<sup>3</sup> Audit Committee Charter (2021), Sections II and VII(E)(4).



Since 2003, the Committee’s oversight responsibilities and authority have been documented in its Audit Committee Charter, last reviewed and updated in July 2021.

In support of LACERA’s evolution toward a more mature organizational governance structure, we propose the Audit Committee become the Audit, Compliance, Risk, and Ethics (ACRE) Committee, and the Audit Committee Charter reflect the Committee’s enhanced role in the oversight of LACERA’s Ethics and Compliance and Enterprise Risk Management Programs.<sup>4</sup> The proposed 2024 ACRE Charter includes an expanded list of the Committee’s oversight responsibilities for the Ethics and Compliance Program and updates to its oversight responsibilities for audit activities.

**DISCUSSION**

***Audit Activities Updates***

In January 2024, the IIA issued its revised Global Internal Audit Standards (Standards) ([Global Internal Audit Standards \(theiia.org\)](https://theiia.org)). Subsequently, the IIA released an updated Model Internal Audit Charter for General Use (2024 Model) (Attachment D) based on the revised Standards. The 2024 Model includes a new section, Board Oversight (pg.3), which outlines the oversight responsibilities the Committee has for Internal Audit. Many of these responsibilities were already included in the 2021 Audit Committee Charter but staff updated the wording to align with the 2024 Model Board Oversight and/or to align with current LACERA practices.

The four key changes to the proposed 2024 ACRE Committee Charter related to Audit Activity are:

<b>Charter Section</b>	<b>Page</b>	<b>Description of Change</b>	<b>Reason for Change</b>
<b>VII. A.1.</b>	5	Added “particularly the described “essential conditions” which establish the foundation for an effective internal audit function and are listed below.”	Align with 2024 Model and 2024 Standards
<b>VII. A.1.d.</b>	6	Added “Review and approve Internal Audit’s Three-Year Roadmap, which provides a plan to continue to mature and improve Internal Audit.	Standard 9.2 of the revised Standards require the CAE to “develop and implement a strategy for the internal audit function that supports the strategic objectives and success of the organization and aligns with the expectations of the board, senior management, and other key stakeholders.”

<sup>4</sup> LACERA Board of Retirement’s 2023-2028 Strategic Plan, Strategic Priority 4.

<p><b>VII. A.2.b.</b></p>	<p>7</p>	<p>Added new bullet for Professional Service Providers that are selected for inclusion in Internal Audit’s Audit Pool.</p>	<p>To clarify that Internal Audit will seek approval for the selection of Professional Service Providers to be included in Internal Audit’s Audit Pool. Subsequently, if Audit Pool Provider is selected, their compensation will be approved in accordance with LACERA’s Policy for Purchasing Goods and Services.</p>
<p><b>VII. A.2.c.</b></p>	<p>7</p>	<p>Added “outside of Internal Audit’s Audit Pool”</p>	<p>To clarify that Internal Audit will seek approval for the selection and compensation of Professional Service Providers that are not part of Internal Audit’s Audit Pool.</p>

***Ethics and Compliance Program Activity Enhancements***

The ACRE Committee will oversee the Ethics and Compliance Program (Program), in conjunction with the Chief Executive Officer (CEO) and Boards, and will approve its Charter, framework, reporting structure, scope and objectives and makes recommendations to the Boards and CEO. The ACRE Committee provides oversight of management’s controls to maintain the highest ethical standards and to monitor compliance with laws, regulations, policies, and procedures.

The Committee has oversight duties with respect to the following Program activities (outlined in further detail in the proposed updated Audit Committee Charter as well as the Ethics and Compliance Program Charter), which are consistent with the United States Sentencing Guidelines for Organizations and the U.S. Department of Justice “Evaluation of Corporate Compliance Programs” (2023):

- Ethics and Compliance Personnel
- Ethics and Compliance Roadmap of Priorities, Work Plan, and Budget
- Ethics and Compliance Risk Assessments
- Monitoring and Evaluating Ethical Conduct and Compliance
- Policies and Procedures
- Vendor/Third-Party Ethics and Compliance Risk Management
- Privacy
- Training and Communications
- Reporting Channels and Commitment to Non-Retaliation
- Investigations, Recommendations for Mitigation or Remediation
- Measure of Organizational Culture of Ethics and Compliance
- Ethics and Compliance Program Assessment and Evaluation

***Enterprise Risk Management Program Activity***

There were no updates made to Committee's oversight responsibilities for the Enterprise Risk Management Activity. During Fiscal Year 2025, Internal Audit will begin working on developing an Enterprise Risk Management program and will update the Charter accordingly.

**CONCLUSION**

Under the ACRE Committee's oversight, all three functions (Internal Audit, Ethics & Compliance, and Enterprise Risk Management) will work in conjunction to support a system of continuous assessment and improvement to elevate LACERA's organizational governance.

Staff recommends that the Committee (1) review and approve the 2024 Audit Compliance, Risk, and Ethics (ACRE) Committee Charter, (2) and upon approval, recommend to the Board of Retirement and Board of Investments to approve and adopt the 2024 ACRE Committee Charter.

Attachments

A: Presentation – The Audit Committee becomes the ACRE Committee

B: Proposed 2024 Audit, Compliance, Risk, and Ethics (ACRE) Charter

C: 2021 Audit Committee Charter

D: 2024 Model Internal Audit Charter for General Use

c: Santos H. Kreimann  
Luis A. Lugo  
Jonathan Gabel  
JJ Popowich  
Laura Guglielmo



# The Audit Committee becomes The **ACRE** Committee

**A**UDIT  
**C**OMPLIANCE  
**R**ISK  
**E**THICS

June 20, 2024



1. The Why
2. The How – the Revised ACRE Charter
  - Internal Audit Activity Updates
  - Professional Service Provider Activity Updates
  - Ethics & Compliance Expanded
  - Enterprise Risk Management Activity
3. The What – Committee Approval of the New Charter

# The Why



Why is staff recommending this change:

- April 2021 Audit Committee Charter included fiduciary oversight over Organizational Governance
- Aligns with LACERA's 2023-2028 Strategic Plan
- Supported by Best Practice Guidance from KPMG, Deloitte, PwC
- Comports with Audit Committee Practices Report: Common Threads Across Audit Committees by Deloitte's Center for Board Effectiveness and the Center for Audit Quality
- Alignment with United States Sentencing Guidelines and U.S. Department of Justice Guidance with respect to the elements and oversight of an Ethics and Compliance Program



AUDIT  
COMPLIANCE  
RISK  
ETHICS



## The Proposed 2024 ACRE Committee Charter



Updates to Charter's Internal Audit Activity reflect the Institute for Internal Auditors' (IIA) 2024 updated Standards.

Key changes:

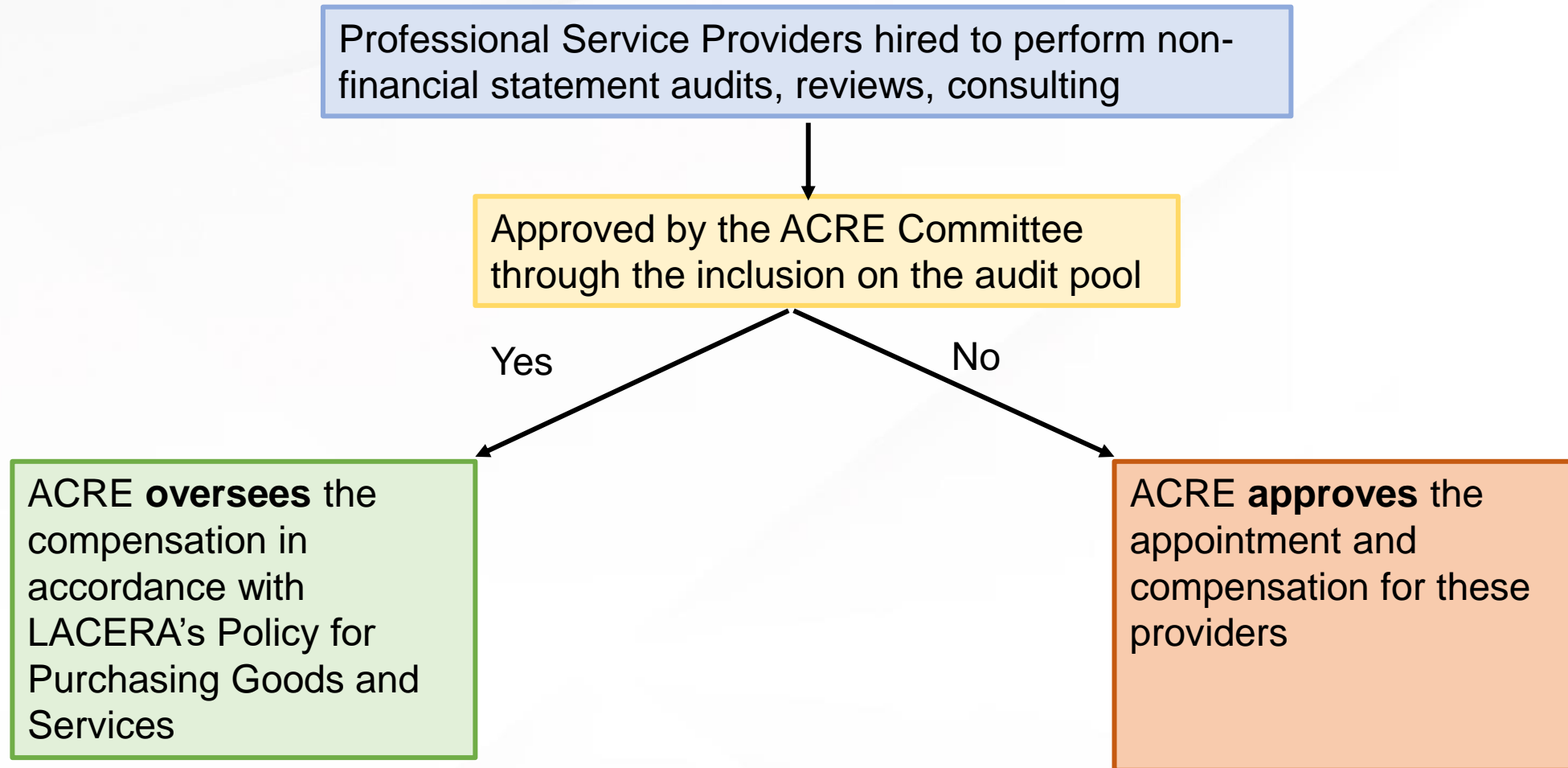
- Oversee and monitor Internal Audit's conformance with Standards, particularly the described "essential conditions."
- Review and approve Internal Audit's Three-Year Roadmap.



# Professional Services Activity



Requesting a change regarding Internal Audit's process for hiring professional service providers.  
See Charter sections VII. 2.b and 2.c



# Ethics & Compliance Activity



- Ethics and Compliance are Management Responsibilities
- The ACRE Charter incorporates elements of the Ethics and Compliance Program Charter and specifically the enhancement of the ACRE Committee's Ethics and Compliance oversight role of the Program.
- *The ACRE Committee will oversee the following Program Activities, in conjunction with the CEO and both Boards:*
  - Ethics and Compliance Personnel
  - Ethics and Compliance Roadmap of Priorities, Work Plan, and Budget
  - Ethics and Compliance Risk Assessments
  - Monitoring and Evaluating Ethical Conduct and Compliance
  - Policies and Procedures
  - Vendor/Third-Party Ethics and Compliance Risk Management
  - Privacy
  - Training and Communications
  - Reporting Channels and Commitment to Non-Retaliation
  - Investigations, Recommendations for Mitigation or Remediation
  - Measure of Organizational Culture of Ethics and Compliance
  - Ethics and Compliance Program Assessment and Evaluation





## The Audit Committee becomes **A**AUDIT, **C**OMPLIANCE, **R**ISK, **E**THICS

- 1** Adopts the ACRE Committee Charter
- 2** Approves the Ethics and Compliance Program Charter
- 3** Forwards both Charters to the Board of Retirement and Board of Investments for final approval.

**A**AUDIT  
**C**OMPLIANCE  
**R**ISK  
**E**THICS

# Thank you!



**Steven Rice**  
Chief Counsel  
srice@lacera.com



**Richard Bendall**  
Chief Audit Executive  
rbendall@lacera.com



**Allison Barrett**  
Senior Staff Counsel  
abarrett@lacera.com



**Christina Logan**  
Principal Internal Auditor  
clogan@lacera.com

AUDIT  
COMPLIANCE  
RISK  
ETHICS 10

# **AUDIT, COMPLIANCE, RISK, AND ETHICS (ACRE) COMMITTEE CHARTER**



**2024**



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**AUDIT, COMPLIANCE, RISK, AND  
ETHICS (ACRE) COMMITTEE CHARTER**

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## **AUDIT, COMPLIANCE, RISK, AND ETHICS (ACRE) COMMITTEE CHARTER**

### **I. CHARTER**

This Charter establishes the authority and responsibilities of the Audit, Compliance, Risk and Ethics (ACRE) Committee (Committee), as assigned by the Los Angeles County Employees Retirement Association's (LACERA) Board of Retirement and Board of Investments (Boards). The ACRE Committee Charter is a living document which shall 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.

In **XX 2024**, LACERA's Boards expanded the Audit Committee's responsibilities to include Compliance, Risk, and Ethics. Subsequently, the Audit Committee was renamed the Audit, Compliance, Risk, and Ethics (ACRE) Committee to encapsulate the Committee's enhanced role in the oversight of LACERA's Ethics and Compliance and Enterprise Risk Management Programs.

The purpose of the ACRE Committee is to provide structured, systematic oversight of LACERA's governance, risk management, ethics and compliance, and internal controls. The Committee assists the Boards in fulfilling their fiduciary oversight duties for LACERA's Audit Activity and Organizational Governance Activities, which include Ethics, Compliance and Enterprise Risk Management.

### **III. PRINCIPLES OF THE ACRE COMMITTEE**

The ACRE Committee conducts itself in accordance with its fiduciary duty of prudence and loyalty to LACERA's members and their beneficiaries pursuant to Article XVI, Sec. 17 of the California Constitution, LACERA's Code of Ethical Conduct, LACERA's Mission, Vision, and Values, all applicable laws, regulations, policies, and procedures, and the principles and standards from The Institute of Internal Auditors' (IIA) Ethics and Professionalism domain of the Global Internal Audit Standards. This Charter is also based on the United States Sentencing Guidelines for Organizations and the U.S. Department of Justice "Evaluation of Corporate Compliance Programs" (2023). The Committee expects the Boards, Management, staff, and LACERA's consultants and other vendors will also adhere to these requirements.

**Integrity** – Committee Members perform their work with honesty, diligence, and responsibility. The ACRE 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, Management will regularly provide the Committee with updates on recently completed, related findings and follow-up emergent risks.



**Independence & Objectivity** – The Committee performs its responsibilities in an independent manner and in compliance with its fiduciary duty without exception. Committee Members will disclose any actual or perceived conflicts of interest to the ACRE Committee.

**Confidentiality** - Committee Members will not use or disclose confidential information. Committee Members are also prudent in the use and protection of other information acquired during the course of their duties, including public information because it relates to LACERA's risk and control environment.

**Competency** - Committee Members receive formal orientation training on the purpose and mandate of the Committee and LACERA's objectives. Committee Members are also provided regular education and training from the ACRE Consultant and staff on governance, audit (including understanding the annual financial statement reports), ethics and compliance, and enterprise risk management. Committee Members are obligated to diligently prepare for and actively participate in ACRE Committee meetings.

**Professional Standards** – The ACRE Committee ensures all related work will be handled with the highest professional standards consistent with auditing, ethical, compliance, and risk management standards of practice and industry guidelines.

#### **IV. ACRE COMMITTEE AUTHORITY**

The ACRE Committee has unrestricted access to the Boards, Management, and staff, and any relevant information necessary to discharge its duties, subject to certain legal limitations. 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 Committee, Chief Audit Executive (CAE), and/or Chief Ethics and Compliance Officer (CECO) will work with the Chief Legal Counsel and/or the Chief Executive Officer to resolve the matter.

#### **V. ACRE COMMITTEE COMPOSITION, CONSULTANT, AND OFFICERS**

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

The Committee shall have the authority to approve the hiring of the ACRE Committee Consultant ("Consultant") as an advisor. The Consultant serves as the audit technical and financial expert, to advise the Committee on audit and financial matters. The Consultant also advises the Committee on ethics, compliance, and risk management issues. The Committee conducts an annual performance evaluation of the ACRE Committee Consultant.

At the first Committee meeting of each calendar year, the Committee elects a Chair, Vice Chair and Secretary, each to serve for a term of one year or until their successor is duly elected and qualified, whichever period is shorter. 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. ACRE COMMITTEE MEETINGS**

The Committee conducts regular meetings with the time frame between meetings not to exceed four months. At the first meeting of each calendar year, the Committee will establish a meeting schedule for the year and may set additional meetings as the Committee deems necessary.

All Committee Members are expected to attend each meeting, review all relevant materials in advance, and actively participate. The ACRE Committee Consultant will attend all meetings of the Committee, unless excused by the Committee.

All meetings of the ACRE Committee shall be 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 Committee discussions. However, non-committee trustees may not make or second motions or vote. Additionally, closed sessions to discuss the CAE's or CECO's annual performance assessment and the Committee's recommendation to the Boards regarding the appointment, discipline, dismissal, and/or removal of the CAE or CECO shall be noticed for attendance by Committee members only.

Regular meeting notices and agendas are posted at least 72-hours in advance of 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 are made available for review at the office of the staff secretary to the Committee and published on the LACERA website, lacera.com. The Committee invites members of Management, other key staff, Internal Auditors, Financial Auditors, all other Professional Service Providers, and/or any other relevant individuals 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 has such other powers to notice and agendize meetings as provided in the Brown Act.

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

Minutes will be prepared recording the time and place of each meeting of the Committee, the names of all members present, all official acts of the Committee, and the votes given by members except when the action is unanimous. The minutes will be written and presented for approval at the next regular meeting. The approved minutes will be signed by the Chair and Secretary.

## **VII. RESPONSIBILITIES**

The ACRE Committee provides oversight over the following:

### **A. Audit Activity**

#### **1. Internal Audit Activity**

Oversee and monitor Internal Audit's conformance with the IIA's Global Internal Audit Standards, particularly the described "essential conditions" which establish the foundation for an effective internal audit function and are listed below.

- a. The Internal Audit Activity is independent of Management and reports functionally to the ACRE Committee and administratively to the Chief Executive Officer.
- b. Ensure the CAE has unrestricted access to and communicates directly with the ACRE Committee.
- c. Discuss, review, and approve Internal Audit's Charter, which includes Internal Audit's mandate and the scope and types of internal audit services, at least every three years. Discuss with the CAE and Executive Management if any significant changes to LACERA or the industry, or other topics would impact the Internal Audit Charter and should be addressed.
- d. Review and approve Internal Audit's Three-Year Roadmap, which provides a plan to continue to mature and improve Internal Audit.
- e. Ensure the CAE has established a Quality Assurance and Improvement Program (QAIP). Annually, review the results of the QAIP.
- f. Approve Internal Audit's risk-based Audit Plan, including the budget for resources and funding, to ensure the scope of governance, risk and control processes are adequately evaluated. Make appropriate inquiries of the CAE and Executive Management to determine whether scope or resource limitations are inappropriate.
- g. Monitor Internal Audit's activity relative to its Plan. Approve all major changes to the Audit Plan.
- h. Review, accept, and/or provide Internal Audit with further direction on Internal Audit's engagement reports.
- i. Monitor Internal Audit's recommendations to ensure Management has adequately and timely addressed the risk(s) identified.
- j. Make recommendations to both Boards regarding the appointment, discipline, dismissal, and/or removal of the Chief Audit Executive (CAE). Collaborate with Executive Management to determine the qualifications and competencies LACERA expects in a CAE, as described in the IIA's Global Internal Audit Standards.
- k. Oversee the CAE's performance management, perform the CAE's annual performance assessment with qualitative input from the CAE and Chief Executive Officer (CEO), and administer the CAE's annual salary adjustments. The Committee's discussion regarding the CAE annual performance assessment will be made in executive session under Government Code Section 54957(b).

## 2. Professional Service Provider Activity

- a. Approve the appointment and compensation of the Financial Auditor, hired to perform an independent audit of LACERA's financial statements. Oversee the work of the Financial Auditor, including review of the Financial Auditor's proposed audit scope and approach, as well as coordination with Internal Audit and Management.

- b. Approve the appointments of other Professional Service Providers selected for inclusion in Internal Audit's Audit Pool to perform non-financial statement audits, reviews, or consulting, subject to limitations due to confidentiality, legal standards, and/or where approval will clearly impact the purpose or methods of the audit. Oversee the compensation of these providers in accordance with LACERA's Policy for Purchasing Goods and Services.
- c. Approve the appointment and compensation of other Professional Service Providers, outside of Internal Audit's Audit Pool, hired to perform non-financial statement audits, reviews, or consulting, subject to limitations due to confidentiality, legal standards, and/or where approval will clearly impact the purpose or methods of the audit.
- d. Review the Professional Service Providers, including the Financial Auditor's, results of the work performed, any findings and recommendations, Management's responses, and actions taken to implement the audit recommendations.
- e. Resolve any significant disagreements regarding risks, findings and/or compensation between Management and Professional Service Providers.

### 3. Financial Reporting Process

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

- a. 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.
- b. Review with Management and the Financial Auditors the results of the audit, including any difficulties encountered.
- c. Review the annual financial statements and consider whether they are complete, consistent with information known to Committee members, and reflect appropriate accounting principles.
- d. 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.
- e. Review with Management and the Financial Auditors all matters required to be communicated to the Committee under *Generally Accepted Auditing Standards*.

### **B. Ethics and Compliance Program Activity**

The ACRE Committee oversees LACERA's Ethics and Compliance Program (Program); approves its Program Charter at least every three years (or as provided in the Charter); and takes other actions and makes recommendations and reports to the Board of Retirement and Board of Investments and the CEO as provided in the Program Charter and as the Committee deems appropriate. The Committee provides oversight of Management's ethics and compliance controls to maintain the highest ethical standards

and to monitor compliance with laws, regulations, policies, and procedures. The Boards and CEO have responsibilities in connection with the Program as stated in the Program Charter, and nothing in this Committee Charter will be interpreted to change or limit the Boards and CEO's responsibilities under the Program Charter.

The Ethics and Compliance Program is a Management function located within the Legal Office, where the CECO oversees the Ethics and Compliance Office and reports administratively to the Chief Counsel. The CECO reports directly to and the Program is functionally overseen by the CEO, the ACRE Committee, and the Boards.

*1. Ethics and Compliance Personnel*

- a. Provide input on and approval of the CECO's appointment, termination, and discipline by the CEO. Approve and make recommendations to the Boards for additional staffing for the Ethics and Compliance Office upon the request of the CECO and CEO.
- b. Contribute to the CEO's annual performance evaluation of the CECO. Discussion regarding the CECO's annual performance assessment will be made in executive session under Government Code Section 54957(b).

*2. Ethics and Compliance Roadmap of Priorities, Work Plan, Budget, and Expenses*

- a. Review and approve the Ethics and Compliance Program Three-Year Roadmap of priorities and Program management.
- b. Review and approve the Program's annual work plan and quarterly work plan progress reports.
- c. Review and approve the Ethics and Compliance Office annual budget for resources and funding, for inclusion in LACERA's annual administrative Budget approved by the Boards.
- d. Review and approve additional unanticipated expenses necessary (beyond those budgeted) to support the Program in accordance with LACERA's Policy for Purchasing Goods and Services.

*3. Ethics and Compliance Risk Assessments*

- a. Review scheduled Program risk assessments of organization-wide operations and critical business processes, along with recommendations to upgrade current or establish new controls to mitigate identified ethics and compliance risks, control gaps, or other key risk indicators.
- b. Review interim assessment reports regarding mission critical ethics and compliance risks.

*4. Monitoring and Evaluating Ethical Conduct and Compliance*

Review quarterly Program evaluation reports and recommendations regarding LACERA's operations, business practices, and key risk indicators to advance organization-wide ethics and compliance with laws, regulations, policies, procedures, LACERA's Code of Ethical Conduct, and Conflict of Interest Code.

*5. Policies and Procedures*

- a. Review quarterly reports regarding Program policy and procedure review.
  - b. Review new or updated policies and procedures within the purview of the Committee, including but not limited to LACERA's Code of Ethical Conduct and Conflict of Interest Code.
6. *Vendor/Third-Party Ethics and Compliance Risk Management*  
Review quarterly reports on vendor/third-party ethics and compliance risks and organizational response.
7. *Training and Communications*
  - a. Oversee the Program's ethics and compliance communication and training plans and quarterly status reports, including the process for communicating LACERA's governing laws, regulations, policies, procedures, Code of Ethical Conduct, and Conflict of Interest Code throughout the organization.
  - b. Undergo regular ethics and compliance training on LACERA's governing laws, regulations, policies, procedures, Code of Ethical Conduct, and Conflict of Interest Code.
8. *Reporting Channels and Commitment to Non-Retaliation*  
Review quarterly reports regarding reported ethics and compliance concerns or violations raised through LACERA's internal and external reporting channels.
9. *Investigations, Recommendations for Mitigation or Remediation*
  - a. Review written reports regarding detected or alleged ethics and compliance risks or violations, along with the results of investigations and recommendations for mitigation.
  - b. Oversee the Program's system for prevention and detection of fraud, including quarterly review of a summary of LACERA's Ethics Hotline reports, with Committee recommendations to the Boards as indicated.
10. *Privacy*  
Review the annual report on the status of LACERA's efforts to protect the privacy of LACERA member information and the confidentiality of other LACERA information.
11. *Organizational Culture of Ethics and Compliance*  
Review reports of the periodic survey of LACERA's culture of ethics and compliance.
12. *Ethics and Compliance Program Assessment and Evaluation*  
Annually review an annual report on the status and effectiveness of the Program, Management's Program-related controls, consulting or advisory engagements, any exceptions to control standards and their basis, and the Program's annual self-assessment.
13. *Foundational Program Work Pending Hiring of the CECO.*
  - a. Pending hiring of the CECO, the CEO and Chief Counsel, working in conjunction with Human Resources, will develop a job description and salary recommendation for the CECO to be submitted to the Committee and Boards for approval.

- b. The CEO and Chief Counsel will perform additional foundational work for the Program, including but not limited to research, education, internal communication, and baseline ethics and compliance assessments, and will report on such activities to the ACRE Committee and the Boards at each Committee meeting until the CECO is hired.

### **C. Enterprise Risk Management Program Activity**

1. Obtain from the CAE an annual report on the 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.
2. Provide oversight on significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by Management and/or the Boards.

### **D. Budgets**

LACERA will provide appropriate funding, as determined by the Committee, for compensation to the Financial Auditor, ACRE Consultant(s), and to any professional Service Provider that the Committee chooses to engage, and for payment of ordinary administrative expenses of the Committee that are necessary and appropriate to carry out its duties.

### **E. Other Responsibilities**

1. Report to the Boards as needed about the ACRE Committee's activities, issues, and related recommendations.
2. Provide an open channel of communication between 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 ACRE Committee on **June 20, 2024**, and approved by the Board of Retirement on **July 3, 2024**, and the Board of Investments on **July 10, 2024**. This Charter is thereby effective **July 10, 2024** and is hereby signed by the following persons who have authority and responsibilities under this Charter.

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Debbie Martin  
*Chair, Audit, Compliance, Risk, and  
Ethics Committee*

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Date

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Patrick L. Jones  
*Chair, Board of Investments*

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Date

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Shawn R. Kehoe  
*Chair, Board of Retirement*

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Date



# Audit Committee Charter

**April 2021**



**2021**



**AUDIT COMMITTEE CHARTER**

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## AUDIT COMMITTEE CHARTER

### I. CHARTER

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

### II. PURPOSE AND ASSIGNED FIDUCIARY OVERSIGHT DUTIES

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

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

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

### III. PRINCIPLES OF THE AUDIT COMMITTEE

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

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

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

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



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

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

#### **IV. AUTHORITY**

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

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

#### **V. AUDIT COMMITTEE COMPOSITION AND CONSULTANT**

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

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

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



## **VI. AUDIT COMMITTEE MEETINGS**

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

All Committee Members are expected to attend each meeting.

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

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

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

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



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

## **VII. RESPONSIBILITIES**

### **A. Internal Audit Activity**

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



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

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

#### 4. Chief Audit Executive (CAE)

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

#### **C. Financial Reporting Process**

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

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. Audit Committee and Internal Audit Budget**

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

**G. Other Responsibilities**

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

**VIII. APPROVAL**

This Charter was reviewed by the Audit Committee on April 23, 2021, and approved by the Board of Retirement on July 7, 2021, and the Board of Investments on July 14, 2021. This Charter is thereby effective July 14, 2021 and is hereby signed by the following persons who have authority and responsibilities under this Charter.

*Joseph Kelly*

*July 19, 2021*

\_\_\_\_\_  
**Joseph Kelly**  
*Chair, Audit Committee*

\_\_\_\_\_  
**Date**

*Keith Knox*

*July 19, 2021*

\_\_\_\_\_  
**Keith Knox**  
*Chair, Board of Investments*

\_\_\_\_\_  
**Date**

*Alan Bernstein*

*July 19, 2021*

\_\_\_\_\_  
**Alan Bernstein**  
*Chair, Board of Retirement*

\_\_\_\_\_  
**Date**

## Internal Audit Charter for [name of organization]

### Purpose

The purpose of the internal audit function is to strengthen [name of organization]'s ability to create, protect, and sustain value by providing the board and management with independent, risk-based, and objective assurance, advice, insight, and foresight.

The internal audit function enhances [name of organization]'s:

- Successful achievement of its objectives.
- Governance, risk management, and control processes.
- Decision-making and oversight.
- Reputation and credibility with its stakeholders.
- Ability to serve the public interest.

[name of organization]'s internal audit function is most effective when:

- Internal auditing is performed by competent professionals in conformance with The IIA's Global Internal Audit Standards™, which are set in the public interest.
- The internal audit function is independently positioned with direct accountability to the board.
- Internal auditors are free from undue influence and committed to making objective assessments.

### ***Commitment to Adhering to the Global Internal Audit Standards***

The [name of organization]'s internal audit function will adhere to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, which are the Global Internal Audit Standards and Topical Requirements. The chief audit executive will report [periodically] to the board and senior management regarding the internal audit function's conformance with the Standards, which will be assessed through a quality assurance and improvement program.

### Mandate

[USER NOTE: In those jurisdictions and industries where the internal audit function's mandate is prescribed wholly or partially in laws or regulations, the internal audit charter must include the legal requirements of the mandate. See introduction for more information.]

### ***Authority***

The [name of organization]'s board grants the internal audit function the mandate to provide the board and senior management with objective assurance, advice, insight, and foresight.

The internal audit function's authority is created by its direct reporting relationship to the board. Such authority allows for unrestricted access to the board.

The board authorizes the internal audit function to:

- Have full and unrestricted access to all functions, data, records, information, physical property, and personnel pertinent to carrying out internal audit responsibilities. Internal auditors are accountable for confidentiality and safeguarding records and information.
- Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques, and issue communications to accomplish the function's objectives.
- Obtain assistance from the necessary personnel of [name of organization] and other specialized services from within or outside [name of organization] to complete internal audit services.

### ***Independence, Organizational Position, and Reporting Relationships***

The chief audit executive will be positioned at a level in the organization that enables internal audit services and responsibilities to be performed without interference from management (See "Mandate" section), thereby establishing the independence of the internal audit function. The chief audit executive will report functionally to the board and administratively (for example, day-to-day operations) to the [chief executive officer or equivalent/senior officer]. This positioning provides the organizational authority and status to bring matters directly to senior management and escalate matters to the board, when necessary, without interference and supports the internal auditors' ability to maintain objectivity.

The chief audit executive will confirm to the board, at least annually, the organizational independence of the internal audit function. If the governance structure does not support organizational independence, the chief audit executive will document the characteristics of the governance structure limiting independence and any safeguards employed to achieve the principle of independence. The chief audit executive will disclose to the board any interference internal auditors encounter related to the scope, performance, or communication of internal audit work and results. The disclosure will include communicating the implications of such interference on the internal audit function's effectiveness and ability to fulfill its mandate.

### ***Changes to the Mandate and Charter***

Circumstances may justify a follow-up discussion between the chief audit executive, board, and senior management on the internal audit mandate or other aspects of the internal audit charter. Such circumstances may include but are not limited to:

- A significant change in the Global Internal Audit Standards.
- A significant acquisition or reorganization within the organization.
- Significant changes in the chief audit executive, board, and/or senior management.
- Significant changes to the organization's strategies, objectives, risk profile, or the environment in which the organization operates.
- New laws or regulations that may affect the nature and/or scope of internal audit services.

## Board Oversight

[Due to the Global Internal Audit Standards' "essential conditions," board responsibilities should be included in the internal audit charter. However, if an audit committee charter that outlines its responsibilities is already in place, it is not necessary to repeat the information in this charter.]

To establish, maintain, and ensure that [name of organization]'s internal audit function has sufficient authority to fulfill its duties, the board will:

- Discuss with the chief audit executive and senior management the appropriate authority, role, responsibilities, scope, and services (assurance and/or advisory) of the internal audit function.
- Ensure the chief audit executive has unrestricted access to and communicates and interacts directly with the board, including in private meetings without senior management present.
- Discuss with the chief audit executive and senior management other topics that should be included in the internal audit charter.
- Participate in discussions with the chief audit executive and senior management about the "essential conditions," described in the Global Internal Audit Standards, which establish the foundation that enables an effective internal audit function.
- Approve the internal audit function's charter, which includes the internal audit mandate and the scope and types of internal audit services.
- Review the internal audit charter [periodically] with the chief audit executive to consider changes affecting the organization, such as the employment of a new chief audit executive or changes in the type, severity, and interdependencies of risks to the organization; and approve the internal audit charter [periodically (typically annually)].
- Approve the risk-based internal audit plan.
- Approve the internal audit function's human resources administration and budgets.
- Approve the internal audit function's expenses.
- Collaborate with senior management to determine the qualifications and competencies the organization expects in a chief audit executive, as described in the Global Internal Audit Standards.
- Authorize the appointment and removal of the chief audit executive.
- Approve the remuneration of the chief audit executive.
- Review the chief audit executive's performance.
- Receive communications from the chief audit executive about the internal audit function including its performance relative to its plan.
- Ensure a quality assurance and improvement program has been established.
- Review of the results of the quality assurance and improvement program annually.

- Make appropriate inquiries of management and the chief audit executive to determine whether scope or resource limitations are inappropriate.

## **Chief Audit Executive Roles and Responsibilities**

### ***Ethics and Professionalism***

The chief audit executive will ensure that internal auditors:

- Conform with the Global Internal Audit Standards, including the principles of Ethics and Professionalism: integrity, objectivity, competency, due professional care, and confidentiality.
- Understand, respect, meet, and contribute to the legitimate and ethical expectations of the organization and be able to recognize conduct that is contrary to those expectations.
- Encourage and promote an ethics-based culture in the organization.
- Report organizational behavior that is inconsistent with the organization's ethical expectations, as described in applicable policies and procedures.

### **Objectivity**

The chief audit executive will ensure that the internal audit function remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of engagement selection, scope, procedures, frequency, timing, and communication. If the chief audit executive determines that objectivity may be impaired in fact or appearance, the details of the impairment will be disclosed to appropriate parties.

Internal auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively such that they believe in their work product, do not compromise quality, and do not subordinate their judgment on audit matters to others, either in fact or appearance.

Internal auditors will have no direct operational responsibility or authority over any of the activities they review. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, or engage in other activities that may impair their judgment, including:

- Assessing specific operations for which they had responsibility within the previous year.
- Performing operational duties for [name of organization] or its affiliates.
- Initiating or approving transactions external to the internal audit function.
- Directing the activities of any [name of organization] employee that is not employed by the internal audit function, except to the extent that such employees have been appropriately assigned to internal audit teams or to assist internal auditors.

Internal auditors will:

- Disclose impairments of independence or objectivity, in fact or appearance, to appropriate parties and at least annually, such as the chief audit executive, board, management, or others.
- Exhibit professional objectivity in gathering, evaluating, and communicating information.
- Make balanced assessments of all available and relevant facts and circumstances.
- Take necessary precautions to avoid conflicts of interest, bias, and undue influence.

### ***Managing the Internal Audit Function***

The chief audit executive has the responsibility to:

- At least annually, develop a risk-based internal audit plan that considers the input of the board and senior management. Discuss the plan with the board and senior management and submit the plan to the board for review and approval.
- Communicate the impact of resource limitations on the internal audit plan to the board and senior management.
- Review and adjust the internal audit plan, as necessary, in response to changes in [name of organization]'s business, risks, operations, programs, systems, and controls.
- Communicate with the board and senior management if there are significant interim changes to the internal audit plan.
- Ensure internal audit engagements are performed, documented, and communicated in accordance with the Global Internal Audit Standards.
- Follow up on engagement findings and confirm the implementation of recommendations or action plans and communicate the results of internal audit services to the board and senior management [periodically] and for each engagement as appropriate.
- Ensure the internal audit function collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the Global Internal Audit Standards and fulfill the internal audit mandate.
- Identify and consider trends and emerging issues that could impact [name of organization] and communicate to the board and senior management as appropriate.
- Consider emerging trends and successful practices in internal auditing.
- Establish and ensure adherence to methodologies designed to guide the internal audit function.
- Ensure adherence to [name of organization]'s relevant policies and procedures unless such policies and procedures conflict with the internal audit charter or the Global Internal Audit Standards. Any such conflicts will be resolved or documented and communicated to the board and senior management.
- Coordinate activities and consider relying upon the work of other internal and external providers of assurance and advisory services. If the chief audit executive cannot achieve

an appropriate level of coordination, the issue must be communicated to senior management and if necessary escalated to the board.

### ***Communication with the Board and Senior Management***

The chief audit executive will report [periodically] to the board and senior management regarding:

- The internal audit function's mandate.
- The internal audit plan and performance relative to its plan.
- Internal audit budget.
- Significant revisions to the internal audit plan and budget.
- Potential impairments to independence, including relevant disclosures as applicable.
- Results from the quality assurance and improvement program, which include the internal audit function's conformance with The IIA's Global Internal Audit Standards and action plans to address the internal audit function's deficiencies and opportunities for improvement.
- Significant risk exposures and control issues, including fraud risks, governance issues, and other areas of focus for the board.
- Results of assurance and advisory services.
- Resource requirements.
- Management's responses to risk that the internal audit function determines may be unacceptable or acceptance of a risk that is beyond [name of organization]'s risk appetite.

### ***Quality Assurance and Improvement Program***

The chief audit executive will develop, implement, and maintain a quality assurance and improvement program that covers all aspects of the internal audit function. The program will include external and internal assessments of the internal audit function's conformance with the Global Internal Audit Standards, as well as performance measurement to assess the internal audit function's progress toward the achievement of its objectives and promotion of continuous improvement. The program also will assess, if applicable, compliance with laws and/or regulations relevant to internal auditing. Also, if applicable, the assessment will include plans to address the internal audit function's deficiencies and opportunities for improvement.

Annually, the chief audit executive will communicate with the board and senior management about the internal audit function's quality assurance and improvement program, including the results of internal assessments (ongoing monitoring and periodic self-assessments) and external assessments. External assessments will be conducted at least once every five years by a qualified, independent assessor or assessment team from outside [name of organization]; qualifications must include at least one assessor holding an active Certified Internal Auditor® credential.

## **Scope and Types of Internal Audit Services**



The scope of internal audit services covers the entire breadth of the organization, including all of [name of organization]’s activities, assets, and personnel. [Note: if the internal audit function has an audit universe, it could be referenced here.] The scope of internal audit activities also encompasses but is not limited to objective examinations of evidence to provide independent assurance and advisory services to the board and management on the adequacy and effectiveness of governance, risk management, and control processes for [name of organization].

The nature and scope of advisory services may be agreed with the party requesting the service, provided the internal audit function does not assume management responsibility. Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during advisory engagements. These opportunities will be communicated to the appropriate level of management.

[USER NOTE: the list of examples below should be customized to the scope of services agreed upon with the organization’s board and senior management. See Guide to Customizing the Model Internal Audit Charter for more information.]

Internal audit engagements may include evaluating whether:

- Risks relating to the achievement of [name of organization]’s strategic objectives are appropriately identified and managed.
- The actions of [name of organization]’s officers, directors, management, employees, and contractors comply with [name of organization]’s policies, procedures, and applicable laws, regulations, and governance standards.
- The results of operations and programs are consistent with established goals and objectives.
- Operations and programs are being carried out effectively and efficiently.
- Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact [name of organization].
- The integrity of information and the means used to identify, measure, analyze, classify, and report such information is reliable.
- Resources and assets are acquired economically, used efficiently and sustainably, and protected adequately.

**Approved by the board at its meeting on \_\_\_\_\_**

**Acknowledgments/Signatures**

\_\_\_\_\_  
Chief Audit Executive

\_\_\_\_\_  
Date

\_\_\_\_\_  
Board Chair

\_\_\_\_\_  
Date

\_\_\_\_\_  
Chief Executive Officer

\_\_\_\_\_  
Date



May 17, 2024

TO: 2024 Audit Committee  
Debbie Martin, (BOI Trustee), Chair  
Wayne Moore, (BOR Trustee), Vice Chair  
Vivian Gray, (BOR Trustee), Secretary  
Nancy Durazo, BOR Trustee  
Elizabeth Ginsberg, Ex-Officio  
Jason Green, BOI Trustee  
Nicole Mi, BOI Trustee

Audit Committee Consultant  
Larry Jensen

FROM: Christina Logan   
Principal Internal Auditor

FOR: June 20, 2024 Audit Committee Meeting

SUBJECT: **Updated Internal Audit Charter**

### **RECOMMENDATION**

The Audit Committee approve Internal Audit's revised Charter.

### **BACKGROUND**

The Institute of Internal Auditors (IIA) requires internal audit functions to formally define the purpose, authority, and responsibilities of the group in a charter. Executive management and the Audit Committee must review and approve the charter. The Internal Audit Charter (IA Charter) was established in 1996 and was last updated in September 2021. The 2021 Internal Audit Charter (2021 Charter) is (Attachment A).

In addition, the IIA requires a periodic review of the internal audit charter to ensure it is aligned with the IIA's standards and its model internal audit charter, industry standards and organizational changes. In June 2022, Internal Audit performed an assessment of the current IA Charter and found no material changes were warranted.

In January 2024, the IIA issued its revised Global Internal Audit Standards (Standards) ([Global Internal Audit Standards \(theiia.org\)](https://theiia.org)). Subsequently, the IIA released an updated Model Internal Audit Charter for General Use (2024 Model) (Attachment B) based on the revised Standards. The revised Standards (6.2) now requires the charter also include the Purpose of Internal Auditing, and Internal Audit's commitment to adhering to the Standards.

### **UPDATED LACERA INTERNAL AUDIT CHARTER**

Staff reviewed the Standards and the 2024 Model and compared it against the 2021 Charter.

Staff did not redline the changes from the 2021 version because many of the concepts from the 2021 Charter remain applicable. The majority of revisions relate to changes in the language, formatting, and ordering of concepts to align our Charter with the IIA’s 2024 Model.

Staff did include redlines in the 2024 Charter (Attachment C), where we are proposing alternative concepts or wording to either the 2021 Charter or the 2024 Model. Some of the significant changes we want to highlight, include:

<b>Charter Section</b>	<b>Redline Page</b>	<b>Description of Change</b>	<b>Reason for Change</b>
<b>I. Purpose</b>	3	Staff proposed changing Internal Audit’s purpose to include LACERA’s mission.	Align with LACERA’s mission.
<b>III. C. Managing the Internal Audit Function`</b>	6	Add “1. Develop a 3-Year Roadmap”	Standard 9.2 of the revised Standards require the CAE to “develop and implement a strategy for the internal audit function that supports the strategic objectives and success of the organization and aligns with the expectations of the board, senior management, and other key stakeholders.”
<b>III. C. Managing the Internal Audit Function</b>	7	Add “14. Oversee LACERA’s Ethics Hotline process and reporting to the Committee”	To promote the Hotline’s independence and integrity, the CAE currently oversees LACERA’s Ethics Hotline process, therefore, staff proposes this additional content to the 2024 Charter.
<b>IV. Scope and Types of Internal Audit Services</b>	8	Add “equitably” to “Internal Audit engagements may include evaluating whether operations and programs are being carried out effectively, efficiently, effectively, equitably, and are designed to prevent and detect fraud”	The majority of the wording in this bullet is taken from the 2024 IIA Model Charter for General Use. However, staff added “effectively and equitably” based on a review of the 2024 IIA Model Charter for Public Sector 2024.
<b>IV. Scope and Types of Internal Audit Services A. Assurance Services</b>	8	“Assurance engagements include operational, information technology, management, or fiduciary audits and continuous audits.”	Staff added this sentence to detail the type of audits that Internal Audit may perform.

<b>IV. Scope and Types of Internal Audit Services</b> <b>B. Advisory Services</b>	9	“If Internal Audit identifies opportunities for improving controls. Internal Audit will communicate these opportunities to Management. If Internal Audit identifies a material deficiency in the control environment, Internal Audit will communicate this deficiency to Executive Management and the ACRE Committee, in addition to Division Management.”	Staff revised these sentences to align our advisory services (formerly Consulting Services) with the IIA’s requirements and expectations and standard industry practices.
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The Executive Office and Larry Jensen, ACRE Consultant, reviewed and provided comments and edits which are reflected in the updated Internal Audit Charter. We would like to thank them both for their assistance with this update.

In conclusion, Internal Audit recommends that the Committee discuss and approve the updated Internal Audit Charter (Attachment D).

Attachments

- A: 2021 Internal Audit Charter
- B: Model Internal Audit Charter for General Use
- C: 2024 Internal Audit Charter (Redlined)
- D. 2024 Internal Audit Charter (Clean)

Noted and Reviewed:



Richard P. Bendall  
Chief Audit Executive

CL:cl

# Internal Audit Charter

INTERNAL AUDIT SERVICES

August 2021



**2021**



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**INTERNAL AUDIT CHARTER**

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## INTERNAL AUDIT CHARTER

### I. PURPOSE AND MISSION

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 helps the organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.

### II. ROLE

The internal audit activity was established by the Audit Committee. Internal Audit's responsibilities are defined by the Audit Committee as part of the Audit Committee's oversight role.

### III. OBJECTIVES

#### A. Assurance Objectives

The goal of assurance services is to provide an objective examination of evidence for the purpose of providing an independent assessment to Management and the Audit Committee on governance, risk management, and control processes for LACERA. Assurance services include audits and continuous process testing to assess if the organization's assets are adequately safeguarded, operating efficiency is enhanced, and compliance is maintained with prescribed laws and LACERA policies. Assurance services also include the independent assessment of the organization's risk awareness, reliability, and integrity of the organization's data and the achievement of LACERA's goals and objectives.

#### B. Consulting Objectives

The objective of consulting services is to provide Management with formal assessments and advice for improving LACERA's governance, risk management, and control processes, without Internal Audit assuming Management responsibility. Internal Audit will participate as consultants in the assessment and review of controls, policies, procedures, and systems, both manual and electronic. In addition, opportunities for improving management controls, and LACERA's image may be identified during audits; and these will be communicated to the appropriate level of Management.

#### C. Advisory Objectives

The objective of advisory services is to provide informal advice to Management. Having Internal Audit consult at the beginning of a project, aids management in identifying and managing risks effectively, and designing adequate internal controls. Examples of advisory services include participating in various committees in ex-officio capacity;





providing routine advice on policies, establishing controls, providing training and risk management tools, and facilitating meetings.

#### **IV. STANDARDS FOR THE PROFESSIONAL PRACTICE OF INTERNAL AUDITING**

Internal Audit will govern itself by adherence to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, *the International Standards for the Professional Practice of Internal Auditing*, and the Definition of Internal Auditing. The CAE will report periodically to executive management and the Audit Committee regarding Internal Audit's conformance to the Code of Ethics and the *Standards*.

Additionally, Internal Audit will obtain guidance from the professional standards and practices of other, relevant professional organizations, including but not limited to, the American Institute of Certified Public Accountants, the Information Systems Audit and Control Association, the Associate of Certified Fraud Examiners, and the Association of Public Pension Fund Auditors.

#### **V. ORGANIZATION**

The Chief Audit Executive (CAE) reports functionally to the Audit Committee of the Board of Investments and Board of Retirement, and administratively to the Chief Executive Officer. This reporting structure provides for Internal Audit's independence and objectivity as required by professional standards.

The Audit Committee's roles and responsibilities are defined in the Audit Committee Charter.

#### **VI. AUTHORITY**

Internal Audit, with strict accountability for confidentiality, and safeguarding of records and information, is authorized full, free, and unrestricted access to any and all of LACERA's hard copy and electronic records, data maintained within IT systems or databases, physical properties, and personnel pertinent to carrying out any engagement. All employees are requested to assist Internal Audit in fulfilling its roles and responsibilities.

The CAE will have unrestricted access to, and communicate directly with the Audit Committee and Boards, subject to the requirements of the Ralph M. Brown Act (Government Code Section 54950, et seq.).

#### **VII. INDEPENDENCE AND OBJECTIVITY**

Internal Audit will remain free from interference by any element in the organization, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.



Internal Audit will be diligent in monitoring its own potential conflicts of interest in performing its Mission, Objectives, and Responsibility under this Charter. Where a conflict is identified, the Audit Committee will be advised, and a determination will be made by the Committee as to whether to proceed and procure an independent outside auditor. Internal Auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair the Internal Auditor's judgment.

Internal Auditors will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal Auditors will make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.

The CAE will confirm to the Audit Committee, at least annually, the organizational independence of the Internal Audit division. The CAE will disclose to the Audit Committee any interference and related implications in determining the scope of internal auditing, performing work, and/or communicating results.

## **VIII. SCOPE OF INTERNAL AUDIT ACTIVITIES**

The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of LACERA's governance, risk management, and control processes as well as the quality of performance in carrying out assigned responsibilities to achieve the organization's stated goals and objectives.

### **A. LACERA's Operations**

1. Assess that management has established processes and systems that are operating within the highest fiduciary standards and are directed toward the requirements defined in the Federal and state laws, regulations, and LACERA policies and procedures.
2. Evaluate the efficiency and effectiveness of processes and resources deployed.
3. Review the reliability and integrity of financial and operational information, and the means used to identify, measure, classify, and report such information.

### **B. Values & Ethics**

1. Assess LACERA's processes for promoting appropriate ethics and values within the organization.



2. Review Management's process for communicating and monitoring compliance with LACERA's Code of Ethical Conduct for all stakeholders.

### **C. Organizational Governance**

1. Risk Management
  - a. Assess business risks and effectiveness of mitigating control mechanisms.
  - b. Assess Management's implementation and maintenance of an appropriate enterprise wide risk management process.
2. Fraud
  - a. Assess LACERA's processes for preventing and detecting fraud.
  - b. Oversee LACERA's Ethics Hotline process.
3. System of Internal Controls
  - a. Review Management's established system of internal control to ascertain whether it is functioning as designed.
4. System of Compliance
  - a. Review the effectiveness of Management's system of compliance with laws, regulations, policies, and procedures that are business critical.

### **D. Other Responsibilities**

1. Evaluate the quality of performance of Professional Service Providers, including the Financial Auditor, and the degree of coordination with Internal Audit.
2. Evaluate specific operations at the request of the Audit Committee, Boards, or Management, as appropriate.

## **IX. ACCOUNTABILITY**

The CAE, in the discharge of his/her duties, shall be accountable to Management and the Audit Committee to:

- A. Select, train, develop, and retain a competent Internal Audit staff that collectively has the abilities, knowledge, skills, experience, and professional certifications to meet the requirements of this Charter. Report to the Audit Committee significant changes in Internal Audit personnel.
- B. Annually develop a flexible audit plan using an appropriate risk-based methodology, including any risks or control concerns identified by Management, the Audit Committee, or the Boards. Submit the annual Audit Plan and significant interim changes to Executive Management and the Audit Committee for review and approval.



- C. Annually provide a proposed budget that corresponds to the annual Audit Plan.
- D. Issue reports to Management and the Audit Committee, at the conclusion of each Internal Audit engagement. The written reports will include Management's responses, and if applicable, Management's timetable for implementing recommendations or corrective actions.
- E. Establish and maintain a follow-up system to monitor the disposition of results communicated to Management and ensure Management actions have been effectively implemented or that Executive Management has accepted the risk of not taking action.
- F. Annually provide an assessment on Management's process for communicating and monitoring compliance with LACERA's Ethical Code of Conduct for all stakeholders.
- G. Annually provide an assessment on the adequacy and effectiveness of LACERA's organizational governance, including risk management, fraud, system of controls, and system of compliance.
- H. Provide a summary of all cases reported to the Ethics Hotline at each Audit Committee meeting.
- I. Report significant issues related to the processes for controlling the activities of LACERA and its affiliates, including potential improvements to those processes, and provide information concerning such issues through resolution.
- J. Periodically provide information on the status and results of the annual audit plan and the sufficiency of department resources.

#### **X. QUALITY ASSURANCE AND IMPROVEMENT PROGRAM**

Internal Audit will maintain a quality assurance and improvement program that covers all aspects of the division's activities. The program will include an evaluation of the division's conformance with the Definition of Internal Auditing and the Standards, and an evaluation of whether internal auditors apply the Code of Ethics. The program also assesses the efficiency and effectiveness of Internal Audit's activity and identifies opportunities for improvement.

The CAE will communicate to Executive Management and the Audit Committee on the Internal Audit division's quality assurance and improvement program, including the results of internal assessments and external assessments which are conducted at least once every five years by a qualified, independent assessor.

**XI. APPROVAL**

This Internal Audit Charter (“IA Charter”) was reviewed and adopted by the Audit Committee on August 26, 2021 . This IA Charter is thereby effective this day and is hereby signed by the following persons who have authority and responsibilities under this Charter.

**APPROVED AND ADOPTED BY:**

<i>Signature on File</i>	<u>09/15/21</u>	<i>Signature on File</i>	<u>09/15/21</u>
<b>Joseph Kelly</b> <i>Chair, Audit Committee</i>	<b>Date</b>	<b>Santos H. Kreimann</b> <i>Chief Executive Officer</i>	<b>Date</b>
 <i>Signature on File</i>	 <u>09/15/21</u>		
<b>Richard Bendall</b> <i>Chief Audit Executive</i>	<b>Date</b>		

# IIA Model Internal Audit Charter for General Use

## Internal Audit Charter for [name of organization]

### Purpose

The purpose of the internal audit function is to strengthen [name of organization]'s ability to create, protect, and sustain value by providing the board and management with independent, risk-based, and objective assurance, advice, insight, and foresight.

The internal audit function enhances [name of organization]'s:

- Successful achievement of its objectives.
- Governance, risk management, and control processes.
- Decision-making and oversight.
- Reputation and credibility with its stakeholders.
- Ability to serve the public interest.

[name of organization]'s internal audit function is most effective when:

- Internal auditing is performed by competent professionals in conformance with The IIA's Global Internal Audit Standards™, which are set in the public interest.
- The internal audit function is independently positioned with direct accountability to the board.
- Internal auditors are free from undue influence and committed to making objective assessments.

### ***Commitment to Adhering to the Global Internal Audit Standards***

The [name of organization]'s internal audit function will adhere to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, which are the Global Internal Audit Standards and Topical Requirements. The chief audit executive will report [periodically] to the board and senior management regarding the internal audit function's conformance with the Standards, which will be assessed through a quality assurance and improvement program.

### Mandate

[USER NOTE: In those jurisdictions and industries where the internal audit function's mandate is prescribed wholly or partially in laws or regulations, the internal audit charter must include the legal requirements of the mandate. See introduction for more information.]

### ***Authority***

The [name of organization]'s board grants the internal audit function the mandate to provide the board and senior management with objective assurance, advice, insight, and foresight.

The internal audit function's authority is created by its direct reporting relationship to the board. Such authority allows for unrestricted access to the board.

The board authorizes the internal audit function to:

- Have full and unrestricted access to all functions, data, records, information, physical property, and personnel pertinent to carrying out internal audit responsibilities. Internal auditors are accountable for confidentiality and safeguarding records and information.
- Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques, and issue communications to accomplish the function's objectives.
- Obtain assistance from the necessary personnel of [name of organization] and other specialized services from within or outside [name of organization] to complete internal audit services.

### ***Independence, Organizational Position, and Reporting Relationships***

The chief audit executive will be positioned at a level in the organization that enables internal audit services and responsibilities to be performed without interference from management (See "Mandate" section), thereby establishing the independence of the internal audit function. The chief audit executive will report functionally to the board and administratively (for example, day-to-day operations) to the [chief executive officer or equivalent/senior officer]. This positioning provides the organizational authority and status to bring matters directly to senior management and escalate matters to the board, when necessary, without interference and supports the internal auditors' ability to maintain objectivity.

The chief audit executive will confirm to the board, at least annually, the organizational independence of the internal audit function. If the governance structure does not support organizational independence, the chief audit executive will document the characteristics of the governance structure limiting independence and any safeguards employed to achieve the principle of independence. The chief audit executive will disclose to the board any interference internal auditors encounter related to the scope, performance, or communication of internal audit work and results. The disclosure will include communicating the implications of such interference on the internal audit function's effectiveness and ability to fulfill its mandate.

### ***Changes to the Mandate and Charter***

Circumstances may justify a follow-up discussion between the chief audit executive, board, and senior management on the internal audit mandate or other aspects of the internal audit charter. Such circumstances may include but are not limited to:

- A significant change in the Global Internal Audit Standards.
- A significant acquisition or reorganization within the organization.
- Significant changes in the chief audit executive, board, and/or senior management.
- Significant changes to the organization's strategies, objectives, risk profile, or the environment in which the organization operates.
- New laws or regulations that may affect the nature and/or scope of internal audit services.

## Board Oversight

[Due to the Global Internal Audit Standards' "essential conditions," board responsibilities should be included in the internal audit charter. However, if an audit committee charter that outlines its responsibilities is already in place, it is not necessary to repeat the information in this charter.]

To establish, maintain, and ensure that [name of organization]'s internal audit function has sufficient authority to fulfill its duties, the board will:

- Discuss with the chief audit executive and senior management the appropriate authority, role, responsibilities, scope, and services (assurance and/or advisory) of the internal audit function.
- Ensure the chief audit executive has unrestricted access to and communicates and interacts directly with the board, including in private meetings without senior management present.
- Discuss with the chief audit executive and senior management other topics that should be included in the internal audit charter.
- Participate in discussions with the chief audit executive and senior management about the "essential conditions," described in the Global Internal Audit Standards, which establish the foundation that enables an effective internal audit function.
- Approve the internal audit function's charter, which includes the internal audit mandate and the scope and types of internal audit services.
- Review the internal audit charter [periodically] with the chief audit executive to consider changes affecting the organization, such as the employment of a new chief audit executive or changes in the type, severity, and interdependencies of risks to the organization; and approve the internal audit charter [periodically (typically annually)].
- Approve the risk-based internal audit plan.
- Approve the internal audit function's human resources administration and budgets.
- Approve the internal audit function's expenses.
- Collaborate with senior management to determine the qualifications and competencies the organization expects in a chief audit executive, as described in the Global Internal Audit Standards.
- Authorize the appointment and removal of the chief audit executive.
- Approve the remuneration of the chief audit executive.
- Review the chief audit executive's performance.
- Receive communications from the chief audit executive about the internal audit function including its performance relative to its plan.
- Ensure a quality assurance and improvement program has been established.
- Review of the results of the quality assurance and improvement program annually.



- Make appropriate inquiries of management and the chief audit executive to determine whether scope or resource limitations are inappropriate.

## **Chief Audit Executive Roles and Responsibilities**

### ***Ethics and Professionalism***

The chief audit executive will ensure that internal auditors:

- Conform with the Global Internal Audit Standards, including the principles of Ethics and Professionalism: integrity, objectivity, competency, due professional care, and confidentiality.
- Understand, respect, meet, and contribute to the legitimate and ethical expectations of the organization and be able to recognize conduct that is contrary to those expectations.
- Encourage and promote an ethics-based culture in the organization.
- Report organizational behavior that is inconsistent with the organization's ethical expectations, as described in applicable policies and procedures.

### **Objectivity**

The chief audit executive will ensure that the internal audit function remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of engagement selection, scope, procedures, frequency, timing, and communication. If the chief audit executive determines that objectivity may be impaired in fact or appearance, the details of the impairment will be disclosed to appropriate parties.

Internal auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively such that they believe in their work product, do not compromise quality, and do not subordinate their judgment on audit matters to others, either in fact or appearance.

Internal auditors will have no direct operational responsibility or authority over any of the activities they review. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, or engage in other activities that may impair their judgment, including:

- Assessing specific operations for which they had responsibility within the previous year.
- Performing operational duties for [name of organization] or its affiliates.
- Initiating or approving transactions external to the internal audit function.
- Directing the activities of any [name of organization] employee that is not employed by the internal audit function, except to the extent that such employees have been appropriately assigned to internal audit teams or to assist internal auditors.

Internal auditors will:

- Disclose impairments of independence or objectivity, in fact or appearance, to appropriate parties and at least annually, such as the chief audit executive, board, management, or others.
- Exhibit professional objectivity in gathering, evaluating, and communicating information.
- Make balanced assessments of all available and relevant facts and circumstances.
- Take necessary precautions to avoid conflicts of interest, bias, and undue influence.

### ***Managing the Internal Audit Function***

The chief audit executive has the responsibility to:

- At least annually, develop a risk-based internal audit plan that considers the input of the board and senior management. Discuss the plan with the board and senior management and submit the plan to the board for review and approval.
- Communicate the impact of resource limitations on the internal audit plan to the board and senior management.
- Review and adjust the internal audit plan, as necessary, in response to changes in [name of organization]'s business, risks, operations, programs, systems, and controls.
- Communicate with the board and senior management if there are significant interim changes to the internal audit plan.
- Ensure internal audit engagements are performed, documented, and communicated in accordance with the Global Internal Audit Standards.
- Follow up on engagement findings and confirm the implementation of recommendations or action plans and communicate the results of internal audit services to the board and senior management [periodically] and for each engagement as appropriate.
- Ensure the internal audit function collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the Global Internal Audit Standards and fulfill the internal audit mandate.
- Identify and consider trends and emerging issues that could impact [name of organization] and communicate to the board and senior management as appropriate.
- Consider emerging trends and successful practices in internal auditing.
- Establish and ensure adherence to methodologies designed to guide the internal audit function.
- Ensure adherence to [name of organization]'s relevant policies and procedures unless such policies and procedures conflict with the internal audit charter or the Global Internal Audit Standards. Any such conflicts will be resolved or documented and communicated to the board and senior management.
- Coordinate activities and consider relying upon the work of other internal and external providers of assurance and advisory services. If the chief audit executive cannot achieve

an appropriate level of coordination, the issue must be communicated to senior management and if necessary escalated to the board.

### ***Communication with the Board and Senior Management***

The chief audit executive will report [periodically] to the board and senior management regarding:

- The internal audit function's mandate.
- The internal audit plan and performance relative to its plan.
- Internal audit budget.
- Significant revisions to the internal audit plan and budget.
- Potential impairments to independence, including relevant disclosures as applicable.
- Results from the quality assurance and improvement program, which include the internal audit function's conformance with The IIA's Global Internal Audit Standards and action plans to address the internal audit function's deficiencies and opportunities for improvement.
- Significant risk exposures and control issues, including fraud risks, governance issues, and other areas of focus for the board.
- Results of assurance and advisory services.
- Resource requirements.
- Management's responses to risk that the internal audit function determines may be unacceptable or acceptance of a risk that is beyond [name of organization]'s risk appetite.

### ***Quality Assurance and Improvement Program***

The chief audit executive will develop, implement, and maintain a quality assurance and improvement program that covers all aspects of the internal audit function. The program will include external and internal assessments of the internal audit function's conformance with the Global Internal Audit Standards, as well as performance measurement to assess the internal audit function's progress toward the achievement of its objectives and promotion of continuous improvement. The program also will assess, if applicable, compliance with laws and/or regulations relevant to internal auditing. Also, if applicable, the assessment will include plans to address the internal audit function's deficiencies and opportunities for improvement.

Annually, the chief audit executive will communicate with the board and senior management about the internal audit function's quality assurance and improvement program, including the results of internal assessments (ongoing monitoring and periodic self-assessments) and external assessments. External assessments will be conducted at least once every five years by a qualified, independent assessor or assessment team from outside [name of organization]; qualifications must include at least one assessor holding an active Certified Internal Auditor® credential.

## **Scope and Types of Internal Audit Services**

The scope of internal audit services covers the entire breadth of the organization, including all of [name of organization]'s activities, assets, and personnel. [Note: if the internal audit function has an audit universe, it could be referenced here.] The scope of internal audit activities also encompasses but is not limited to objective examinations of evidence to provide independent assurance and advisory services to the board and management on the adequacy and effectiveness of governance, risk management, and control processes for [name of organization].

The nature and scope of advisory services may be agreed with the party requesting the service, provided the internal audit function does not assume management responsibility. Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during advisory engagements. These opportunities will be communicated to the appropriate level of management.

[USER NOTE: the list of examples below should be customized to the scope of services agreed upon with the organization's board and senior management. See Guide to Customizing the Model Internal Audit Charter for more information.]

Internal audit engagements may include evaluating whether:

- Risks relating to the achievement of [name of organization]'s strategic objectives are appropriately identified and managed.
- The actions of [name of organization]'s officers, directors, management, employees, and contractors comply with [name of organization]'s policies, procedures, and applicable laws, regulations, and governance standards.
- The results of operations and programs are consistent with established goals and objectives.
- Operations and programs are being carried out effectively and efficiently.
- Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact [name of organization].
- The integrity of information and the means used to identify, measure, analyze, classify, and report such information is reliable.
- Resources and assets are acquired economically, used efficiently and sustainably, and protected adequately.

**Approved by the board at its meeting on \_\_\_\_\_**

**Acknowledgments/Signatures**

\_\_\_\_\_  
Chief Audit Executive

\_\_\_\_\_  
Date

\_\_\_\_\_  
Board Chair

\_\_\_\_\_  
Date

\_\_\_\_\_  
Chief Executive Officer

\_\_\_\_\_  
Date

# Internal Audit Charter

**June 2024**



**2024**



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## INTERNAL AUDIT CHARTER

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## INTERNAL AUDIT CHARTER

### I. PURPOSE

The purpose of Internal Audit is to strengthen LACERA's ability to produce, protect, and provide the promised benefits to LACERA's members by providing the Audit, Compliance, Risk, and Ethics (ACRE) Committee (Committee) and management with independent, risk-based, and objective assurance and advisory services, designed to add value and improve LACERA's operations.

Internal Audit enhances LACERA's:

- Successful achievement of its objectives
- Governance, risk management, and control processes
- Decision-making and oversight
- Reputation and credibility with its stakeholders
- Ability to serve members

Internal Audit is most effective when:

- Internal auditing is performed by competent professionals in conformance with The Institute of Internal Auditors' (IIA's) Global Internal Audit Standards, which are set in the public interest.
- It is independently positioned with accountability to the board or a board committee.
- Internal Auditors are free from undue influence and committed to making objective assessments.

#### ***Commitment to Adhering to the Global Internal Audit Standards***

Internal Audit will adhere to the mandatory elements of the IIA's International Professional Practices Framework, which are the Global Internal Audit Standards and Topical Requirements (Standards). The Chief Audit Executive (CAE) will annually report to the ACRE Committee and Executive Office regarding Internal Audit's conformance with the Standards, which will be assessed through a quality assurance and improvement program.

Additionally, Internal Audit will obtain guidance from the professional standards and practices of other, relevant professional organizations, including but limited to, the American Institute of Certified Public Accountants, the Information Systems Audit and Control Association, the Associate of Certified Fraud Examiners, and the Association of Public Pension Fund Auditors.





## II. MANDATE

### A. Authority

LACERA's ACRE Committee grants Internal Audit the mandate to provide the Committee, Boards and Management with objective assurance, advice, insight, and foresight. Internal Audit's responsibilities are defined by the ACRE Committee as part of the Committee's oversight role.

Internal Audit's authority is created by its direct reporting relationship to the ACRE Committee of the Board of Retirement and Board of Investments. Such authority allows the CAE to have unrestricted access to and communicate directly with the ACRE Committee and Boards, subject to the requirements of the Ralph M. Brown Act (Government Code Section 54950, et seq.).

The Committee authorizes Internal Audit to:

1. Have full and unrestricted access to all divisions, data, records, information, physical property, and personnel pertinent to carrying out Internal Audit responsibilities. Internal auditors are accountable for confidentiality and safeguarding records and information.
2. Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques, and issue communications to accomplish the function's objectives.
3. Obtain assistance from the necessary LACERA staff and other specialized services from within or outside LACERA to complete Internal Audit's responsibilities.

### B. Independence, Organizational Position, and Reporting Relationships

The CAE is positioned at a level in the organization that enables Internal Audit's responsibilities to be performed without interference from Management (See "Mandate" section), thereby establishing the independence of Internal Audit.

The CAE reports functionally to the ACRE Committee, and administratively to the Chief Executive Officer (CEO). This positioning provides the organizational authority and status to bring matters directly to Management and escalate matters to the Committee, when necessary, without interference and supports Internal Audit's ability to maintain objectivity.

The CAE will confirm to the ACRE Committee, at least annually, the organizational independence of Internal Audit. The CAE will disclose to the Committee any interference Internal Audit encounters related to the scope, performance, or communication of internal audit work and results. The disclosure will include communicating the implications of such interference on the Internal Audit's effectiveness and ability to fulfill its mandate.

### C. Changes to the Mandate and Charter

Circumstances may justify a follow-up discussion between the CAE, the ACRE Committee, and Management on the Internal Audit Mandate or other aspects of the Internal Audit Charter. Such circumstances may include but are not limited to:

1. A significant change in the Global Internal Audit Standards.
2. A significant reorganization within LACERA.



3. Significant changes in the CAE, Committee, Boards, and/or Executive Management.
4. Significant changes to the LACERA's strategies, objectives, risk profile, or the environment in which the organization operates.
5. New laws or regulations that may affect the nature and/or scope of Internal Audit services.

### **III. CHIEF AUDIT EXECUTIVE ROLES AND RESPONSIBILITIES**

#### **A. Ethics and Professionalism**

The CAE will ensure that Internal Audit staff:

1. Conforms with the Global Internal Audit Standards, including the principles of Ethics and Professionalism: integrity, objectivity, competency, due professional care, and confidentiality.
2. Understand, respect, meet, and contribute to the legitimate and ethical expectations of the organization and be able to recognize conduct that is contrary to those expectations.
3. Encourage and promote an ethics-based culture in the organization.
4. Report organizational behavior that is inconsistent with the organization's ethical expectations, as described in applicable policies and procedures.

#### **B. Objectivity**

The CAE will ensure that Internal Audit remains free from all conditions that threaten the ability of Internal Auditors to carry out their responsibilities in an unbiased manner, including matters of engagement selection, scope, procedures, frequency, timing, and communication. If the CAE determines that objectivity may be impaired in fact or appearance, the details of the impairment will be disclosed to appropriate parties.

Internal Auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively such that they believe in their work product, do not compromise equality, and do not subordinate their judgment on audit matters to others, either in fact or appearance.

Internal Auditors will have no direct operational responsibility or authority over any of the activities they review. Accordingly, Internal Auditors will not implement internal controls, develop procedures, install systems, or engage in other activities that may impair their judgment, including:

1. Assessing specific operations for which they had responsibility within the previous year.
2. Performing operational duties for LACERA.
3. Initiating or approving transactions external to Internal Audit.
4. Directing the activities of any LACERA employee that is not employed by Internal Audit, except to the extent that such employees have been appropriately assigned to Internal Audit teams or to assist Internal Auditors.



Internal Auditors will:

Disclose impairments of independence or objectivity, in fact or appearance, to appropriate parties and at least annually, such as the CAE, Executive Management, ACRE Committee, or others.

5. Exhibit professional objectivity in gathering, evaluating, and communicating information.
6. Make balanced assessments of all available and relevant facts and circumstances.
7. Take necessary precautions to avoid conflicts of interest, bias, and undue influence.

### **C. Managing the Internal Audit Function**

The CAE has the responsibility to:

1. Develop a 3-Year Roadmap, a plan to continue to mature and improve Internal Audit.
2. At least annually, develop a risk-based Internal Audit Plan that considers the input of the ACRE Committee and Executive Management. Discuss the plan with the Committee and Executive Management and submit the plan to the Committee for review and approval.
3. Communicate the impact of resource limitations on the Internal Audit Plan to the Committee and Executive Management.
4. Review and adjust the Internal Audit Plan, as necessary, in response to changes in LACERA's business, risks, operations, programs, systems, and controls.
5. Communicate with the Committee and Executive Management if there are significant interim changes to the Internal Audit Plan.
6. Ensure Internal Audit engagements are performed, documented, and communicated in accordance with the Global Internal Audit Standards.
7. Follow up on engagement findings and confirm the implementation of recommendations or action plans and communicate the results of Internal Audit's services to the Committee and Executive Management quarterly.
8. Ensure Internal Audit collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the Global Internal Audit Standards and fulfill the Internal Audit mandate.
9. Identify and consider trends and emerging issues that could impact LACERA and communicate to the Committee and Executive Management as appropriate.
10. Consider emerging trends and successful practices in internal auditing.
11. Establish and ensure adherence to methodologies designed to guide Internal Audit.
12. Ensure adherence to LACERA's relevant policies and procedures unless such policies and procedures conflict with the Internal Audit Charter or the Global Internal Audit Standards. Any such conflicts will be resolved or documented and communicated to the ACRE Committee and Executive Management.



13. Coordinate activities and consider relying upon the work of other internal and external providers of assurance and advisory services. If the CAE cannot achieve an appropriate level of coordination, the issue must be communicated to Executive Management and if necessary escalated to the Committee.

14. Monitor LACERA's Ethics Hotline process and provide reporting to the Committee.

#### **D. Communication with the ACRE Committee and Executive Management**

The CAE will report annually to the Committee and Executive Management regarding:

1. Internal Audit's mandate.
2. Confirmation of Internal Audit's independence.
3. Progress on and updates to Internal Audit's 3- Year Roadmap.
4. Internal Audit Plan and performance relative to its Plan, including results from assurance and advisory services.
5. Internal Audit's budget and resource requirements.
6. Results from the quality assurance and improvement program, which include Internal Audit's conformance with The IIA's Global Internal Audit Standards and action plans to address Internal Audit's deficiencies and opportunities for improvement.

The CAE will report as needed to the Committee and Executive Management regarding:

7. Significant revisions to the Internal Audit Plan and budget.
8. Potential impairments to independence, including relevant disclosures as applicable.
9. Significant risk exposures and control issues, including fraud risks, governance issues, and other areas of focus that could interfere with the achievement of LACERA's strategic objectives.
10. Management's responses to risk that Internal Audit determines may be unacceptable or acceptance of a risk that is beyond LACERA's risk appetite.

#### **E. Quality Assurance and Improvement Program**

The CAE will develop, implement, and maintain a quality assurance and improvement program that covers all aspects of Internal Audit. The program will include external and internal assessments of Internal Audit's conformance with the Global Internal Audit Standards, as well as performance measurement to assess Internal Audit's progress toward the achievement of its objectives and promotion of continuous improvement. The program also will assess, if applicable, compliance with laws and/or regulations relevant to internal auditing. Also, if applicable, the assessment will include plans to address Internal Audit's deficiencies and opportunities for improvement.

Annually, the CAE will communicate with the Committee and Executive Management about the Internal Audit's quality assurance and improvement program, including the results of internal



assessments (ongoing monitoring and periodic self-assessments) and external assessments. External assessments will be conducted at least once every five years by a qualified, independent assessor or assessment team from outside LACERA; qualifications must include at least one assessor holding an active Certified Internal Auditor credential.

#### **IV. SCOPE AND TYPES OF INTERNAL AUDIT SERVICES**

The scope of internal audit services covers the entire breadth of the organization, including all LACERA's activities, assets, and personnel. The scope of Internal Audit activities also encompasses but is not limited to objective examinations of evidence to provide independent assurance and advisory services to the Committee and Management on the adequacy and effectiveness of governance, risk management, and control processes for LACERA.

Internal Audit engagements may include evaluating whether:

- Risks relating to the achievement of LACERA's strategic objectives are appropriately identified and managed.
- The actions of LACERA's Trustees, Management, Staff, Contractors, and Vendors comply with LACERA's policies, procedures, and applicable laws, regulations, and governance standards.
- The results of operations and programs are consistent with established goals objectives.
- Operations and programs are being carried out effectively, efficiently, equitably, and are designed to prevent and detect fraud.
- Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact LACERA.
- The integrity of information and the means used to identify, measure, analyze, classify, and report such information is reliable.
- Resources and assets are acquired economically, used efficiently and sustainably, and protected adequately.
- LACERA's ethics and values are upheld.

##### **A. Assurance Services**

Assurance services provide an objective examination of evidence for the purpose of providing an independent assessment to Management and the ACRE Committee on governance, risk management, and control processes for LACERA. Assurance services ~~include audits and continuous process testing to~~ assess if the organization's assets are adequately safeguarded, operations are effective and efficient, and compliance is maintained with prescribed laws and LACERA policies. Assurance services also include the independent assessment of the organization's risk awareness, reliability, and integrity of the organization's data and the achievement of LACERA's goals and objectives. Assurance engagements include operational, information technology, management, or fiduciary audits and continuous audits.

**B. Advisory Services**

Advisory services provide Management with formal assessments and advice for improving LACERA’s governance, risk management, and control processes, without Internal Audit assuming Management responsibility. Internal Audit will work with Management to agree upon the nature and scope for advisory services for the assessment and review of controls, policies, procedures, and systems, both manual and electronic. If Internal Audit identifies opportunities for improving controls, Internal Audit will communicate these opportunities to Executive and Division Management. If Internal Audit identifies a material deficiency in the control environment, Internal Audit will communicate this deficiency to Executive Management and the ACRE Committee, in addition to Division Management. ~~In addition, opportunities for improving management controls, and LACERA’S image may be identified during audits; and these will be communicated to the appropriate level of Management.~~

**C. Other Value-Added Services**

Internal Audit also provides informal advice to Management. Having Internal Audit involved at the beginning of a project, providing insight and foresight, aids management in identifying and managing risks effectively, and designing adequate internal controls. Examples of these services include participating in various committees in ex-officio capacity, providing routine advice on policies establishment of controls, providing training, risk management tools, and facilitating meetings.

**V. APPROVAL**

This Internal Audit Charter (“IA Charter”) was reviewed and adopted by the ACRE Committee on **June 20, 2024**. This IA Charter is thereby effective this day and is hereby signed by the following persons who have authority and responsibilities under this Charter.

**APPROVED AND ADOPTED BY:**

\_\_\_\_\_  
**Debbie Martin**  
*Chair, ACRE Committee*

\_\_\_\_\_  
**Date**

\_\_\_\_\_  
**Santos H. Kreimann**  
*Chief Executive Officer*

\_\_\_\_\_  
**Date**

\_\_\_\_\_  
**Richard P. Bendall**  
*Chair Audit Executive*

\_\_\_\_\_  
**Date**

# Internal Audit Charter

**June 2024**



**2024**



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## INTERNAL AUDIT CHARTER

### I. PURPOSE

The purpose of Internal Audit is to strengthen LACERA's ability to produce, protect, and provide the promised benefits to LACERA's members by providing the Audit, Compliance, Risk, and Ethics (ACRE) Committee (Committee) and management with independent, risk-based, and objective assurance and advisory services, designed to add value and improve LACERA's operations.

Internal Audit enhances LACERA's:

- Successful achievement of its objectives
- Governance, risk management, and control processes
- Decision-making and oversight
- Reputation and credibility with its stakeholders
- Ability to serve members

Internal Audit is most effective when:

- Internal auditing is performed by competent professionals in conformance with The Institute of Internal Auditors' (IIA's) Global Internal Audit Standards, which are set in the public interest.
- It is independently positioned with accountability to the board or a board committee.
- Internal Auditors are free from undue influence and committed to making objective assessments.

#### ***Commitment to Adhering to the Global Internal Audit Standards***

Internal Audit will adhere to the mandatory elements of the IIA's International Professional Practices Framework, which are the Global Internal Audit Standards and Topical Requirements (Standards). The Chief Audit Executive (CAE) will annually report to the ACRE Committee and Executive Office regarding Internal Audit's conformance with the Standards, which will be assessed through a quality assurance and improvement program.

Additionally, Internal Audit will obtain guidance from the professional standards and practices of other, relevant professional organizations, including but limited to, the American Institute of Certified Public Accountants, the Information Systems Audit and Control Association, the Associate of Certified Fraud Examiners, and the Association of Public Pension Fund Auditors.



## II. MANDATE

### A. Authority

LACERA's ACRE Committee grants Internal Audit the mandate to provide the Committee, Boards and Management with objective assurance, advice, insight, and foresight. Internal Audit's responsibilities are defined by the ACRE Committee as part of the Committee's oversight role.

Internal Audit's authority is created by its direct reporting relationship to the ACRE Committee of the Board of Retirement and Board of Investments. Such authority allows the CAE to have unrestricted access to and communicate directly with the ACRE Committee and Boards, subject to the requirements of the Ralph M. Brown Act (Government Code Section 54950, et seq.).

The Committee authorizes Internal Audit to:

1. Have full and unrestricted access to all divisions, data, records, information, physical property, and personnel pertinent to carrying out Internal Audit responsibilities. Internal auditors are accountable for confidentiality and safeguarding records and information.
2. Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques, and issue communications to accomplish the function's objectives.
3. Obtain assistance from the necessary LACERA staff and other specialized services from within or outside LACERA to complete Internal Audit's responsibilities.

### B. Independence, Organizational Position, and Reporting Relationships

The CAE is positioned at a level in the organization that enables Internal Audit's responsibilities to be performed without interference from Management (See "Mandate" section), thereby establishing the independence of Internal Audit.

The CAE reports functionally to the ACRE Committee, and administratively to the Chief Executive Officer (CEO). This positioning provides the organizational authority and status to bring matters directly to Management and escalate matters to the Committee, when necessary, without interference and supports Internal Audit's ability to maintain objectivity.

The CAE will confirm to the ACRE Committee, at least annually, the organizational independence of Internal Audit. The CAE will disclose to the Committee any interference Internal Audit encounters related to the scope, performance, or communication of internal audit work and results. The disclosure will include communicating the implications of such interference on the Internal Audit's effectiveness and ability to fulfill its mandate.

### C. Changes to the Mandate and Charter

Circumstances may justify a follow-up discussion between the CAE, the ACRE Committee, and Management on the Internal Audit Mandate or other aspects of the Internal Audit Charter. Such circumstances may include but are not limited to:

1. A significant change in the Global Internal Audit Standards.
2. A significant reorganization within LACERA.



3. Significant changes in the CAE, Committee, Boards, and/or Executive Management.
4. Significant changes to the LACERA's strategies, objectives, risk profile, or the environment in which the organization operates.
5. New laws or regulations that may affect the nature and/or scope of Internal Audit services.

### **III. CHIEF AUDIT EXECUTIVE ROLES AND RESPONSIBILITIES**

#### **A. Ethics and Professionalism**

The CAE will ensure that Internal Audit staff:

1. Conforms with the Global Internal Audit Standards, including the principles of Ethics and Professionalism: integrity, objectivity, competency, due professional care, and confidentiality.
2. Understand, respect, meet, and contribute to the legitimate and ethical expectations of the organization and be able to recognize conduct that is contrary to those expectations.
3. Encourage and promote an ethics-based culture in the organization.
4. Report organizational behavior that is inconsistent with the organization's ethical expectations, as described in applicable policies and procedures.

#### **B. Objectivity**

The CAE will ensure that Internal Audit remains free from all conditions that threaten the ability of Internal Auditors to carry out their responsibilities in an unbiased manner, including matters of engagement selection, scope, procedures, frequency, timing, and communication. If the CAE determines that objectivity may be impaired in fact or appearance, the details of the impairment will be disclosed to appropriate parties.

Internal Auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively such that they believe in their work product, do not compromise equality, and do not subordinate their judgment on audit matters to others, either in fact or appearance.

Internal Auditors will have no direct operational responsibility or authority over any of the activities they review. Accordingly, Internal Auditors will not implement internal controls, develop procedures, install systems, or engage in other activities that may impair their judgment, including:

1. Assessing specific operations for which they had responsibility within the previous year.
2. Performing operational duties for LACERA.
3. Initiating or approving transactions external to Internal Audit.
4. Directing the activities of any LACERA employee that is not employed by Internal Audit, except to the extent that such employees have been appropriately assigned to Internal Audit teams or to assist Internal Auditors.



Internal Auditors will:

Disclose impairments of independence or objectivity, in fact or appearance, to appropriate parties and at least annually, such as the CAE, Executive Management, ACRE Committee, or others.

5. Exhibit professional objectivity in gathering, evaluating, and communicating information.
6. Make balanced assessments of all available and relevant facts and circumstances.
7. Take necessary precautions to avoid conflicts of interest, bias, and undue influence.

### **C. Managing the Internal Audit Function**

The CAE has the responsibility to:

1. Develop a 3-Year Roadmap, a plan to continue to mature and improve Internal Audit.
2. At least annually, develop a risk-based Internal Audit Plan that considers the input of the ACRE Committee and Executive Management. Discuss the plan with the Committee and Executive Management and submit the plan to the Committee for review and approval.
3. Communicate the impact of resource limitations on the Internal Audit Plan to the Committee and Executive Management.
4. Review and adjust the Internal Audit Plan, as necessary, in response to changes in LACERA's business, risks, operations, programs, systems, and controls.
5. Communicate with the Committee and Executive Management if there are significant interim changes to the Internal Audit Plan.
6. Ensure Internal Audit engagements are performed, documented, and communicated in accordance with the Global Internal Audit Standards.
7. Follow up on engagement findings and confirm the implementation of recommendations or action plans and communicate the results of Internal Audit's services to the Committee and Executive Management quarterly.
8. Ensure Internal Audit collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the Global Internal Audit Standards and fulfill the Internal Audit mandate.
9. Identify and consider trends and emerging issues that could impact LACERA and communicate to the Committee and Executive Management as appropriate.
10. Consider emerging trends and successful practices in internal auditing.
11. Establish and ensure adherence to methodologies designed to guide Internal Audit.
12. Ensure adherence to LACERA's relevant policies and procedures unless such policies and procedures conflict with the Internal Audit Charter or the Global Internal Audit Standards. Any such conflicts will be resolved or documented and communicated to the ACRE Committee and Executive Management.



13. Coordinate activities and consider relying upon the work of other internal and external providers of assurance and advisory services. If the CAE cannot achieve an appropriate level of coordination, the issue must be communicated to Executive Management and if necessary escalated to the Committee.
14. Monitor LACERA's Ethics Hotline process and provide reporting to the Committee.

#### **D. Communication with the ACRE Committee and Executive Management**

The CAE will report annually to the Committee and Executive Management regarding:

1. Internal Audit's mandate.
2. Confirmation of Internal Audit's independence.
3. Progress on and updates to Internal Audit's 3- Year Roadmap.
4. Internal Audit Plan and performance relative to its Plan, including results from assurance and advisory services.
5. Internal Audit's budget and resource requirements.
6. Results from the quality assurance and improvement program, which include Internal Audit's conformance with The IIA's Global Internal Audit Standards and action plans to address Internal Audit's deficiencies and opportunities for improvement.

The CAE will report as needed to the Committee and Executive Management regarding:

7. Significant revisions to the Internal Audit Plan and budget.
8. Potential impairments to independence, including relevant disclosures as applicable.
9. Significant risk exposures and control issues, including fraud risks, governance issues, and other areas of focus that could interfere with the achievement of LACERA's strategic objectives.
10. Management's responses to risk that Internal Audit determines may be unacceptable or acceptance of a risk that is beyond LACERA's risk appetite.

#### **E. Quality Assurance and Improvement Program**

The CAE will develop, implement, and maintain a quality assurance and improvement program that covers all aspects of Internal Audit. The program will include external and internal assessments of Internal Audit's conformance with the Global Internal Audit Standards, as well as performance measurement to assess Internal Audit's progress toward the achievement of its objectives and promotion of continuous improvement. The program also will assess, if applicable, compliance with laws and/or regulations relevant to internal auditing. Also, if applicable, the assessment will include plans to address Internal Audit's deficiencies and opportunities for improvement.

Annually, the CAE will communicate with the Committee and Executive Management about Internal Audit's quality assurance and improvement program, including the results of internal



assessments (ongoing monitoring and periodic self-assessments) and external assessments. External assessments will be conducted at least once every five years by a qualified, independent assessor or assessment team from outside LACERA; qualifications must include at least one assessor holding an active Certified Internal Auditor credential.

#### **IV. SCOPE AND TYPES OF INTERNAL AUDIT SERVICES**

The scope of internal audit services covers the entire breadth of the organization, including all LACERA's activities, assets, and personnel. The scope of Internal Audit activities also encompasses but is not limited to objective examinations of evidence to provide independent assurance and advisory services to the Committee and Management on the adequacy and effectiveness of governance, risk management, and control processes for LACERA.

Internal Audit engagements may include evaluating whether:

- Risks relating to the achievement of LACERA's strategic objectives are appropriately identified and managed.
- The actions of LACERA's Trustees, Management, Staff, Contractors, and Vendors comply with LACERA's policies, procedures, and applicable laws, regulations, and governance standards.
- The results of operations and programs are consistent with established goals objectives.
- Operations and programs are being carried out effectively, efficiently, equitably, and are designed to prevent and detect fraud.
- Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact LACERA.
- The integrity of information and the means used to identify, measure, analyze, classify, and report such information is reliable.
- Resources and assets are acquired economically, used efficiently and sustainably, and protected adequately.
- LACERA's ethics and values are upheld.

##### **A. Assurance Services**

Assurance services provide an objective examination of evidence for the purpose of providing an independent assessment to Management and the ACRE Committee on governance, risk management, and control processes for LACERA. Assurance services assess if the organization's assets are adequately safeguarded, operations are effective and efficient, and compliance is maintained with prescribed laws and LACERA policies. Assurance services also include the independent assessment of the organization's risk awareness, reliability, and integrity of the organization's data and the achievement of LACERA's goals and objectives. Assurance engagements include operational, information technology, management, or fiduciary audits and continuous audits.

**B. Advisory Services**

Advisory services provide Management with formal assessments and advice for improving LACERA’s governance, risk management, and control processes, without Internal Audit assuming Management responsibility. Internal Audit will work with Management to agree upon the nature and scope for advisory services for the assessment and review of controls, policies, procedures, and systems, both manual and electronic. If Internal Audit identifies opportunities for improving controls, Internal Audit will communicate these opportunities to Executive and Division Management. If Internal Audit identifies a material deficiency in the control environment, Internal Audit will communicate this deficiency to Executive Management and the ACRE Committee, in addition to Division Management.

**C. Other Value-Added Services**

Internal Audit also provides informal advice to Management. Having Internal Audit involved at the beginning of a project, providing insight and foresight, aids management in identifying and managing risks effectively, and designing adequate internal controls. Examples of these services include participating in various committees in ex-officio capacity, providing routine advice on policies establishment of controls, providing training, risk management tools, and facilitating meetings.

**V. APPROVAL**

This Internal Audit Charter (“IA Charter”) was reviewed and adopted by the ACRE Committee on **June 20, 2024**. This IA Charter is thereby effective this day and is hereby signed by the following persons who have authority and responsibilities under this Charter.

**APPROVED AND ADOPTED BY:**

\_\_\_\_\_  
**Debbie Martin**  
*Chair, ACRE Committee*

\_\_\_\_\_  
**Date**

\_\_\_\_\_  
**Santos H. Kreimann**  
*Chief Executive Officer*

\_\_\_\_\_  
**Date**

\_\_\_\_\_  
**Richard P. Bendall**  
*Chair Audit Executive*

\_\_\_\_\_  
**Date**

June 4, 2024

TO: 2024 Audit Committee:  
Debbie Martin, (BOI), Chair  
Wayne Moore, (BOR), Vice Chair  
Vivian Gray, (BOR), Secretary  
Nancy Durazo, (BOR) Trustee  
Jason Green, (BOI), Trustee  
Nicole Mi, (BOI), Trustee  
Elizabeth Ginsberg, (BOR/BOI)

FROM: Shawn R. Kehoe, Chair, on behalf of the Board of Retirement  
Patrick L. Jones, Chair, on behalf of the Board of Investments

FOR: June 20, 2024 Audit Committee Meeting

SUBJECT: Ethics and Compliance Program Charter

## **RECOMMENDATION**

That the Audit Committee review and approve the proposed Ethics and Compliance Program Charter, and recommend it to the Board of Retirement and Board of Investments (Boards) for final approval.

## **LEGAL AUTHORITY AND BACKGROUND**

In addition to the Internal Audit Activity, the Audit Committee was established to assist the Boards in fulfilling their fiduciary oversight duties for ethical conduct, organizational governance, and compliance with laws, regulations, policies, and procedures. The Committee's current Charter includes these responsibilities (Audit Committee Charter, Sections II and VII(E)(4)), which find their legal support in the Boards' plenary authority and exclusive fiduciary responsibility under Article XVI, Section 17 of the California Constitution.

The proposed Ethics and Compliance Program Charter advances the Committee's fiduciarily-required ethics and compliance oversight duties. It also meets the standards set forth in The Institute of Internal Auditors' (IIA's) "Three Lines Model," which describes a dedicated ethics and compliance function within management as a second line within management (operations inhabits the first line and Internal Audit provides independent assurance as the third).

Additionally, the Program model presented in the proposed Ethics and Compliance Program Charter is consistent with best practices for risk mature organizations and follows the United States Sentencing Guidelines for Organizations and the U.S. Department of Justice "Evaluation of Corporate Compliance Programs" (March 2023), which establishes guidance for "effective" ethics and compliance programs.



A centralized Ethics and Compliance Program (Program) compliant with legal authority and best practice as outlined above is included in the Board of Retirement's 2023-2028 Strategic Plan (Strategic Priority 4). Ethics and compliance are an inherent part of LACERA's constitutionally mandated fiduciary duties of care, skill, prudence, and diligence, and impact the entire organization and its mission to produce, protect, and provide the promised benefits to members and their beneficiaries.

The proposed Program Charter has been through an inclusive approval process under the Boards' governance documents, beginning with the Operations Oversight Committee (December 6, 2023), the Board of Retirement (January 3, 2024), the Joint Organizational Governance Committee (JOGC) (February 21, 2024), and the joint Boards (April 3 and 10, 2024). During these meetings, the proposed Charter was extensively discussed, resulting in revisions as requested.

Following the JOGC's recommendation, both Boards referred the proposed Charter to the Audit Committee to review, approve, and return to the Boards for final approval, which the Committee is requested to act upon at its June 20, 2024 meeting.

To recognize the Committee's expanded role for organizational governance and risk management, the Committee is proposed to be renamed as the Audit, Compliance, Risk, and Ethics (ACRE) Committee. A revised Committee Charter reflecting the new name and the Committee's revised and updated responsibilities is a separate item on the June agenda.

## **DOCUMENTS**

The supporting documents for Audit Committee's consideration of the proposed Ethics and Compliance Program Charter are:

**Attachment A** – Proposed Ethics and Compliance Program Charter.

**Attachment B** – Redlined Charter. The redline shows focused changes from the version of the Charter considered by the Boards based on subsequent discussions with LACERA's ethics, compliance, and audit consultants and the staff Ethics and Compliance Committee. The redlined version also incorporates elements that comport with the IIA's 2024 Model Audit Committee Charter. A supplemental staff memo describing the redlines is also provided.

**Attachment C** – Presentation. The comprehensive presentation provided to the Boards at their April 2024 meetings is attached here as a reference. Staff will not repeat the presentation for the Audit Committee unless there are questions.

## **DISCUSSION**

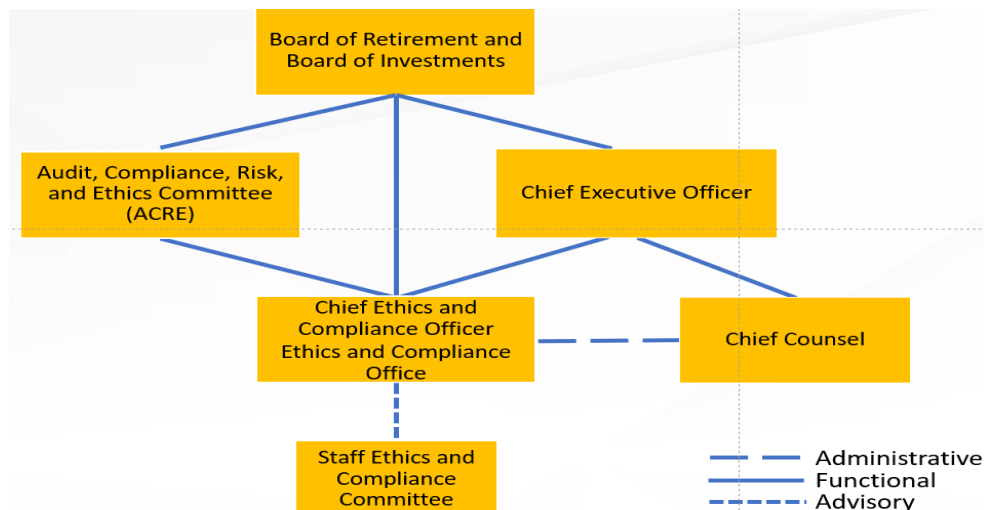
Currently, LACERA does not have a formal Ethics and Compliance Program, but rather,

it has a Code of Ethical Conduct (2021) and various divisions have compliance functions specific to their individual operations. Additionally, the Audit Committee currently reviews on an annual basis the effectiveness of Management’s system of compliance with laws, regulations, policies, and procedures that are mission critical. (Audit Committee Charter, Section VII(E)(4).)

Expansion of the Audit Committee’s oversight duties beyond annual review and centralization of the Program, as included in the proposed Program Charter, will integrate ethics and compliance into LACERA’s operations, meeting the strategic priorities to: (1) advance a culture of ethical and compliant conduct; (2) enhance LACERA’s system of risk mitigation with continuous assessment and improvement of controls; and (3) establish a process that supports Board and management oversight of LACERA’s compliance with laws, regulations, policies, procedures, and its Code of Ethical Conduct.

The Ethics and Compliance Program will be an essential part of management, and the Chief Ethics and Compliance Officer (CECO) will functionally report to, and the Program will be overseen by the Audit Committee, the Boards, and the CEO, including all personnel actions with respect to the CECO. The Program will be separate from but complementary to Internal Audit, which is independent from management to provide assurance as to the adequacy of management’s system of controls, including the Ethics and Compliance Program itself (which is subject to auditing by Internal Audit). The CECO will oversee an Ethics and Compliance Office and staff, located in the Legal Division. This operational positioning will support the Program in its early implementation stages and is a synergistic fit considering the legal nature of LACERA’s operations.

The organizational chart for the proposed Program below, demonstrates solid-line, direct functional oversight of the CECO (and Program) by the Audit Committee, the Boards, and the CEO; and a dotted administrative line between the CECO and the Legal Office. To ensure Program independence, the CECO reports directly to the Audit Committee, the Boards, and the CEO.



The CECO has access to the staff Ethics and Compliance Committee for advice and to assist in promoting the Program.

In addition to Roles and Reporting Structure, the Program Charter outlines the following objectives, which were modeled after the US Sentencing Guidelines for well-designed and adequately resourced programs. The Program independently and objectively performs the following functions:

- Establish and maintain the Ethics and Compliance Program as a sound, durable, and adequately resourced structure in LACERA.
- Conduct ethics and compliance risk assessments.
- Monitor, review, evaluate, and make recommendations to improve ethics and compliance in LACERA's operational processes and business practices.
- Review and provide input on ethics and compliance-related policies and procedures.
- Promote third-party/vendor ethics and compliance risk management practices.
- Protect privacy of member information and confidentiality of other sensitive information in LACERA's possession.
- Provide ethics and compliance training and communications.
- Maintain channels for LACERA staff and others to report suspected misconduct and seek guidance on ethics and compliance matters.
- Respond to, investigate, or participate in investigations, and make recommendations regarding ethics and compliance concerns.
- Measure and promote an organizational culture of ethics and compliance.
- Report to the CEO and other senior leaders, the Audit Committee, and the Boards regarding the Program and organizational ethics and compliance.
- Annually self-assess, and adjust as needed, subject to periodic independent review of the Program; and
- Work collaboratively with other divisions, management, the Audit Committee, and the Boards to provide formal or informal consultation and advice to identify, evaluate, and mitigate potential ethics and compliance risks and make recommendations regarding ethics and compliance controls.

The Audit Committee assists the Boards in fulfilling their fiduciary oversight duties for LACERA's Audit Activity and Organizational Governance Activities, which include Ethics, Compliance, and Enterprise Risk Management. The proposed Charter is the first step in implementation of LACERA's Ethics and Compliance Program.

## **CONCLUSION**

That the Audit Committee review and approve the proposed Ethics and Compliance Program Charter, and recommend it to the Board of Retirement and Board of Investments (Boards) for final approval.

Re: Ethics and Compliance Program Charter

June 4, 2024

Page 5 of 5

#### Attachments

c: Santos H. Kreimann  
Luis A. Lugo  
Jonathan Grabel  
Steven P. Rice  
JJ Popowich  
Laura Guglielmo  
Richard Bendall  
Christina Logan  
Allison E. Barrett

June 4, 2024

TO: 2024 Audit Committee:  
Debbie Martin, (BOI), Chair  
Wayne Moore, (BOR), Vice Chair  
Vivian Gray, (BOR), Secretary  
Nancy Durazo, (BOR) Trustee  
Jason Green, (BOI), Trustee  
Nicole Mi, (BOI), Trustee  
Elizabeth Ginsberg, (BOR/BOI)

FROM: Steven P. Rice, *SPR*  
Chief Counsel

Allison E. Barrett, *AOB*  
Senior Staff Counsel

FOR: June 20, 2024 Audit Committee Meeting

SUBJECT: Supplemental Memo regarding Ethics and Compliance Program Charter

This supplemental memo explains the redlines added to the proposed Ethics and Compliance Program Charter (Attachment B to the June 4, 2024 Audit Committee memo from the Board Chairs) after the joint Board actions at their April meetings forwarding the Charter to the Audit Committee for review and approval. The changes resulted from input from LACERA's ethics and compliance advisor and counsel, the Audit Committee consultant, and the staff Ethics and Compliance Committee. Some of the changes also track changes to the Internal Audit Charter resulting from recent changes in The Institute of Internal Auditors (IIA) standards.

1. *Section I, Statement of Purpose* (page 1). A change is made to emphasize that the Ethics and Compliance Program is a management responsibility.
2. *Section III, Roles and Reporting Structure* (page 2). Changes are made to clarify the ability of the Committee and Boards to provide funding for unexpected needs of the Ethics and Compliance Program, in accordance with LACERA's Policy for Purchasing Goods and Services. The change is similar to language used with respect to the Internal Audit Activity. It also follows from the Department of Justice "Evaluation of Corporate Compliance Programs" (March 2023), which states that an effective Ethics and Compliance Program is "adequately resourced."
3. *Section VII(E), Scope of Program Activities* (page 5) and *Section VIII(I), Accountability of the Program – Vendor/Third-Party Ethics and Compliance Risk Management*, Accountability of the Program. This title of these sections is slightly changed to clarify that the Program's role is with respect to ethics and compliance risks. Other aspects of vendor/third-party management are handled by other

divisions, including Administrative Services and Information Security.

4. *Section VII(G), Scope of Program Activities – Training, Communications, and Incentives* (page 6). Reference is added to collaboration with other divisions in providing training. Human Resources is already mentioned, but other divisions will also be involved with Ethics and Compliance in providing training.
5. *Section VIII(C), Accountability of the Program – Program Roadmap of Priorities* (page 7). A new subsection is added providing that the CECO will prepare a Three-Year Roadmap of Priorities for approval by the Boards, Committee, and CEO, in addition to the annual work plan. This requirement will add a strategic dimension to Ethics and Compliance Program planning. IIA standards for Internal Audit have recently added a similar requirement for the audit activity. It is a best practice for Ethics and Compliance to also prepare a Roadmap for its work.
6. *Section VIII(F), Accountability of the Program – Risk Assessment* (page 8). Language is added to clarify that the risk assessment conduct by the Ethics and Compliance Program is of ethics and compliance risks.
7. *Section VIII(K), Accountability of the Program – Annual Privacy Report* (page 8). This section is revised to clarify that the Annual Privacy Report will be prepared in collaboration with other interested divisions because other parts of the organization are also engaged in efforts to secure the privacy and confidentiality of LACERA information.
8. *Section VIII(L), Accountability of the Program – Organizational Culture of Ethics and Compliance Report* (page 8). The Charter previously included review and measure of the organizational culture of ethics and compliance. This change adds a report of those efforts to the Program's Accountability requirements.
9. *Section VIII(N), Accountability of the Program – Self-Assessment and Program Review* (page 8). This change adds explanation as to some of the key performance indicators that will be considered in Program assessment.

c: Santos H. Kreimann  
Luis A. Lugo  
Jonathan Grabel  
JJ Popowich  
Laura Guglielmo  
Richard Bendall  
Christina Logan

# ATTACHMENT A

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Ethics and Compliance Program Charter

## LACERA ETHICS AND COMPLIANCE PROGRAM CHARTER

### I. STATEMENT OF PURPOSE

The LACERA Ethics and Compliance Program (Program) promotes a strong and engaged culture of ethical conduct and compliance with all applicable laws, regulations, policies, and procedures across the organization.

At LACERA, ethics comes first. “Ethics” means the application of sound judgment and the diligent practice of LACERA’s Values of accountability, collaboration, inclusivity, innovation, integrity, and transparency in order to do the right thing, even when hard or inconvenient, in furtherance of the fund’s fiduciary duty and Mission to produce, protect, and provide the promised benefits to our members. Compliance is also a requirement. “Compliance” means adhering to laws, regulations, policies, and procedures. Ethics guides LACERA’s compliance – and both are necessary – because decisions must be made based on what *should* be done under applicable standards, not just what *can* be done.

The Program supports the Audit, Compliance, Risk, and Ethics (ACRE) Committee, the Board of Retirement and Board of Investments, and management in performing their duty of oversight by providing an independent structure within management for assessment, mitigation, and reporting of LACERA’s ethics and compliance risks throughout the organization. The Program seeks to provide ongoing assurance and accountability, in a changing environment, that LACERA’s operations are conducted in an ethical and compliant manner. The Program promotes continuous improvement of LACERA’s ethics and compliance controls.

### II. AUTHORITY

LACERA’s Program is established under [Article XVI, Section 17 of the California Constitution](#) and [California Government Code Section 31595 of the County Employees Retirement Law of 1937 \(CERL\)](#) in furtherance of the Boards’ fiduciary duty of prudence and loyalty, which requires oversight of the organization’s ethics and compliance function. The Program is consistent with LACERA’s Mission, Vision, and Values.

A formal Ethics and Compliance Program is one of the goals of the [Board of Retirement’s “2023-2028 Strategic Plan”](#) for LACERA and is supported by best practices in the public pension community.

The Program is consistent with [The Institute of Internal Auditors’ “Three Lines Model” publication \(2020\)](#), which describes a dedicated ethics and compliance function within management as a second line to supplement the first line of ethics and compliance in LACERA’s operational divisions. A third line of independent assurance outside management is provided by the Internal Audit Division.



The Program also aligns with the principles outlined in the [United States Sentencing Commission's Sentencing Guidelines for Organizations \(2023\)](#), which is the most influential of applicable compliance program standards, and the [U.S. Department of Justice "Evaluation of Corporate Compliance Programs" \(March 2023\)](#), which describes the factors used to determine the adequacy and effectiveness of an organization's compliance program by federal prosecutors in the context of a criminal investigation.

### III. ROLES AND REPORTING STRUCTURE

- The ACRE Committee approves this Charter, under authority granted by the Board of Retirement and Board of Investments (Boards) in the ACRE Committee Charter.
- The ACRE Committee, the Board of Retirement and Board of Investments, and the Chief Executive Officer (CEO) oversee the Program, with reporting as provided in this Charter and in the ACRE Committee Charter.
- The Program resides in a separate Ethics and Compliance Office in the Legal Division. The Program is led by the Chief Ethics and Compliance Officer (CECO), who has the authority and responsibility to independently implement the Program. The CECO reports administratively to the Chief Counsel and functionally to the ACRE Committee, both Boards, and the CEO.
  - Functionally, the CECO reports to the ACRE Committee, both Boards, and the CEO with respect to the activities of the Program as provided in this Charter and the ACRE Committee Charter to facilitate the ACRE Committee, Board, and CEO oversight of ethics and compliance risk mitigation. The CEO will be the CECO's appointing authority. The ACRE Committee and the Boards will respond to substantive ethics and compliance issues presented by the CECO; approve the CEO's hiring, termination, and discipline of the CECO and contribute to the CEO's performance evaluation of the CECO; approve the Ethics and Compliance Office budget for inclusion in LACERA's annual administrative budget; and approve any additional unexpected expenses for necessary work within the scope of this Charter in accordance with LACERA's Policy for Purchasing Goods and Services.
  - Administratively, the Chief Ethics and Compliance Officer reports to the Chief Counsel, who will support the day-to-day operations of the Ethics and Compliance Office and serve as a resource and provide guidance to the CECO on ethics and compliance issues when requested by the CECO. The CECO has direct and independent access to the ACRE Committee, both Boards, and the CEO.

- The CEO and Chief Counsel will not be involved in any matter as to which they have a conflict of interest. In the event of such a conflict, the CECO will consult with the ACRE Committee and/or the Boards. In the event the CECO has a conflict, the Chief Counsel – or the CEO if Chief Counsel has a conflict – will confer with the ACRE Committee and/or the Boards as to the proper handling of the matter.

#### IV. OBJECTIVES

- **Ethics and Compliance Objectives.**

The Program independently and objectively performs the following functions:

- A. Establish and maintain the Program as a sound and durable structure in LACERA;
- B. Conduct ethics and compliance risk assessments;
- C. Monitor, review, evaluate, and make recommendations to improve ethics and compliance in LACERA's operational processes and business practices;
- D. Review and provide input on ethics and compliance-related policies and procedures;
- E. Promote third-party/vendor risk management practices;
- F. Protect privacy of member information and confidentiality of other sensitive information in LACERA's possession;
- G. Provide ethics and compliance training and communications;
- H. Maintain channels for LACERA staff and others to report suspected misconduct and seek guidance on ethics and compliance matters;
- I. Respond to, investigate, or participate in investigations, and make recommendations regarding ethics and compliance concerns;
- J. Measure and promote an organizational culture of ethics and compliance;
- K. Report to the CEO and other senior leaders, the ACRE Committee, and the Boards regarding the Program and organizational ethics and compliance; and
- L. Annually self-assess, and adjust as needed, subject to periodic independent review of the Program.

- **Consulting and Advisory Objectives.**

The Program will work collaboratively with other divisions, management, the ACRE Committee, and the Boards to provide formal or informal consultation and advice to identify, evaluate, and mitigate potential ethics and compliance risks and make recommendations regarding ethics and compliance controls.

#### V. STANDARDS FOR INDEPENDENT AND OBJECTIVE OPERATION OF THE PROGRAM

- Charters. The Program is designed and implemented in accordance with the terms of this Charter and the ACRE Committee Charter.

- *Best Practices and Education.* The Program incorporates best practices among public pension ethics and compliance programs and is designed and implemented considering LACERA's fiduciary duty and other legal responsibilities as outlined in Section II above. The CECO and other participants in the Program will regularly seek continuing education in ethics and compliance.
- *Independence and Objectivity.* The Program operates independently and objectively. Annually, the CECO will assure the CEO, the ACRE Committee, and the Boards that the Program is operating independently and without interference or conflicts of interest. The CECO will immediately disclose to the CEO, the ACRE Committee, and the Boards all actual or attempted interference with the Program and all conflicts of interest.
- *Collaboration.* The Program will employ a collaborative approach with all LACERA divisions, while maintaining independence and objectivity.

#### **VI. AUTHORITY FOR ACCESS**

The CECO and Ethics and Compliance Office staff, with strict accountability for confidentiality and the safeguarding of records and information, are authorized to have full, free, and unrestricted access to any and all of LACERA's hard copy and electronic records, data maintained within information technology systems or databases, physical properties, and personnel pertinent to carrying out the work of the Program, excluding the work papers of Internal Audit. All LACERA staff are required to cooperate with and assist the CECO and the Ethics and Compliance Office in connection with work in the scope of the Program's role and responsibilities.

The CECO has unrestricted access to communicate directly with the CEO, the ACRE Committee, and the Boards, subject to the requirements of the Ralph M. Brown Act and other applicable laws, regulations, policies, and procedures.

#### **VII. SCOPE OF PROGRAM ACTIVITIES**

The Program seeks to identify and address ethics and compliance risks; monitor and evaluate operations for compliance and ethical conduct; review and provide input on policies, procedures, and practices; maintain channels for LACERA staff and others to report suspected misconduct and seek guidance; provide training to ensure organizational ethics and compliance awareness; investigate potential issues and violations and make recommendations; and advise and report on LACERA's ethics and compliance to the ACRE Committee, the Boards, the CEO, and other senior leaders. The Program's activities will be implemented in accordance with all applicable laws, regulations, policies, and procedures. The Program includes consulting and advisory work, as requested. The CECO may hire outside advisors when necessary and approved by the ACRE Committee or

the Boards.

- A. *Ethics and Compliance Program Framework.* The Program will be adequately resourced and staffed within the Ethics and Compliance Office. The Program's authority and independence will be protected through the CECO's direct reporting to the CEO, ACRE Committee, and the Boards. The multi-divisional staff Ethics and Compliance Committee will assist the CECO in operationalizing the Program and by providing staff input and support. The Program will also use other methods to promote and obtain staff input, involvement, and engagement.
- B. *Ethics and Compliance Risk Assessment.* The Program will perform ethics and compliance risk assessments no less than every two years to review organization-wide conduct, operations, and processes to proactively anticipate, identify, evaluate, and monitor potential ethics and compliance risks, control gaps and key risk indicators. Assessment findings will be reported to the CEO, other senior leaders, the ACRE Committee, and the Boards, along with recommendations on upgrading current or establishing new controls to mitigate any identified ethics and compliance risks.
- C. *Monitoring.* The Program will review and monitor LACERA's relevant operations, business practices, and key risk indicators, as appropriate, to promote organization-wide compliance with laws, regulations, policies, procedures, and standards of ethical conduct. The Program will make recommendations for improvement in compliance and ethics controls, working collaboratively with all divisions to receive and provide information.
- D. *Review of Policies and Procedures.* The Program, with the participation of the Ethics and Compliance Committee, will review and provide input on new and revised policies before they are finalized and will ensure that existing policies are reviewed on a regular cycle and updated as indicated. The Program will:
  - 1. Serve as a resource for ethics and compliance questions or issues relating to the development of policies and procedures.
  - 2. Provide guidance on the drafting of policies and procedures, including the LACERA Code of Ethical Conduct and the Conflict of Interest Code.
  - 3. Identify operations or ethics and compliance control gaps and risks requiring new policies and procedures and recommend new policies and procedures as indicated.
  - 4. Determine the timing for periodic review and updating of policies and procedures as indicated by the scope of the particular policy or procedure.
- E. *Vendor/Third-Party Ethics and Compliance Risk Management.* The Program will review and monitor ethics and compliance controls for vendor management

- and other third-parties with which LACERA does business, including ethics and compliance risk management, ethics and compliance controls related to procurement and contracting, background checks, performance of and ethics and compliance-related contract requirements, investigation of ethics and compliance-related concerns, and enforcement of ethics and compliance-related rights.
- F. Privacy. The Program will review and monitor ethics and compliance controls to protect the privacy of member information and confidentiality of other information created, received, or shared by LACERA, including internal and external vendor activities. The CECO will serve as LACERA's Privacy Officer.
- G. Training, Communications, and Incentives. The Program will provide, and coordinate with other divisions as needed on, risk-based compliance training and communications to the ACRE Committee, the Boards, the CEO, and staff on LACERA's governing laws, regulations, policies, and procedures on a regular cycle. The Program will also provide training and communications on LACERA's values and ethics, including LACERA's Code of Ethical Conduct, Conflict of Interest Code, and other ethical standards and expectations. The Program will include training and communications on the purpose and importance of an ethics and compliance program. The Program will coordinate with Human Resources in the development of positive incentives for improving and modeling ethics and compliance and demonstrating ethical leadership.
- H. Channels for Staff to Report Ethics and Compliance Concerns. The Program will provide and monitor channels through which staff and others will be encouraged to report suspected misconduct and express other comments and concerns about organizational ethics and compliance.
- I. Program Investigation, Response, and Commitment to Non-Retaliation. The Program will evaluate, investigate, respond to, and recommend remediation or other resolution, as needed, of internal and external reports, comments, and concerns regarding ethics and compliance and any alleged violations of applicable laws, regulations, policies, procedures, and ethical standards. The Program will promote understanding of LACERA's commitment to non-retaliation against those who express concerns or participate in investigations.
- J. Measure Organizational Culture of Ethics and Compliance. The Program will periodically conduct a survey of LACERA's culture of ethics and compliance to assist in measuring the success of organizational controls and promoting the Program's objectives.
- K. Reporting. The Program will report to the ACRE Committee, the Boards, and CEO concerning the Program's status and operations, including information to

facilitate oversight of the Program and awareness of ethics and compliance risks and concerns. Reporting will also be made to senior leaders as needed relating to ethics and compliance issues under their authority.

- L. *Self-Assessment and Review of Program*. The Program will conduct an annual self-assessment against the requirements of this Charter, best practices, and key performance indicators to provide quality assurance and improvement of the Program. The ACRE Committee and the Boards will also undertake a periodic independent review of the Program. The Internal Audit Division, when and as it deems appropriate within its authority, may independently review the adequacy of the Program as a system of control for ethics and compliance risks.

### **VIII. ACCOUNTABILITY OF THE PROGRAM**

Under the leadership of the CECO, the Program shall be accountable to the ACRE Committee, Boards, and the CEO for the following:

- A. *Program Staff*. Select, train, develop, and retain competent Ethics and Compliance Office staff that collectively have the ability to meet the requirements of this Charter. Staff development procedures and changes in Program staff will be reported to the ACRE Committee and the Boards.
- B. *LACERA Staff Input, Involvement, and Reporting*. Develop a process for staff input into the Program, which will be reported to the ACRE Committee and the Boards. The process will include an Ethics and Compliance Committee (ECC) consisting of a cross-section of LACERA senior leaders to serve an advisory function to the CECO. The ECC will meet monthly to discuss ethics and compliance issues, review policies and procedures, maintain a list of ethics and compliance training opportunities, and discuss Program implementation issues.
- C. *Program Roadmap of Priorities*. Following initial Program implementation, the CECO will develop a Three-Year Roadmap of priorities and Program management for review and approval by the CEO, ACRE Committee, and Boards.
- D. *Annual Work Plan*. Annually develop a written Program work plan, which is presented to the CEO and the ACRE Committee for review and approval and provide quarterly status reports thereafter. The approved work plans will also be provided to the Boards.
- E. *Program Budget*. Annually obtain approval from the ACRE Committee of a budget for the Ethics and Compliance Office for inclusion in the administrative budget approved by the Boards.

- F. *Risk Assessment*. Report to the ACRE Committee and the Boards the results of all ethics and compliance risk assessments and key risk indicators.
- G. *Investigations*. Provide written reports to the ACRE Committee, Boards, and CEO of alleged ethics and compliance risks, concerns, and violations that are received, the results of any investigations, the recommended response, and the outcome.
- H. *Policies and Procedures*. Provide written quarterly reports to the ACRE Committee of any policy and procedure review and to the Boards on review related to their areas of authority.
- I. *Vendor/Third-Party Ethics and Compliance Risk Management*. Provide quarterly reports to the ACRE Committee on vendor/third-party ethics and compliance risks and organizational management and response and to the Boards related to their areas of authority.
- J. *Annual Ethics and Compliance Report*. Provide a written annual report to the ACRE Committee and the Boards regarding the status of the Program, the approved work plan, consulting, or advisory engagements, and LACERA's overall ethics and compliance performance. The report will document exceptions to ethics and compliance standards and the basis for the exceptions.
- K. *Annual Privacy Report*. Provide a written annual report to the ACRE Committee and the Boards, in collaboration with other interested divisions, regarding the status of LACERA's efforts to protect the privacy of member information and the confidentiality of other organizational information held internally and by LACERA vendors.
- L. *Organizational Culture of Ethics and Compliance Report*. Provide a written report of the periodic survey of LACERA's culture of ethics and compliance.
- M. *Work Papers*. The Program will preserve its work papers and other documentation pursuant to a protocol approved by the ACRE Committee and the CEO.
- N. *Self-Assessment and Program Review*. Provide the CEO, other senior leaders, and the ACRE Committee and the Boards with a written report of the annual Program self-assessment and review, including metrics based on key performance criteria, for review and discussion. Key performance indicators will include the overall effectiveness of the Program in performing the activities described in Section VIII and LACERA's system of ethics and compliance controls, such as training programs, reporting channels, and ethics and compliance risk assessment, monitoring, detection, investigation and

response.

## **IX. RESPONSIBILITIES OF MANAGERS, SUPERVISORS, AND STAFF**

Every LACERA manager, supervisor, and staff member, temporary worker, and contractor has a significant role in implementing and supporting the Program and in promoting ethical and compliant conduct in the organization.

A. *Managers and Supervisors.* Every LACERA manager and supervisor has a duty to communicate and model the requisite ethical standards and to act in accordance with all laws, regulations, policies, procedures, and business practices, including but not limited to LACERA's Code of Ethical Conduct. In addition to modeling an ethics and compliance mindset and setting behavioral norms, managers and supervisors have a duty to promote a culture of ethics and compliance by creating a space for all staff members, temporary workers, and contractors to safely report any ethics and compliance concerns without retaliation.

Additional manager and supervisor responsibilities include, but are not limited to: collaborating with the Program on identification of ethics and compliance risks and the development of risk mitigation strategies; participating in compliance monitoring and control implementation to strengthen compliance; encouraging staff to identify and report ethics and compliance risks or violations; monitoring for retaliation; ensuring LACERA's commitment to nonretaliation; communicating with division staff about ethics and compliance; participating in ethics and compliance training; ensuring staff complete ethics and compliance training; encouraging employees to review and use the Code of Ethical Conduct and helping them understand their responsibilities under the Code; and escalating issues or reports of suspected misconduct to an appropriate resource.

B. *Staff Members.* Every LACERA staff member, temporary worker, and contractor has a responsibility to perform day-to-day operations in accordance with the highest ethical standards and to adhere to all laws, regulations, policies, procedures, and business practices, including but not limited to LACERA's Code of Ethical Conduct. Every LACERA staff member, temporary worker, and contractor has a duty to report any activity or behavior that falls below those standards or does not comply with laws, regulations, policies, procedures, and business practices. Every LACERA staff member, temporary worker, and contractor is responsible and accountable for completing all assigned ethics and compliance training.

## **X. RESOURCES**

- A. [Board of Retirement's "2023-2028 Strategic Plan"](#)
- B. [Article XVI, Section 17 of the California Constitution](#)



- C. [California Government Code Section 31595](#)
- D. [The Institute of Internal Auditors' "Three Lines Model" publication \(2020\)](#)
- E. [United States Sentencing Commission's \*Sentencing Guidelines for Organizations\* \(2023\)](#)
- F. [U.S. Department of Justice "Evaluation of Corporate Compliance Programs" \(March 2023\)](#)

**XI. CHARTER REVIEW**

This Charter shall be annually reviewed by the ACRE Committee and the Boards until the Program is fully operational and the Ethics and Compliance Office is developed and staffed. Once those milestones are met, review shall be every three years by the ACRE Committee and the Boards, or more frequently as needed.

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# ATTACHMENT B

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Ethics and Compliance Program Charter

## LACERA ETHICS AND COMPLIANCE PROGRAM CHARTER

### I. STATEMENT OF PURPOSE

The LACERA Ethics and Compliance Program (Program) promotes a strong and engaged culture of ethical conduct and compliance with all applicable laws, regulations, policies, and procedures across the organization.

At LACERA, ethics comes first. “Ethics” means the application of sound judgment and the diligent practice of LACERA’s Values of accountability, collaboration, inclusivity, innovation, integrity, and transparency in order to do the right thing, even when hard or inconvenient, in furtherance of the fund’s fiduciary duty and Mission to produce, protect, and provide the promised benefits to our members. Compliance is also a requirement. “Compliance” means adhering to laws, regulations, policies, and procedures. Ethics guides LACERA’s compliance – and both are necessary – because decisions must be made based on what *should* be done under applicable standards, not just what *can* be done.

The Program supports the Audit, Compliance, Risk, and Ethics (ACRE) Committee, the Board of Retirement and Board of Investments, and management in performing their duty of oversight by providing an independent structure within management for assessment, mitigation, and reporting of LACERA’s ethics and compliance risks throughout the organization. The Program seeks to provide ongoing assurance and accountability, in a changing environment, that LACERA’s operations are conducted in an ethical and compliant manner. The Program promotes continuous improvement of LACERA’s ethics and compliance controls.

### II. AUTHORITY

LACERA’s Program is established under [Article XVI, Section 17 of the California Constitution](#) and [California Government Code Section 31595 of the County Employees Retirement Law of 1937 \(CERL\)](#) in furtherance of the Boards’ fiduciary duty of prudence and loyalty, which requires oversight of the organization’s ethics and compliance function. The Program is consistent with LACERA’s Mission, Vision, and Values.

A formal Ethics and Compliance Program is one of the goals of the [Board of Retirement’s “2023-2028 Strategic Plan”](#) for LACERA and is supported by best practices in the public pension community.

The Program is consistent with [The Institute of Internal Auditors’ “Three Lines Model” publication \(2020\)](#), which describes a dedicated ethics and compliance function within management as a second line to supplement the first line of ethics and compliance in LACERA’s operational divisions. A third line of independent assurance outside management is provided by the Internal Audit Division.

The Program also aligns with the principles outlined in the [United States Sentencing Commission's Sentencing Guidelines for Organizations \(2023\)](#), which is the most influential of applicable compliance program standards, and the [U.S. Department of Justice "Evaluation of Corporate Compliance Programs" \(March 2023\)](#), which describes the factors used to determine the adequacy and effectiveness of an organization's compliance program by federal prosecutors in the context of a criminal investigation.

### III. ROLES AND REPORTING STRUCTURE

- The ACRE Committee approves this Charter, under authority granted by the Board of Retirement and Board of Investments (Boards) in the ACRE Committee Charter.
- The ACRE Committee, the Board of Retirement and Board of Investments, and the Chief Executive Officer (CEO) oversee the Program, with reporting as provided in this Charter and in the ACRE Committee Charter.
- The Program resides in a separate Ethics and Compliance Office in the Legal Division. The Program is led by the Chief Ethics and Compliance Officer (CECO), who has the authority and responsibility to independently implement the Program. The CECO reports administratively to the Chief Counsel and functionally to the ACRE Committee, both Boards, and the CEO.
  - Functionally, the CECO reports to the ACRE Committee, both Boards, and the CEO with respect to the activities of the Program as provided in this Charter and the ACRE Committee Charter to facilitate the ACRE Committee, Board, and CEO oversight of ethics and compliance risk mitigation. The CEO will be the CECO's appointing authority. The ACRE Committee and the Boards will respond to substantive ethics and compliance issues presented by the CECO; approve the CEO's hiring, [termination](#)~~fring~~, and discipline of the CECO; ~~and~~ approve the Ethics and Compliance Office budget for inclusion in LACERA's annual administrative budget; [and approve any additional unexpected expenses for necessary work within the scope of this Charter in accordance with LACERA's Policy for Purchasing Goods and Services.](#)
  - Administratively, the Chief Ethics and Compliance Officer reports to the Chief Counsel, who will support the day-to-day operations of the Ethics and Compliance Office and serve as a resource and provide guidance to the CECO on ethics and compliance issues when requested by the CECO. The CECO has direct and independent access to the ACRE Committee, both Boards, and the CEO.

- The CEO and Chief Counsel will not be involved in any matter as to which they have a conflict of interest. In the event of such a conflict, the CECO will consult with the ACRE Committee and/or the Boards. In the event the CECO has a conflict, the Chief Counsel – or the CEO if Chief Counsel has a conflict – will confer with the ACRE Committee and/or the Boards as to the proper handling of the matter.

#### IV. OBJECTIVES

- **Ethics and Compliance Objectives.**

The Program independently and objectively performs the following functions:

- A. Establish and maintain the Program as a sound and durable structure in LACERA;
- B. Conduct ethics and compliance risk assessments;
- C. Monitor, review, evaluate, and make recommendations to improve ethics and compliance in LACERA's operational processes and business practices;
- D. Review and provide input on ethics and compliance-related policies and procedures;
- E. Promote third-party/vendor risk management practices;
- F. Protect privacy of member information and confidentiality of other sensitive information in LACERA's possession;
- G. Provide ethics and compliance training and communications;
- H. Maintain channels for LACERA staff and others to report suspected misconduct and seek guidance on ethics and compliance matters;
- I. Respond to, investigate, or participate in investigations, and make recommendations regarding ethics and compliance concerns;
- J. Measure and promote an organizational culture of ethics and compliance;
- K. Report to the CEO and other senior leaders, the ACRE Committee, and the Boards regarding the Program and organizational ethics and compliance; and
- L. Annually self-assess, and adjust as needed, subject to periodic independent review of the Program.

- **Consulting and Advisory Objectives.**

The Program will work collaboratively with other divisions, management, the ACRE Committee, and the Boards to provide formal or informal consultation and advice to identify, evaluate, and mitigate potential ethics and compliance risks and make recommendations regarding ethics and compliance controls.

#### V. STANDARDS FOR INDEPENDENT AND OBJECTIVE OPERATION OF THE PROGRAM

- Charters. The Program is designed and implemented in accordance with the terms of this Charter and the ACRE Committee Charter.

- *Best Practices and Education.* The Program incorporates best practices among public pension ethics and compliance programs and is designed and implemented considering LACERA's fiduciary duty and other legal responsibilities as outlined in Section II above. The CECO and other participants in the Program will regularly seek continuing education in ethics and compliance.
- *Independence and Objectivity.* The Program operates independently and objectively. Annually, the CECO will assure the CEO, the ACRE Committee, and the Boards that the Program is operating independently and without interference or conflicts of interest. The CECO will immediately disclose to the CEO, the ACRE Committee, and the Boards all actual or attempted interference with the Program and all conflicts of interest.
- *Collaboration.* The Program will employ a collaborative approach with all LACERA divisions, while maintaining independence and objectivity.

## **VI. AUTHORITY FOR ACCESS**

The CECO and Ethics and Compliance Office staff, with strict accountability for confidentiality and the safeguarding of records and information, are authorized to have full, free, and unrestricted access to any and all of LACERA's hard copy and electronic records, data maintained within information technology systems or databases, physical properties, and personnel pertinent to carrying out the work of the Program, excluding the work papers of Internal Audit. All LACERA staff are required to cooperate with and assist the CECO and the Ethics and Compliance Office in connection with work in the scope of the Program's role and responsibilities.

The CECO has unrestricted access to communicate directly with the CEO, the ACRE Committee, and the Boards, subject to the requirements of the Ralph M. Brown Act and other applicable laws, regulations, policies, and procedures.

## **VII. SCOPE OF PROGRAM ACTIVITIES**

The Program seeks to identify and address ethics and compliance risks; monitor and evaluate operations for compliance and ethical conduct; review and provide input on policies, procedures, and practices; maintain channels for LACERA staff and others to report suspected misconduct and seek guidance; provide training to ensure organizational ethics and compliance awareness; investigate potential issues and violations and make recommendations; and advise and report on LACERA's ethics and compliance to the ACRE Committee, the Boards, the CEO, and other senior leaders. The Program's activities will be implemented in accordance with all applicable laws, regulations, policies, and procedures. The Program includes consulting and advisory work, as requested. The CECO may hire outside advisors when necessary and approved by the ACRE Committee or

the Boards.

- A. *Ethics and Compliance Program Framework.* The Program will be adequately resourced and staffed within the Ethics and Compliance Office. The Program's authority and independence will be protected through the CECO's direct reporting to the CEO, ACRE Committee, and the Boards. The multi-divisional staff Ethics and Compliance Committee will assist the CECO in operationalizing the Program and by providing staff input and support. The Program will also use other methods to promote and obtain staff input, involvement, and engagement.
- B. *Ethics and Compliance Risk Assessment.* The Program will perform ethics and compliance risk assessments no less than every two years to review organization-wide conduct, operations, and processes to proactively anticipate, identify, evaluate, and monitor potential ethics and compliance risks, control gaps and key risk indicators. Assessment findings will be reported to the CEO, other senior leaders, the ACRE Committee, and the Boards, along with recommendations on upgrading current or establishing new controls to mitigate any identified ethics and compliance risks.
- C. *Monitoring.* The Program will review and monitor LACERA's relevant operations, business practices, and key risk indicators, as appropriate, to promote organization-wide compliance with laws, regulations, policies, procedures, and standards of ethical conduct. The Program will make recommendations for improvement in compliance and ethics controls, working collaboratively with all divisions to receive and provide information.
- D. *Review of Policies and Procedures.* The Program, with the participation of the Ethics and Compliance Committee, will review and provide input on new and revised policies before they are finalized and will ensure that existing policies are reviewed on a regular cycle and updated as indicated. The Program will:
1. Serve as a resource for ethics and compliance questions or issues relating to the development of policies and procedures.
  2. Provide guidance on the drafting of policies and procedures, including the LACERA Code of Ethical Conduct and the Conflict of Interest Code.
  3. Identify operations or ethics and compliance control gaps and risks requiring new policies and procedures and recommend new policies and procedures as indicated.
  4. Determine the timing for periodic review and updating of policies and procedures as indicated by the scope of the particular policy or procedure.
- E. *Vendor/Third-Party Ethics and Compliance, and Risk Management.* The Program will review and monitor ethics and compliance controls for vendor

- management and other third-parties with which LACERA does business, including ethics and compliance risk management, ethics and compliance controls related to procurement and contracting, background checks, performance of and ethics and compliance-related contract requirements, investigation of ethics and compliance-related concerns, and enforcement of ethics and compliance-related rights.
- F. Privacy. The Program will review and monitor ethics and compliance controls to protect the privacy of member information and confidentiality of other information created, received, or shared by LACERA, including internal and external vendor activities. The CECO will serve as LACERA's Privacy Officer.
- G. Training, Communications, and Incentives. The Program will provide, [and coordinate with other divisions as needed on,](#) risk-based compliance training and communications to the ACRE Committee, the Boards, the CEO, and staff on LACERA's governing laws, regulations, policies, and procedures on a regular cycle. The Program will also provide training and communications on LACERA's values and ethics, including LACERA's Code of Ethical Conduct, Conflict of Interest Code, and other ethical standards and expectations. The Program will include training and communications on the purpose and importance of an ethics and compliance program. The Program will coordinate with Human Resources in the development of positive incentives for improving and modeling ethics and compliance and demonstrating ethical leadership.
- H. Channels for Staff to Report Ethics and Compliance Concerns. The Program will provide and monitor channels through which staff and others will be encouraged to report suspected misconduct and express other comments and concerns about organizational ethics and compliance.
- I. Program Investigation, Response, and Commitment to Non-Retaliation. The Program will evaluate, investigate, respond to, and recommend remediation or other resolution, as needed, of internal and external reports, comments, and concerns regarding ethics and compliance and any alleged violations of applicable laws, regulations, policies, procedures, and ethical standards. The Program will promote understanding of LACERA's commitment to non-retaliation against those who express concerns or participate in investigations.
- J. Measure Organizational Culture of Ethics and Compliance. The Program will periodically conduct a survey of LACERA's culture of ethics and compliance to assist in measuring the success of organizational controls and promoting the Program's objectives.
- K. Reporting. The Program will report to the ACRE Committee, the Boards, and CEO concerning the Program's status and operations, including information to



facilitate oversight of the Program and awareness of ethics and compliance risks and concerns. Reporting will also be made to senior leaders as needed relating to ethics and compliance issues under their authority.

- L. *Self-Assessment and Review of Program*. The Program will conduct an annual self-assessment against the requirements of this Charter, best practices, and key performance indicators to provide quality assurance and improvement of the Program. The ACRE Committee and the Boards will also undertake a periodic independent review of the Program. The Internal Audit Division, when and as it deems appropriate within its authority, may independently review the adequacy of the Program as a system of control for ethics and compliance risks.

## VIII. ACCOUNTABILITY OF THE PROGRAM

Under the leadership of the CECO, the Program shall be accountable to the ACRE Committee, Boards, and the CEO for the following:

- A. *Program Staff*. Select, train, develop, and retain competent Ethics and Compliance Office staff that collectively have the ability to meet the requirements of this Charter. Staff development procedures and changes in Program staff will be reported to the ACRE Committee and the Boards.

- B. *LACERA Staff Input, Involvement, and Reporting*. Develop a process for staff input into the Program, which will be reported to the ACRE Committee and the Boards. The process will include an Ethics and Compliance Committee (ECC) consisting of a cross-section of LACERA senior leaders to serve an advisory function to the CECO. The ECC will meet monthly to discuss ethics and compliance issues, review policies and procedures, maintain a list of ethics and compliance training opportunities, and discuss Program implementation issues.

- B.C. Program Roadmap of Priorities. Following initial Program implementation, the CECO will develop a Three-Year Roadmap of priorities and Program management for review and approval by the CEO, ACRE Committee, and Boards.*

- C.D. Annual Work Plan*. Annually develop a written Program work plan, which is presented to the CEO and the ACRE Committee for review and approval and provide quarterly status reports thereafter. The approved work plans will also be provided to the Boards.

- D.E. Program Budget*. Annually obtain approval from the ACRE Committee of a budget for the Ethics and Compliance Office for inclusion in the administrative budget approved by the Boards.

- E.F. Risk Assessment. Report to the ACRE Committee and the Boards the results of all [ethics and compliance](#) risk assessments and key risk indicators.
- F.G. Investigations. Provide written reports to the ACRE Committee, Boards, and CEO of alleged ethics and compliance risks, concerns, and violations that are received, the results of any investigations, the recommended response, and the outcome.
- G.H. Policies and Procedures. Provide written quarterly reports to the ACRE Committee of any policy and procedure review and to the Boards on review related to their areas of authority.
- H.I. Vendor/Third-Party Ethics ~~and~~, Compliance, ~~and~~ Risk Management. Provide quarterly reports to the ACRE Committee on vendor/third-party ethics and compliance risks and organizational management and response and to the Boards related to their areas of authority.
- I.J. Annual Ethics and Compliance Report. Provide a written annual report to the ACRE Committee and the Boards regarding the status of the Program, the approved work plan, consulting, or advisory engagements, and LACERA's overall ethics and compliance performance. The report will document exceptions to ethics and compliance standards and the basis for the exceptions.
- K. Annual Privacy Report. Provide a written annual report to the ACRE Committee and the Boards, [in collaboration with other interested divisions](#), regarding the status of LACERA's efforts to protect the privacy of member information and the confidentiality of other organizational information held internally and by LACERA vendors.
- J.L. Organizational Culture of Ethics and Compliance Report. Provide a written [report of the periodic survey of LACERA's culture of ethics and compliance](#).
- K.M. Work Papers. The Program will preserve its work papers and other documentation pursuant to a protocol approved by the ACRE Committee and the CEO.
- L.N. Self-Assessment and Program Review. Provide the CEO, other senior leaders, and the ACRE Committee and the Boards with a written report of the annual Program self-assessment and review, including metrics based on key performance criteria, for review and discussion. [Key performance indicators will include the overall effectiveness of the Program in performing the activities described in Section VIII and LACERA's system of ethics and compliance controls, such as training programs, reporting channels, and ethics and compliance risk assessment, monitoring, detection, investigation and](#)

[response.](#)

## **IX. RESPONSIBILITIES OF MANAGERS, SUPERVISORS, AND STAFF**

Every LACERA manager, supervisor, and staff member, temporary worker, and contractor has a significant role in implementing and supporting the Program and in promoting ethical and compliant conduct in the organization.

- A. *Managers and Supervisors.* Every LACERA manager and supervisor has a duty to communicate and model the requisite ethical standards and to act in accordance with all laws, regulations, policies, procedures, and business practices, including but not limited to LACERA's Code of Ethical Conduct. In addition to modeling an ethics and compliance mindset and setting behavioral norms, managers and supervisors have a duty to promote a culture of ethics and compliance by creating a space for all staff members, temporary workers, and contractors to safely report any ethics and compliance concerns without retaliation.

Additional manager and supervisor responsibilities include, but are not limited to: collaborating with the Program on identification of ethics and compliance risks and the development of risk mitigation strategies; participating in compliance monitoring and control implementation to strengthen compliance; encouraging staff to identify and report ethics and compliance risks or violations; monitoring for retaliation; ensuring LACERA's commitment to nonretaliation; communicating with division staff about ethics and compliance; participating in ethics and compliance training; ensuring staff complete ethics and compliance training; encouraging employees to review and use the Code of Ethical Conduct and helping them understand their responsibilities under the Code; and escalating issues or reports of suspected misconduct to an appropriate resource.

- B. *Staff Members.* Every LACERA staff member, temporary worker, and contractor has a responsibility to perform day-to-day operations in accordance with the highest ethical standards and to adhere to all laws, regulations, policies, procedures, and business practices, including but not limited to LACERA's Code of Ethical Conduct. Every LACERA staff member, temporary worker, and contractor has a duty to report any activity or behavior that falls below those standards or does not comply with laws, regulations, policies, procedures, and business practices. Every LACERA staff member, temporary worker, and contractor is responsible and accountable for completing all assigned ethics and compliance training.

## **X. RESOURCES**

- A. [Board of Retirement's "2023-2028 Strategic Plan"](#)  
B. [Article XVI, Section 17 of the California Constitution](#)

- C. [California Government Code Section 31595](#)
- D. [The Institute of Internal Auditors' "Three Lines Model" publication \(2020\)](#)
- E. [United States Sentencing Commission's \*Sentencing Guidelines for Organizations\* \(2023\)](#)
- F. [U.S. Department of Justice "Evaluation of Corporate Compliance Programs" \(March 2023\)](#)

**XI. CHARTER REVIEW**

This Charter shall be annually reviewed by the ACRE Committee and the Boards until the Program is fully operational and the Ethics and Compliance Office is developed and staffed. Once those milestones are met, review shall be every three years by the ACRE Committee and the Boards, or more frequently as needed.

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ATTACHMENT C  
Presentation



## **Ethics and Compliance as Strategic Priorities: LACERA Ethics and Compliance Program Framework**

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Board of Retirement Meeting  
Board of Investments Meeting  
April 3 and 10, 2024



1. The Strategic Plan and Management's Perspective
2. Ethics and Compliance are Strategic Concepts
  - A. Ethics Comes First
  - B. Compliance is a Requirement
  - C. Authority supporting Need for an E&C Risk Management Process
3. LACERA's Proposed Ethics and Compliance Program
4. Outside Counsel Perspective
5. Internal Audit Perspective
6. Next Steps

# Board of Retirement Strategic Plan



On July 6, 2023, the Board of Retirement approved its 2023-2028 Strategic Plan. The Plan includes as one of its five goals:



## **Strategic Priority 4: Compliance and Enterprise Risk Management**

Adopt and implement compliance and enterprise risk frameworks aimed at mitigating risk and vulnerabilities

With respect to ethics and compliance, the Plan's objective is:

### **4.1 Develop an enterprise compliance plan and program to ensure adherence to established processes, procedures, policies, and governing rules and regulations**

Management supports the Program as an important and necessary step forward in LACERA's ethics and compliance risk management.

On January 3, 2024, the Board of Retirement reviewed the proposed Ethics and Compliance Program Charter, provided input, and referred it to the JOGC as the next step in achieving this priority of the Strategic Plan. On February 29, 2024, the JOGC provided input and voted to recommend that the Boards forward the Program to the Audit Committee for further development, subject to final approval by the Boards.






# **Ethics and Compliance are Strategic Concepts**

- > Ethics**
- > Compliance**
- > Authority for E&C Program**

# Ethics and Compliance are Strategic in Three Dimensions

Ethics and Compliance are:

 **Ways of Thinking and Acting** that are essential to LACERA's fiduciary duties of prudence and loyalty and its Mission to produce, protect, and provide the promised benefits to our members

 **Risks** to LACERA if not followed

 **Process** to support the Boards and management in:

- Oversight of important aspects of LACERA's operations
- Providing encouragement and support to the entire organization with regard to ethics and compliance
- Risk mitigation

# Ethics Comes First



“Ethics” means the application of sound judgment and the diligent practice of LACERA’s Values of accountability, collaboration, inclusivity, innovation, integrity, and transparency in order to always **do the right thing**, even when hard or inconvenient, in furtherance of the fund's fiduciary duty and its Mission to produce, protect, and provide the promised benefits to our members.

**Ethics comes first** because decisions must be based on what *should* be done under applicable standards, not just what *can* be done.



Ethics is the **compass** when navigating decisions.



# Ethical Decision-Making




*“Ethics is knowing the difference between what you have a right to do and what is right to do.”*

-U.S. Supreme Court Justice Potter Stewart



# Ethics Risks



 Misconduct/Violations of Laws, Regulations, Policies, and Procedures

 Shading of Standards

- Just within the line of compliance, but not consistent with ethical standards and norms
- Such conduct:
  - Increases the perception of being unethical,
  - Increases the risk of claims of violations, and
  - Weakens the fabric of ethics in the organization, and
  - Increases the risk of misconduct or substandard conduct in the performance of LACERA's fiduciary duty to members and beneficiaries
- Examples of Being Compliant but Unethical
  - Taking an allowed advantage or benefit that is not necessary to achieve business objective as fiduciaries



Acting Contrary to Public Service and Fiduciary Duty to Members and Beneficiaries

# Business Case for Ethics as a Priority



Research\* supports that strong ethics programs result in:

- ✓ Improved staff experience because an ethical culture fosters feelings of trust, purpose, and teamwork:
  - Enhanced staff morale and engagement
  - Aid in staff retention/loyalty and recruitment
- ✓ Improved organizational performance following from the positive effect on staff:
  - Improved productivity and efficiency
  - Increased member service and satisfaction
  - More innovation and adaptability to new initiatives
  - Reputational gains with all stakeholders
- ✓ Reduced misconduct, claims, and lawsuits; protection for trustees/management; increased internal reporting that in turn reinforces the other positive effects; and reduced organizational costs from misconduct and claims
- ✓ Improved Board and management oversight of and response to ethical issues

\*Harvard Business Review, Gartner, numerous industry organizations, and other sources

# Compliance is a Requirement



“Compliance” means adhering to the laws, regulations, policies, and procedures that govern LACERA – following the rules.

## Compliance Risks

✘ Misconduct/Violation of Applicable Legal and Policy Standards

↑↓ Inconsistent Adherence and Interpretation of Standards

👤 Absence of Board and Management Awareness of Noncompliance

🧭 Lack of Understanding of Role of Ethics, Leading to Compliant but Unethical Conduct

# Business Case for Compliance as a Priority



Research\* supports that strong compliance structures lead to:

- ✓ Reduced misconduct, claims, and lawsuits; trustees/management protected when claims do arise; increased internal reporting reinforcing the other positive effects; and reduced organizational costs from misconduct and claims
- ✓ Greater Board and management knowledge and oversight of and response to compliance issues; proactive risk identification and mitigation, rather than reacting to problems after they have occurred, leading to improved organizational performance
- ✓ Improved staff experience from trust based on understanding and uniformity of standards and consistent treatment
- ✓ Additional benefits when compliance is linked to ethics as described on Slide 9

\*Harvard Business Review, KPMG, Gartner, numerous industry organizations, and other sources



# Authority for Ethics and Compliance Program –

## (1) Fiduciary Duty of Oversight under Constitution, CERL



The Boards have “plenary authority and fiduciary responsibility for investment of moneys and administration of the system,” subject to:



**DUTY OF LOYALTY** “(b) ... solely in the interest of, and for the exclusive purposes of providing benefits to, participants and their beneficiaries ...”



**DUTY OF PRUDENCE** “(c) ... with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use ...” in the conduct of a public pension system.

-- California Constitution, Art. XVI, Section 17; see CERL, Government Code §31595

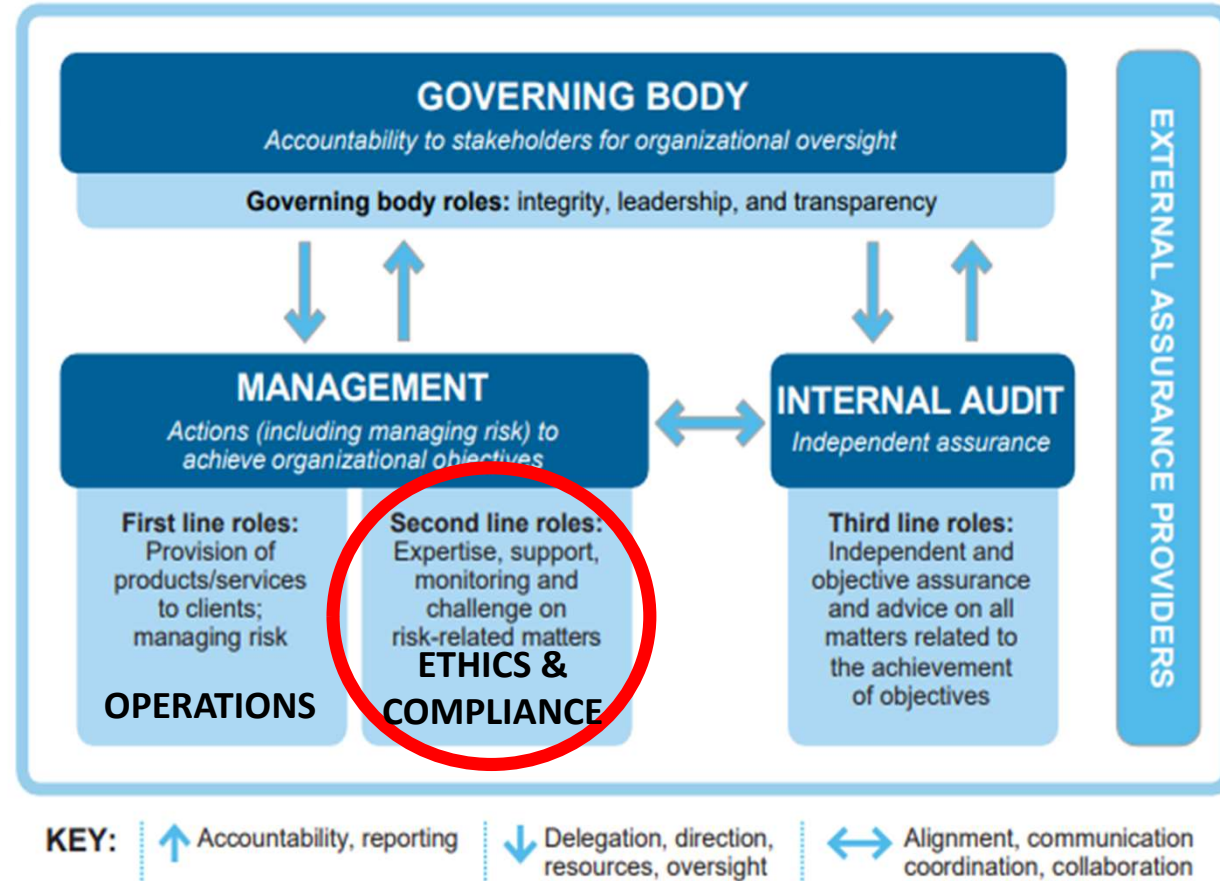
Loyalty and Prudence require that the Boards have a process to oversee the ethical and compliant operation of LACERA and respond to ethics and compliance risks and issues. The fiduciary duty of oversight also applies to management and staff.

# Authority for Ethics and Compliance Program – (2) The Institute of Internal Auditors' Three Lines Model



The Institute of Internal Auditors' *Three Lines Model*:

- Under this model, compliance is the second line under management and the Boards as a separate function to provide support in the management of risk associated with ethical conduct and compliance in LACERA's operations.
- The first line under management is delivery of services in LACERA's divisions ethically and in compliance with applicable requirements.
- The third line is Internal Audit, which provides independent assurance as to LACERA's controls in addressing risk and is complementary to the first and second lines.



Based on IIA's Three Lines Model (2020) 13

# Authority for Ethics and Compliance Program –

## (3) Guidance under Federal Sentencing Guidelines



In 1991, Federal Sentencing Guidelines for Organizations were promulgated, creating the first broad-based incentive for organizations to establish ethics and compliance programs. The Guidelines promise reduced fines following criminal violations if an organization has an effective ethics and compliance program. The Department of Justice continues to issue guidance in this area, most recently in 2023. This guidance is recognized as a best practices roadmap:



### Is the Program Well-Designed?

- Risk Assessment
- Policies and Procedures
- Training and Communication
- Reporting
- Investigation Process
- Third-Party Management



### Is the Program Adequately Resourced?

- Commitment and Oversight by Boards and Management
- Autonomy and Resources
- Consequence Management



### Does the Program Work in Practice?

- Continuous Improvement, Testing, and Review of Program
- Investigation of Misconduct
- Identification, Analysis, and Remediation of Misconduct

As the Department of Justice has stated, “Beyond compliance structures, policies, and procedures, it is important for a company to **create and foster a culture of ethics and compliance** with the law. The effectiveness of a compliance program requires a high-level commitment by company leadership to implement a culture of compliance from the top.”



## Authority for Ethics and Compliance Program – (4) Securities and Exchange Commission



In 2008, the SEC issued a report of its investigation of potential securities laws violations by The Retirement Systems of Alabama (RSA) relating to use of material, nonpublic information (MNPI). The report reminded pension funds of their responsibilities under federal laws and warned them that they assume a greater risk of violations if they do not have adequate compliance policies and procedures in place.

“We issue this Report to remind investment managers, public and private, of their obligation to comply with the federal securities laws and the risks they undertake by operating without an adequate compliance program. **RSA's conduct could have been prevented with appropriate policies, procedures and training.**”

Report of Investigation Pursuant to Section 21(a) of the Securities Exchange Act of 1934: The Retirement Systems of Alabama, <https://www.sec.gov/litigation/investreport/34-57446.htm>.

# Authority for Ethics and Compliance Program – (5) Developing Practice among Peer Public Pensions



## Systems

An increasing number of LACERA's peer public pension systems have ethics and compliance programs, plans, and staff. For example:

### **37 Act Systems:**

CCCERA  
OCERS  
SDCERA

### **Other California Systems:**

CalPERS  
CalSTRS  
SDCERS

### **Other Systems:**

Florida State Board of Administration  
Iowa Public Employees' Retirement System  
MassPRIM  
Oregon Public Employees Retirement System  
State of Michigan Investment Board  
State of Wisconsin Investment Board  
Teacher Retirement System of Texas  
Tennessee Consolidated Retirement System  
Virginia Retirement System  
Washington State Investment Board



# LACERA's Proposed Ethics and Compliance Program

# Progress



The approved BOR Strategic Plan provides that the first step in addressing compliance is to form a working group across divisional lines to develop a compliance charter. The attached Charter was developed with review by the staff Ethics and Compliance Committee and other management and staff input.

August 2023  
Engage Rebecca Walker,  
Kaplan & Walker LLP as  
ethics and compliance  
counsel and advisor

December 2023  
Proposed Ethics and  
Compliance Program Charter  
presented to the OOC and  
advanced to the BOR

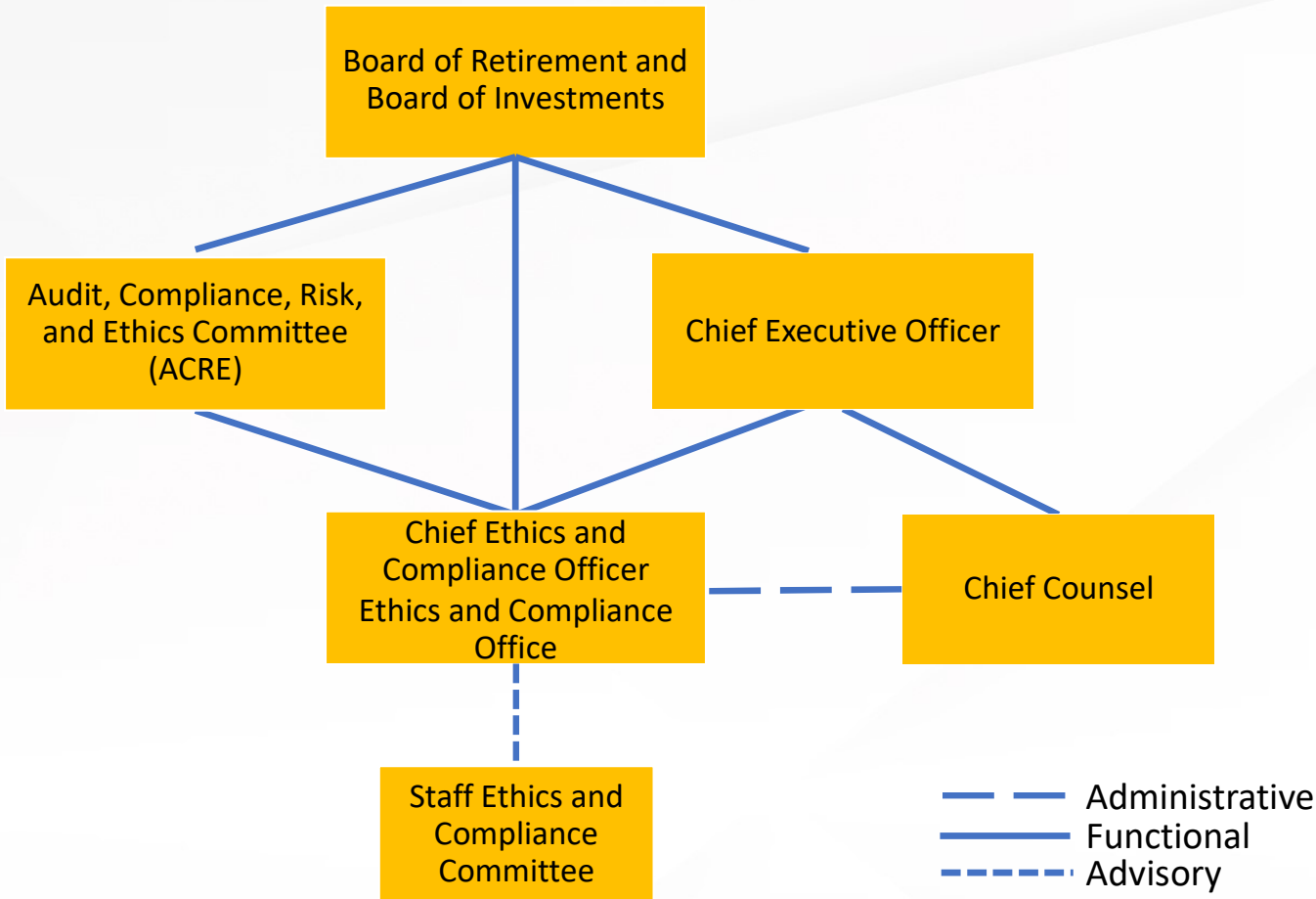
February 2024  
Charter presented to JOGC,  
which voted to recommend that it be  
referred by the Boards to the  
Audit Committee

August – November 2023  
Staff Policy Committee changed to Ethics  
and Compliance Committee to provide a  
cross-functional team approach to ethics  
and compliance education and  
development of the Program

January 2024  
Charter presented to the  
BOR for referral to the JOGC;  
BOR provided comments  
addressed in JOGC materials

April 2024  
BOR and BOI  
Meetings

# Proposed Ethics and Compliance Structure



Under the attached proposed Program Charter:

The Chief Ethics and Compliance Officer will have independent authority to report functionally to the Audit Committee (to be renamed the Audit, Compliance, Risk and Ethics (ACRE) Committee), the Boards, and the CEO. The Chief Ethics and Compliance Officer will report administratively to Chief Counsel.

The Chief Ethics and Compliance Officer will lead an Ethics and Compliance Office within the Legal Division and will rely on the staff Ethics and Compliance Committee for advice and to share and receive information to enhance staff engagement and culture.



# Roles of ACRE Committee, Boards, CEO, and Chief Counsel



- **ACRE Committee** – The Committee:
  - Provides functional oversight of the Program
  - Receives reporting of information on ethics and compliance issues and concerns to enable the Committee to monitor the Program and respond
  - Provides input and approval on the hiring, firing, discipline, and annual performance evaluation of the Chief Ethics and Compliance Officer
- **Boards** – Provide functional oversight of the Program, receive reports and recommendations from the ACRE Committee and directly from the Chief Ethics and Compliance Officer, and respond to ethics and compliance issues; input and approval on Chief Ethics and Compliance Officer hiring, firing, discipline and annual performance evaluation
- **CEO** – Provides functional oversight of the Program, receives regular reporting on ethics and compliance issues, and responds to issues as indicated; reports are also made to senior leaders as needed; hiring, firing, and discipline and annual performance evaluation with ACRE Committee and Board input and approval
- **Chief Counsel** – Provides administrative oversight and support of the Chief Ethics and Compliance Officer and the E&C Program within the Legal Office

# Roles of Managers, Supervisors, and Staff



- **Managers and supervisors** have a duty to communicate and model ethical standards and to follow all laws, regulations, policies, procedures, and business practices, including LACERA's Code of Ethical Conduct. They are to promote a culture of ethics and compliance by providing a space to report concerns without retaliation.
- **Staff members**, including permanent staff, temporary workers, and contractors, are responsible to perform day-to-day work with the highest ethical standards and to follow all laws, regulations, policies, procedures, and business practices, including the Code of Ethical Conduct. Staff has a duty to report concerns.

# Peer System Reporting Lines for E&C



## General Counsel is also Chief Compliance Officer:

SDCERS  
Teacher Retirement System of Texas  
State of Michigan Investment Board

## Compliance Reports to General Counsel or in Legal Office:

OCERS  
SDCERA (also has direct CEO involvement)  
CalPERS  
CalSTRS  
Iowa Public Employees' Retirement System  
(compliance officers in Legal Division)  
State of Wisconsin Investment Board

## Compliance Reports to Executive Director/CEO:

CCCERA  
Florida State Board of Administration  
Oregon Public Employees Retirement System  
(combined with Internal Audit and Risk)  
Virginia Retirement System

## Compliance Overseen by Deputy Director/COO:

MassPRIM (General Counsel oversees legal compliance)  
Tennessee Consolidated Retirement System  
(counsel leads combined Legal, Compliance, and Internal Audit unit)  
Washington State Investment Board



LACERA's proposed Program is on this side of the spectrum because of its strong ACRE Committee, Board, and CEO functional oversight

# Scope of Program Activities



- Program will provide a structure for ethics and compliance support for all of LACERA
- Based on LACERA's needs and best practices, the Chief Ethics and Compliance Officer will be responsible for the following activities:
  - Ethics and Compliance Program Framework
  - Ethics and Compliance Risk Assessment
  - Monitoring of Ethics and Compliance in LACERA's Operations and Business Practices
  - Review of Policies and Procedures
  - Vendor/Third Party Ethics, Compliance, and Risk
  - Privacy
  - Training, Communications, and Incentives relating to Ethics and Compliance Issues
  - Channels for Staff to Report Ethics and Compliance Concerns
  - Investigation, Response, Remedial Measures, and Commitment to Non-Retaliation
  - Measure Organizational Culture of Ethics and Compliance
  - Regular Reporting to the CEO, Senior Leaders, ACRE Committee, and Boards
  - Annual Self-Assessment and Review of Program, including Internal Audit and External Review

# Program Responsibilities and Accountability



In addition to implementation of the E&C Program, the Chief E&C Officer will have the responsibility and accountability to regularly report to the ACRE Committee, Boards, CEO, and senior leaders regarding:

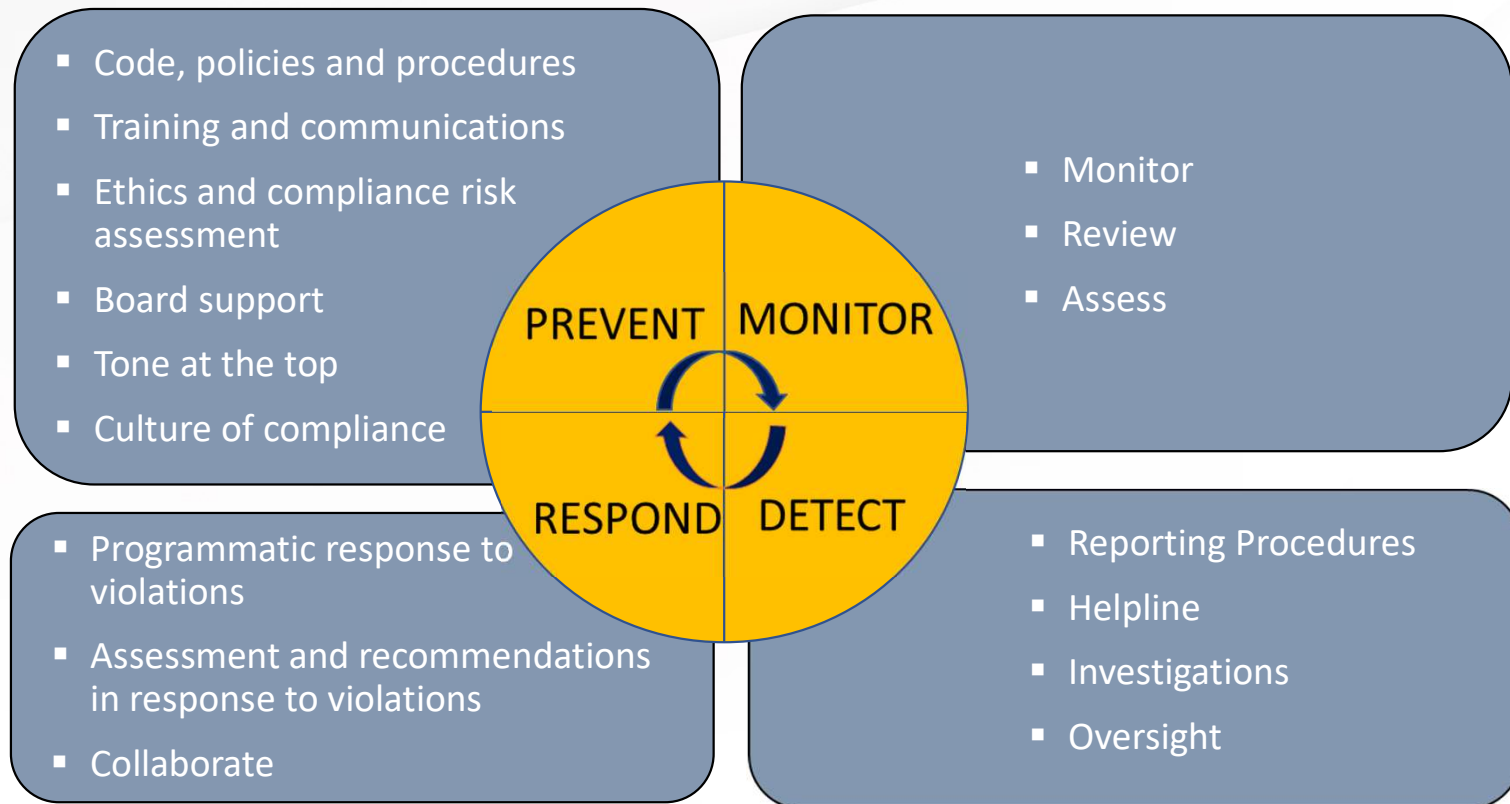
- Selection, training, and development of Ethics and Compliance Office staff
- Development of processes for LACERA staff input and involvement in the Program, including the staff Ethics and Compliance Committee
- Annually present E&C Program work plan for approval to the ACRE Committee, Boards, and CEO
- Annually provide a budget for the Program
- Provide quarterly reports to the ACRE Committee, Boards, and CEO on:
  - Investigations
  - Policies and procedure review
- Provide annual reports on:
  - The status of the Program and LACERA's overall ethics and compliance performance
  - Privacy of member information and other organizational information
  - Self-assessment and Program reviews



# **Outside Counsel Perspective**

**Rebecca Walker, Kaplan & Walker LLP**  
**Ethics and Compliance Counsel and Advisor**

# Ethics and Compliance Program Structure





# Level of Oversight Will Vary with Risk Ownership

## Levels of Oversight by Ethics & Compliance (“EC”)



### Direct Ownership

- EC owns and defines policies & procedures
- EC establishes controls, which may be implemented centrally or regionally/locally
- EC defines and monitors metrics



### Shared Ownership

- Risk owner defines policies and procedures in collaboration with EC
- Risk owner establishes controls, while EC tests design and effectiveness of the controls on a periodic basis
- EC agrees with risk owners on metrics to be reported on a defined cadence (monthly)
- EC provides significant support to risk owners



### Moderate Oversight

- EC agrees with risk owners on metrics to be reported on a defined cadence (at least quarterly)
- EC provides moderate compliance oversight evaluation support to risk owners



### Minimal Oversight

- Only significant issues/regulatory inquiries are escalated
- Limited metrics may be reported on a defined cadence (at least annually)

#### When EC assumes direct or shared ownership of compliance risks

1. Higher-level legal risks
2. No clear owner
3. EC has appropriate expertise
4. Need for objectivity
5. Need for centralized approach to controls





# **Internal Audit Perspective**

**Richard Bendall**

**Chief Audit Executive**

# Internal Audit Perspective on the Additive Value of a Formal Ethics and Compliance Function



## 1. Governance Risk and Control (GRC) Maturity

- Moving the mark from Initial/Repeatable to Defined/Managed and ultimately to Optimized
- Other specific enhancements to the control environment include:
  - ✓ Enhanced risk assessment
  - ✓ Improved control environment
  - ✓ Increased transparency and accountability
  - ✓ Early detection of issues
  - ✓ Regulatory alignment
  - ✓ Stakeholder confidence
  - ✓ Cost savings
  - ✓ Continuous improvement
  - ✓ Strategic alignment

## 2. Support for Audit Activities

- A well-established ethics and compliance function provides valuable documentation and evidence that can support Internal Audit activities, helping to focus and streamline audit processes and enhance their effectiveness



# Next Steps

# Next Steps



At its February 29, 2024 meeting, JOGC recommended that the Boards forward the proposed Ethics and Compliance Program Charter to the Audit Committee for further development to be returned to the Boards for final approval.

April 2024

BOR and BOI Meetings

JOGC recommends that the Boards make referral to the Audit Committee for further development, and return final proposal to Boards

June 2024

Audit Committee Review

Revise Program Charter; update ACRE Committee Charter; prepare Chief Ethics and Compliance Officer job description; continue staff E&C Committee efforts


July 2024 Goal:  
Program Approval by both Boards;  
Implementation Begins



June 6, 2024

TO: 2024 Audit Committee  
Debbie Martin, (BOI Trustee), Chair  
Wayne Moore, (BOR Trustee), Vice Chair  
Vivian Gray, (BOR Trustee), Secretary  
Nancy Durazo (BOR), Trustee  
Elizabeth Ginsberg, Ex-Officio  
Jason Green, BOI Trustee  
Nicole Mi, BOI Trustee

Audit Committee Consultant  
Larry Jensen

FROM: Richard P. Bendall   
Chief Audit Executive

FOR: June 20, 2024 Audit Committee Meeting

SUBJECT: **Fiscal Year 2024 - 2025 Audit Plan**

### **RECOMMENDATION**

Approve the proposed Internal Audit Plan for the Fiscal Year 2024 – 2025.

### **BACKGROUND / DISCUSSION**

According to the Institute of Internal Auditor's (IIA's) *International Standards for the Professional Practice of Internal Auditing (Standards)*, the Chief Audit Executive (CAE) must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organization's goals. To remain in compliance with the *Standards*, as well as the Audit Committee Charter, Internal Audit has developed the Internal Audit Plan (*Audit Plan*) for FY 2024 - 2025 (Attachment A).

The projects included in our Audit Plan are primarily identified through our on-going risk assessment. This process includes keeping abreast of the concerns of the Audit Committee and Boards throughout the year, discussions with Executive Management, review of LACERA's proposed Strategic Plan, risk meetings with division managers, and identifying risk areas from prior internal and external audits.

As recommended by the IIA, the Audit Plan includes assurance, advisory (previously called "consulting"), and other value-added (Value-Added) projects. We have also provided time in our Audit Plan for Internal Audit Administration projects. A presentation on the Audit Plan (Attachment B) will be provided at the June Meeting.

### Attachments:

- A: FYE 2025 Internal Audit Plan
- B: Internal Audit FY 2024 – 2025 Audit Plan Presentation

<b>FYE 2025 INTERNAL AUDIT PLAN</b>				
<b>ENTERPRISE RISK MANAGEMENT (ERM) PLAN</b>				<b>10 - 20 Percent</b>
<b>ERM TASKS</b>				<b>SOURCE/STATUS</b>
<b>ERM Program Plan</b>				
1	IA	Develop ERM Charter	Program Dev	Strategic Plan
2	IA	Define LACERA ERM framework	Program Dev	Strategic Plan
3	IA	Develop LACERA ERM Structure	Program Dev	Strategic Plan
<b>AUDIT PLAN</b>				<b>80 - 90 Percent</b>
<b>DIVISION</b>	<b>AUDIT / PROJECT NAME</b>		<b>PROJECT TYPE</b>	<b>SOURCE/STATUS</b>
<b>EXECUTIVE/LEGAL/ORGANIZATIONAL</b>				
4	Exec Office	LA County Rehired Retiree FY 2024	Assurance/Audit	Annual Compliance
5	Exec Office	Business Continuity Plan	Assurance/Audit	Risk Based
6	Exec Office	One Meeting Application Follow-Up Review	Assurance/Audit	FY 2024 Carryover
7	Organizational	Continuous Audit Processing (CAP)	Assurance/Audit	Annual/Continuous
8	Organizational	Recommendation Follow-Up	Other Projects	Annual/Continuous
9	Organizational	Risk Assessment	Other Projects	Annual/Continuous
10	Legal Office	Ethics and Compliance (Hotline)	Value-Added	Risk Based
<b>ADMINISTRATION - Admin Serv, HR, Systems, Info Sec</b>				
11	Admin Serv	Inventory Asset Management	Value-Added	FY 2024 Carryover
12	HR	HR Operations Review	Advisory	Risk Based
13	Systems	IT Risk Assessment	Assurance/Audit	FY 2024 Rollover
14	Systems	Oversight of SOC Audits FY 24 & 25	Oversight	Annual/Continuous
15	Info Sec	Cyber Security NIST Review	Assurance/Audit	Risk Based
<b>INVESTMENTS &amp; FASD</b>				
16	FASD	Financial Controls Review - Phase 2	Advisory	Risk Based
17	FASD	CEO Credit Card	Assurance/Audit	Annual Compliance
18	FASD	Oversight of Financial Audit FY 24 & 25	Oversight	Annual/Continuous
19	FASD/Inv	Investment Accounting Middle/Back-Office	Advisory	Risk Based
20	FASD/Inv	Oversight of Actuarial Audit FY 24 & 25	Oversight	Annual/Continuous
21	Investments	Strategic Asset Allocation	Assurance/Audit	Continuous
22	Investments	Securities Lending Review	Assurance/Audit	Risk Based
23	Investments	THC Financial Audits/Tax - FY 24 & 25	Oversight	Annual/Continuous
<b>OPERATIONS - Benefits, DRS, RHC, Member Services</b>				
24	Benefits	Accounts Settlement Collections	Value-Added	FY 2024 Carryover
25	Benefits	LA County Payroll (LACERA Controls)	Assurance/Audit	FY 2024 Rollover
26	Benefits	Death Claims Process	Assurance/Audit	Risk Based
27	Benefits	GRC Review - Benefits Protection Unit (BPU)	Advisory	Risk Based
28	RHC	Provider Premium Calculations & Payments	Assurance/Audit	Risk Based
29	Mbr Serv	TBD - Project aligned with Strategic Priority 1 -	Advisory	Risk Based/Strategic Plan
<b>INTERNAL AUDIT OPERATIONS</b>				
30	IA	Quality Assurance Improvement Program	Other Projects	Annual/Continuous
31	IA	Audit Committee Support	Other Projects	Annual/Continuous



ATTACHMENT B

# Internal Audit FY 2024 - 2025 Audit Plan

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Presented by:

Richard P. Bendall, Chief Audit Executive

# Audit Plan Overview

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According to the Institute of Internal Auditor's (IIA's) *International Standards for the Professional Practice of Internal Auditing (Standards)*, the Chief Audit Executive (CAE) must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organization's goals. To remain in compliance with the *Standards*, as well as the Audit Committee Charter, Internal Audit developed the FY 2024 - 2025 Audit Plan (*Audit Plan*). The Audit Plan is designed to provide coverage of key risks, given the existing staff and approved budget.

## **The Audit Plan Development**

The projects included in our Audit Plan are primarily identified through our on-going risk assessment. This process includes keeping abreast of the concerns of the Audit Committee and Boards throughout the year, discussions with Executive Management, review of LACERA's Strategic Plan, risk meetings with division managers, and identifying risk areas from prior internal and external audits. We also factor into our Audit Plan current industry concerns.

## **Scope Limitations**

Although this Audit Plan contemplates a wide-ranging scope of activities, it does not provide coverage for all operations and business functions. Internal Audit Services has tried to maximize the resources to provide coverage to the activities believed to require the most attention based on the risk assessment results.

## **Audit Plan Modification**

Interim changes to the Audit Plan will occur from time to time due to changes in business risks, timing of initiatives, and staff availability. Amendments to the approved Audit Plan will be submitted to the Audit Committee for approval in advance.



# Types of Audit Engagements and Audit Activities

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**Assurance:** Provide an objective examination of evidence for the purpose of providing an independent assessment to Management and the Audit Committee on governance, risk management, and control processes for LACERA. Included in this category is our work relating to our risk assessment and recommendation follow-up on outstanding recommendations.

**Advisory:** Provide Management with formal assessments and advice for improving LACERA's governance, risk management, and control processes, without Internal Audit assuming Management responsibility.

**Value-Added (insight and foresight):** Provide Management with informal advice.

**Internal Audit Operations:** Consist of audit activities directly impacting the Internal Audit Division which includes our Quality Assurance and Improvement Program (QAIP), professional development and training, Audit Committee support, and audit software maintenance.

# Annual Audit Planning for FY 2024 - 2025 Audit Plan



Dev.

## Propose Audit Plan & Budget

Based on:

- Cyclical / known risk areas
- Review AC & IA Charters
- Review past audit findings & recommendations

## Complete Audit Universe & FY 2024 - 2025 Audit Plan

Based on:

- With input from Executive Office and Audit Committee
- Committee Approval of Audit Plan

## Define/Refine Audit Universe

Based on:

- Evaluate current risks in industry
- Evaluate recent organizational changes
- Evaluate if needed to update universe

## Assess Risk

Based on:

- Understand the organization's risk areas
- Input from Audit Committee
- Review Division Budget Highlights
- Update divisional risk surveys
- Interview Division Managers and staff
- Assess the Audit Universe and populate the FY 2025 Audit Plan with consideration to key risks and LACERA Strategic Priorities.

March Meeting



June Meeting

# Industry Wide and LACERA Top Risks



Risk	Description of what the risk examines
Cybersecurity	Are organizations sufficiently prepared to manage cyber threats that could cause disruption & reputational harm
Human Capital / Talent Mgmt.	The challenges organizations face in identifying, acquiring, upskilling, and retaining the right talent to achieve their objectives.
Organizational Governance	Whether organizations' governance assists or hinders achievement of objectives.
Data Privacy	How organizations protect sensitive data in their care and ensure compliance to all applicable laws and regulations.
Culture	Do organizations understand, monitor, and manage the tone, incentives, and actions that drive the desired behavior.
Fraud	Organization's ability to prevent, detect and take corrective action related to fraud.
Change in Regulatory Environment	The challenges organizations face in a dynamic and ambiguous regulatory environment.
Third Party Vendor Management	Organizations' abilities to select and monitor third-party relationships.
Technological Innovation	Whether organizations are prepared to adapt to and/or capitalize on new innovation.
Financial Durability/Liquidity	Risk to an organizations financial condition arising from inability to meet contractual obligations.

# Top Risks and Proposed FY 2024 - 2025 Audit Plan



Risk	Related Projects on the Audit Plan
Cybersecurity	One Meeting Application Security Review, Cyber Security NIST Review, IT Risk Assessment
Human Capital / Talent Mgmt.	HR Operations Review
Organizational Governance	Strategic Plan – Compliance and Enterprise Risk Management efforts, Member Services TBD Project, Ethics Hotline, Business Continuity & Crisis Management
Administrative Fiscal Durability	Account Settlement Collections, LA County Payroll, Death Claims Process, GRC Review – Benefits Protection Unit (BPU)
Investment Risks	Strategic Asset Allocation, Securities Lending Review, Investment Accounting Middle/Back Office, THC Financial Audits/Tax
Other Financial Risks	Inventory Asset Management, Oversight of External Audit and SOC work, Financial Controls Review, CEO Credit Card

# LACERA Strategic Priorities

	<b>Priority</b>	<b>Description</b>
1	Superior Member Experience	Innovate and continuously improve the member experience
2	Innovation Through Technology	Leverage technology solutions to advance capabilities, increase productivity, and elevate operational maturity
3	Investing in People	Recruit, motivate, hire, and retain a highly engaged and skilled workforce
4	Compliance and Enterprise Risk Management	Adopt and implement compliance and enterprise risk frameworks aimed at mitigating risk and vulnerabilities
5	Fiscal Durability	Exercise care and prudence in managing our resources and fund assets

# Thank you!

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QUESTIONS?



June 4, 2024

TO: 2024 Audit Committee  
Debbie Martin, (BOI Trustee), Chair  
Wayne Moore, (BOR Trustee), Vice Chair  
Vivian Gray, (BOR Trustee), Secretary  
Nancy Durazo, BOR Trustee  
Elizabeth Ginsberg, Ex-Officio  
Jason Green, BOI Trustee  
Nicole Mi, BOI Trustee

Audit Committee Consultant  
Larry Jensen

FROM: George Lunde *GL*  
Senior Internal Auditor

FOR: June 20, 2024 Audit Committee Meeting

SUBJECT: **LACERA's Rehired Retiree Program Audit Fiscal Year Ended  
June 30, 2023, and 2024**

## **RECOMMENDATION**

In accordance with your current Audit Committee Charter, staff recommends that the Committee review and discuss the following engagement report to take the following action(s):

1. Accept and file report,
2. Instruct staff to forward report to Boards or Committees,
3. Make recommendations to the Boards or Committees regarding actions as may be required based on audit findings, and/or
4. Provide further instruction to staff.

## **ENGAGEMENT REPORT**

LACERA's Rehired Retiree Program Audit Fiscal Year Ended June 30, 2023, and 2024  
(Report Issued: June 3, 2024)

Attachment

Noted and Reviewed:

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Richard P. Bendall  
Chief Audit Executive



**LACERA INTERNAL AUDIT DIVISION**

**LACERA's Rehired Retiree Program  
Fiscal Years Ended June 30, 2023, and 2024**

**AUDIT PERFORMED BY:**

**George Lunde**  
Senior Internal Auditor



## AUDIT REPORT

<b>Audit Name:</b>	LACERA's Rehired Retiree Program
<b>Division:</b>	Human Resources
<b>Audit Rating*:</b>	Satisfactory
<b>Prior Audit Rating*:</b>	Unsatisfactory
<b>Prior Report Date:</b>	July 31, 2023

### BACKGROUND

The State of California's County Employees Retirement Law of 1937 (CERL) and Public Employees' Pension Reform Act of 2013 (PEPRA) provides that LACERA has the option to employ retirees as "Rehired Retirees" subject to certain requirements. Under Government Code Section 31680.6 of CERL and Section 7522.56, rehired retirees may work up to 960 hours per fiscal year, on a temporary basis, without affecting their retirement status or benefits. Retirees may not return to service under a "contract directly" with the agency; retirees may be employed by a third-party vendor under a bona fide independent contract with LACERA and provide service under that third party contract provided there are no indicia that the arrangement is intended to circumvent the CERL and PEPRA provisions relating to rehired retirees.

LACERA management and Board of Retirement (BOR) have been proactive in addressing the recommendations of prior audits, most notably culminating in the approval by the BOR at the July 2023 meeting of the revised "Post Retirement Employment Policy" (2023 Board Policy). Implementation of the revised policy was effective in helping to address our prior audit findings.

We noted that in the past there was an issue of rehired retirees working for an extended duration which appeared to be non-compliant with PEPRA's somewhat vague guidelines. However, the BOR has chosen proactively to establish policy providing rules for continuing work past two years. It requires BOR approval of such work extensions for a rehired retiree. For this audit the rules applied to three rehired retirees, and who were duly approved to continue their work for current fiscal year. See following table by LACERA divisions which have special circumstances requiring employment of retirees.

Number of Years / Number of Retirees				
Division /Years	2 yrs	3 yrs	5 yrs	12+ yrs
RHC				1
Legal		1		
Systems	1		1	

### AUDIT OBJECTIVE & SCOPE

The objective of the audit was to assess LACERA's compliance to Policy, Procedure, and Guidelines for rehiring retired annuitants including the following:

- CERL's 960-hour limit
- IRS' "bona fide" break in service requirement
- PEPRA's 180-day break in service requirement
- PEPRA's requirement of "limited duration"

\* See Appendix 1 for Audit Rating

The scope for this review included all rehired retirees for fiscal years 2023 and 2024 and all relevant data and records for the rehired retirees. We elected to audit the two years together as the controls implemented through the BOR approval on July 6, 2023, of the revised Post Retirement Employment Policy were in effect for the 2024 Fiscal Year. As a result, our audit primarily focused on testing the controls around rehired retirees employed during Fiscal Year 2024.

The audit was performed in accordance with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing.

**AUDIT RATING & SUMMARY OF FINDINGS**

In our opinion, the current effectiveness of the key controls applicable to the audit scope are satisfactory. Prior audit findings regarding deficiencies with authorization and approval process documentation have been resolved. Along with the implementation of the revised Policy, we observed that LACERA management and staff have implemented effective controls around tracking and monitoring of rehired retiree hours worked. Further, LACERA has implemented very effective communications with the rehired retirees (both for the LACERA rehired retirees and those working for the County).

960 Hour Limit Test Results		
LACERA Rehired Retiree	Total Hours FYE 6/30/23	Total Hours YTD @ 5/15/24
#1	754	538
#2	902	744
#3	960	315
#4	92	31

Based on the results of our audit testing, the system of internal controls around the hiring of retirees appears to be working effectively. The overall environment contains sufficient internal controls to address key risks, and business practices generally comply with LACERA policies.

We would like to thank Human Resources staff and management for their cooperation with this audit.

**REVIEWED AND APPROVED**



Richard P. Bendall  
Chief Audit Executive

Date: June 3, 2024

**REPORT DISTRIBUTION**

2024 Audit Committee	Santos H. Kreimann, CEO	Steven Rice, Chief Legal Counsel
2024 Plante Moran Audit Team	Luis Lugo, DCEO	Carly Ntoya, Director of Human Resources
Larry Jensen Audit Committee Consultant	Laura Guglielmo, AEO	J.J. Popowich, AEO

## **APPENDIX 1 AUDIT RATING SCALE**

Internal Audit issues three standard audit report evaluations as defined below:

### **Satisfactory**

The control environment is acceptable with minor issues having been identified. The overall environment contains sufficient internal controls to address key risks, and business practices generally comply with Company policies. Corrective action should be implemented to address any weaknesses identified during the audit in order to maintain or enhance the control environment.

### **Opportunities for Improvement**

The control environment has opportunities for improvement with significant issues, individually or in the aggregate, having been identified or major noncompliance with Company policies. The overall environment contains insufficient internal controls to address key risks. Prompt corrective action should be implemented to address the weaknesses and strengthen the control environment.

### **Unsatisfactory**

The control environment is unacceptable with critical issues, individually or in the aggregate, having been identified or major noncompliance with Company policies. The overall environment contains insufficient internal controls to address key risks and the impact may be substantial in size or nature or their effect cannot be quantified. Immediate corrective action should be implemented to address the weaknesses and strengthen the control environment.



# **LACERA's Rehired Retiree Program Audit Fiscal Years Ended June 30, 2023, and 2024**

**Issued Date: June 3, 2024**

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Presenter by:  
George Lunde, Senior Auditor

# Summary of Engagement



Responsible Division:	Human Resources
Type of Engagement:	Assurance
Audit Rating:	Satisfactory
Prior Audit Rating:	Unsatisfactory

## Type of Engagements

**Assurance:** Provide an objective examination of evidence for the purpose of providing an independent assessment to Management and the Audit Committee on governance, risk management, and control processes for LACERA.

**Consulting:** Collaborate with Management to provide a formal assessments and advice for improving LACERA's governance, risk management, and control processes, without Internal Audit assuming Management responsibility.

**Advisory:** Provide Management with informal advice.

# Background, Scope, Objective



**Background:** We perform this audit annually as failure to adhere to the regulations and requirements not only violates state law governing retirement benefits, but it could also jeopardize the qualified tax deferred status of LACERA under federal tax law.



**Scope:** The scope for this review included all rehired retirees for fiscal years 2023 and 2024, and all relevant data and records for the rehired retirees.

**Objective:**

Determine compliance with:

- CERL’s 960-hour work limit requirement
- IRS’ “bona fide” break-in-service requirement
- PEPRA’s 180-day break in service requirement
- PEPRA requirement of “limited duration”

# Summary of Findings



In our opinion, the current effectiveness of the key controls applicable to the Audit Scope are satisfactory. Prior audit findings regarding deficiencies with authorization and approval process documentation have been resolved. The LACERA revised “Post Retirement Employment Policy” is in effect.

Based on test results the control environment is acceptable. The overall environment contains sufficient internal controls to address key risks, and business practices generally comply with LACERA policies.



# Thank You



QUESTIONS?





May 31, 2024

TO: 2024 Audit Committee  
Debbie Martin, (BOI Trustee), Chair  
Wayne Moore, (BOR Trustee), Vice Chair  
Vivian Gray, (BOR Trustee), Secretary  
Nancy Durazo, BOR Trustee  
Elizabeth Ginsberg, Ex-Officio  
Jason Green, BOI Trustee  
Nicole Mi, BOI Trustee

Audit Committee Consultant  
Larry Jensen

FROM: Nathan K. Amick   
Senior Internal Auditor

FOR: June 20, 2024 Audit Committee Meeting

SUBJECT: **Los Angeles County Employees Retirement Association Pre-Audit  
Communication**

**BACKGROUND**

To initiate communication with the Audit Committee regarding the Fiscal Year Ending June 30, 2024, Financial Audit, LACERA Internal Audit staff, on behalf of Plante Moran, will be presenting the timing, scope, and approach to the upcoming audit.

Attachment

Noted and Reviewed:



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Richard P. Bendall  
Chief Audit Executive

NKA



# **LACERA's Pre-Audit Communication FYE 2024 Financial Audit**

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Presented by:

Christina Logan, Principal Internal Auditor

Nathan Amick, Senior Internal Auditor



- Pre-Audit Communication
  - Audits to Perform
  - Auditor Responsibilities
  - Identification of Significant Risks
  - Plante Moran's Approach to Internal Control
  - Materiality Concept
  - Audit Committee Member Views
- Accounting standard changes for FY 2024 and 2025
- Questions



## **Plante Moran will perform an audit and express an opinion on the following statements:**

- LACERA's Annual Comprehensive Financial Report (ACFR) as of and for the year ended June 30, 2024 (target issuance date of October 15, 2024)
- Schedule of Employer Allocations and Schedule of Pension Amounts by Employer of the LACERA Cost-Sharing Multiple-Employer Defined Pension Plan (March/April 2025)
- Schedule of Changes in Fiduciary Net Position by Employer of the LACERA Agent Plan Multiple-Employer Other Post-Employment Benefits Trust (Spring 2025)



## **Plante Moran's Responsibilities:**

- Express an opinion about whether the financial statements prepared by management are fairly presented, in all material respects, in accordance with GAAP
- Communicate non-compliance with provisions of laws and regulations that have a material effect on the financial statements that come to PM's attention



## Identification of Significant Risks

- Appropriate valuation of investments, particularly the alternative investments that do not have readily establish market values
- Total pension liability and related inputs:
  - Accuracy of participant census data and the assumptions underlying the determination of the total pension liability under GASB 67
  - Accuracy of active participant data and payroll information submitted to LACERA by participating employers, particularly the County

## Additional Significant Focus Areas

- Accuracy of benefit calculations and related payments, including disability claims



## **Plante Moran's Approach to Internal Control**

- Narratives/Questionnaires
- Observation and inspection of procedures
- Effectiveness of LACERA's Internal Controls for Financial Reporting, including investment valuation
- No opinion on effectiveness of internal controls

## **Materiality Concept**

We place greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than with those items of lesser importance or those in which the possibility of material error is remote.



# Accounting Standards Changes



## **Statement on Auditing Standards (SAS) 143, *Auditing Accounting Estimates and Related Disclosures* and 145, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement***

What is the scope and potential impact?

- SAS 143 – this standard stresses the importance of understanding management’s process for developing accounting estimates and outlines specific items required to be considered during the risk assessment phase of the audit.
- SAS 145 – this standard enhances requirements and guidance related to the auditor’s risk assessments, particularly related to understanding LACERA’s system of internal control and required auditing to obtain the necessary understanding of that internal control system. This also includes increased focus related to IT risks.

When is this effective? These new auditing standards are effective for LACERA’s Fiscal Year Ending June 30, 2024.

# Accounting Standards Changes



## **GASB Statement No. 101, *Compensated Absences***

What is the scope and potential impact?

- Pivot from rules-based approach towards a conceptual framework of recording compensated absence liabilities
- Under GASB 101, LACERA will need to consider vested leave and an estimated amount of nonvested leave based on *more likely than not use for time off, or future retirement*.
- Management working on evaluation of the impact of this new standard

## **GASB Statement No. 102, *Certain Risk Disclosures***

What is the scope and potential impact?

- Requires governments to disclose essential information about risks related to vulnerabilities due to certain concentrations (defined as a lack of diversity related to an aspect of significant inflow of resources or outflow of resources) or constraints (defined as a limitation imposed on a government by an external party or by formal action of the government's highest level of decision-making authority).
- Management working on evaluation of the impact of this new standard

Both of these standards are effective for LACERA's Fiscal Year Ending June 30, 2025.

# Questions for Plante Moran?



Kristin Hunt, CPA  
Partner  
[Kristin.Hunt@plantemoran.com](mailto:Kristin.Hunt@plantemoran.com)  
419.842.6110





Amanda Cronk, CPA  
Principal  
[Amanda.Cronk@plantemoran.com](mailto:Amanda.Cronk@plantemoran.com)  
810.766.6045



June 4, 2024

TO: 2024 Audit Committee  
Debbie Martin, (BOI Trustee), Chair  
Wayne Moore, (BOR Trustee), Vice Chair  
Vivian Gray, (BOR Trustee), Secretary  
Nancy Durazo, BOR Trustee  
Elizabeth Ginsberg, Ex-Officio  
Jason Green, BOI Trustee  
Nicole Mi, BOI Trustee

Audit Committee Consultant  
Larry Jensen

FROM: Richard P. Bendall   
Chief Audit Executive  
  
Nathan K. Amick   
Senior Internal Auditor

FOR: June 20, 2024 Audit Committee Meeting

SUBJECT: **Fiscal Year Ending 2024 Audit Plan Status Report**

### **BACKGROUND**

According to the Institute of Internal Auditor's (IIA's) *International Standards for the Professional Practice of Internal Auditing (Standards)*, Standard 2010, "the Chief Audit Executive (CAE) must establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organization's goals. This requirement is also stated in the Audit Committee Charter (Charter). In alignment with the Standards and the Charter, the Audit Committee approved the FYE 2024 Audit Plan (Audit Plan) at its June 2023 meeting.

As of the March 2024 meeting, the Audit Plan was comprised of 29 projects. Since then, Internal Audit has added an unplanned project, bringing the total to 30 projects. As of May 31, 2024, Internal Audit staff has completed 11 projects (36.5%), while 11 (36.5%) projects remain current and continuous. This results in a combined completion rate of 73% for completed or current projects. Among the remaining eight projects, six are currently in progress (20%), and two have not yet started (7%).

Staff has prepared the following attachments for your attention:

- A. FYE 2024 Audit Plan as of May 31, 2024
- B. FYE 2024 Audit Plan presentation detailing worked performed as of May 31, 2024

**ATTACHMENT A**

<b>FYE 2024 INTERNAL AUDIT PLAN</b>				
<b>ENTERPRISE RISK MANAGEMENT (ERM) PLAN</b>				<b>10 Percent</b>
<b>ERM TASKS</b>				<b>BASIS FOR INCLUSION</b>
1	ERM Program Plan			Strategic Plan
<b>AUDIT PLAN</b>				<b>90 Percent</b>
	<b>DIVISION</b>	<b>AUDIT / PROJECT NAME</b>	<b>PROJECT TYPE</b>	<b>STATUS</b>
<b>EXECUTIVE/LEGAL/ORGANIZATIONAL</b>				
1	Exec Office	Records & Info Mgmt (FKA: Document Retention)	Consulting	Completed
2	Exec Office	Organizational Ethics/Culture	Consulting	In-Progress
3	Exec Office	LA County Rehired Retiree	Audit	Completed
4	Exec Office	Business Continuity Plan	Advisory	Continuous
5	Organizational	Continuous Audit Processing (CAP)	Audit	Continuous
6	Organizational	Recommendation Follow-Up	Other Projects	Continuous
7	Organizational	Risk Assessment	Other Projects	Continuous
<b>ADMINISTRATION - Admin Services, HR, Systems</b>				
8	Systems	IT Risk Assessment	Audit	Q4
9	Admin/Systems	Inventory Asset Management	Advisory	In-Progress
10	Admin Services	Procurement of Goods	Audit	Completed
11	HR	LACERA Rehired Retirees	Audit	Completed
12	Systems	Oversight of SOC Audits FYE 23 & 24	Oversight	Continuous
13	HR	Follow-up Assessment of Recruitment & Hiring	Audit	In-Progress
<b>INVESTMENTS &amp; FASD</b>				
14	FASD	Wire Transfers (BofA)	Audit	Completed
15	FASD	CEO Credit Card	Audit	Completed
16	FASD	Oversight of Financial Audit FYE 23 & 24	Oversight	Continuous
17	Investments	RFP - Actuarial Services	Advisory	Completed
18	Investments	Oversight of Actuarial Audit FYE 23 & 24	Oversight	Continuous
19	Investments	Oversight THC Financial Audits - FYE 23 & 24	Oversight	Continuous
<b>OPERATIONS - Benefits, DRS, RHC, Member Services</b>				
20	Benefits	Account Settlement Collections (Overpayments)	Advisory	In-Progress
21	Benefits	LA County Payroll	Audit	Q4
<b>INTERNAL AUDIT OPERATIONS</b>				
22	Internal Audit	RFP - Audit Committee Consultant	Other Projects	Completed
23	Internal Audit	Professional Development / CPE	Other Projects	Continuous
24	Internal Audit	Quality Assurance Improvement Program	Other Projects	Continuous
25	Internal Audit	Audit Committee Support	Other Projects	Continuous
<b>ADDED PROJECTS</b>				
26	Benefits	Replacement Plan 415B	Addition	Completed
27	FASD	Internal Controls over Financial Reporting	Addition	Completed
28	HR / Systems	Termination Of Access	Addition	In-Progress
29	Exec Office	External Audit of OneMeeting (Net Force)	Addition	Completed
30	Exec Office	One Meeting Follow-Up Application Review	Addition	In-Progress

# **Fiscal Year End 2024 Internal Audit Plan Status Report**

**(as of May 31, 2024)**

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Presented by:

Nathan Amick, Senior Internal Auditor

# Recently Completed Audit Projects & Engagements

(since March 6, 2024)



Completed Since Last Audit Committee Meeting	Project Type	Report Date
LACERA Rehired Retirees	Audit	May 30, 2024
RFP - Actuarial Services *	Advisory	N/A

\* Milliman Inc. and Cavanaugh Macdonald Consulting were selected to continue providing actuarial consulting and actuarial auditing services, respectively, for LACERA's retirement benefits plan and Los Angeles County's other post-employment benefits program for retiree healthcare. Credit to the Investment Office for leading this RFP effort.

# Continuous and Current Audit Engagements



The projects below (11) are perpetual, and the work is up to date as of May 31, 2024. All projects will be completed June 30, 2024, and will recommence July 1, 2024 for FYE 2025. Projects with an asterisk (\*) are Internal Audit administrative responsibilities.

## Continuous Audit Engagements/Projects

Continuous Audit Processing (CAP)

Business Continuity Plan

Oversight of Actuarial Audit FYE 23 & 24

Oversight of Financial Audit FYE 23 & 24

Oversight of SOC Audits FYE 23 & 24

Oversight THC Financial Audits - FYE 23 & 24

Professional Development / CPE\*

Quality Assurance Improvement Program\*

Recommendation Follow-Up\*

Risk Assessment\*

Audit Committee Support\*





# In Progress Audit Engagements & Projects as of March 5, 2024



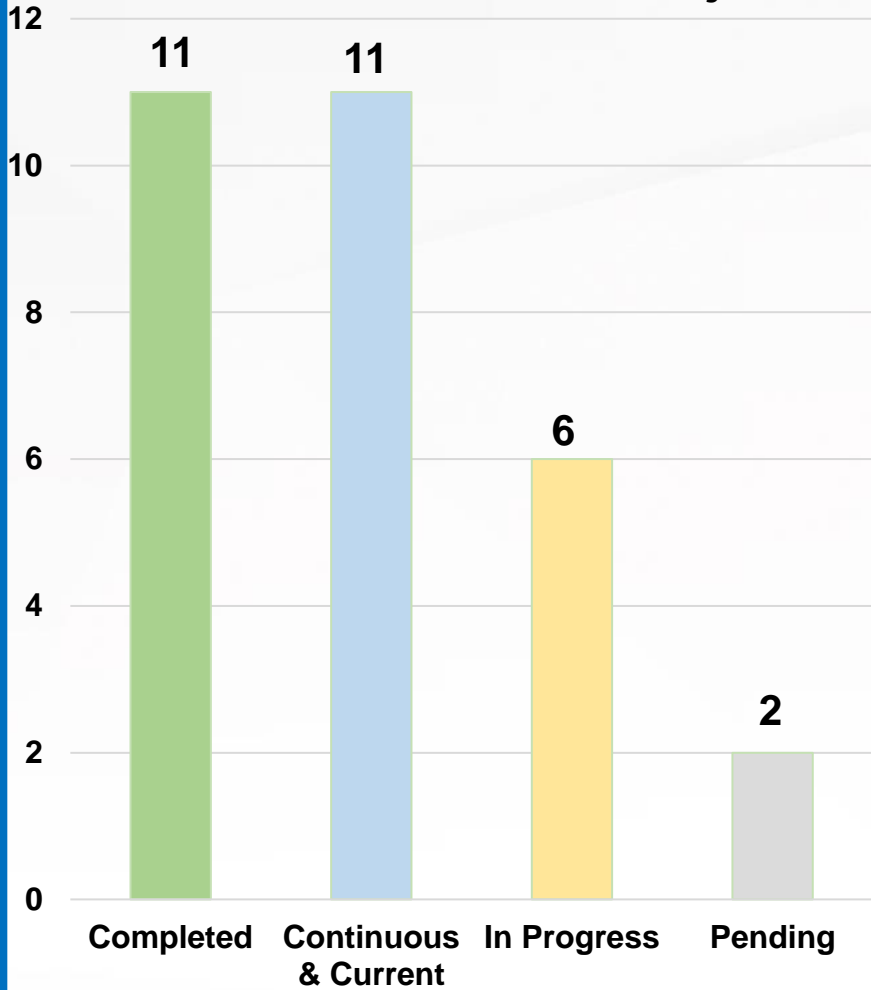
In Progress - Engagement/Project	Engagement Assignment	Estimated Completion	Planning Scope	Prelim Audit Work	Audit Field Work	Draft Report	Exit Meeting
Follow-up Assessment of Recruitment and Hiring	Internal Audit	June 2024					
Organizational Ethics/Culture	Internal Audit	June 2024					
Termination Of Access	Internal Audit	June 2024					
One Meeting Follow-Up Application Review	Internal Audit	Aug 2024					
*Inventory Asset Management	Internal Audit	n/a	n/a	n/a	n/a	n/a	n/a
*Account Settlement Collections (Overpayments)	Internal Audit	n/a	n/a	n/a	n/a	n/a	n/a

\*Internal Audit is informally advising Division Management with their review of the process. Completion is at the discretion of Division Management, and audit workflow (planning, fieldwork, etc.) does not apply.

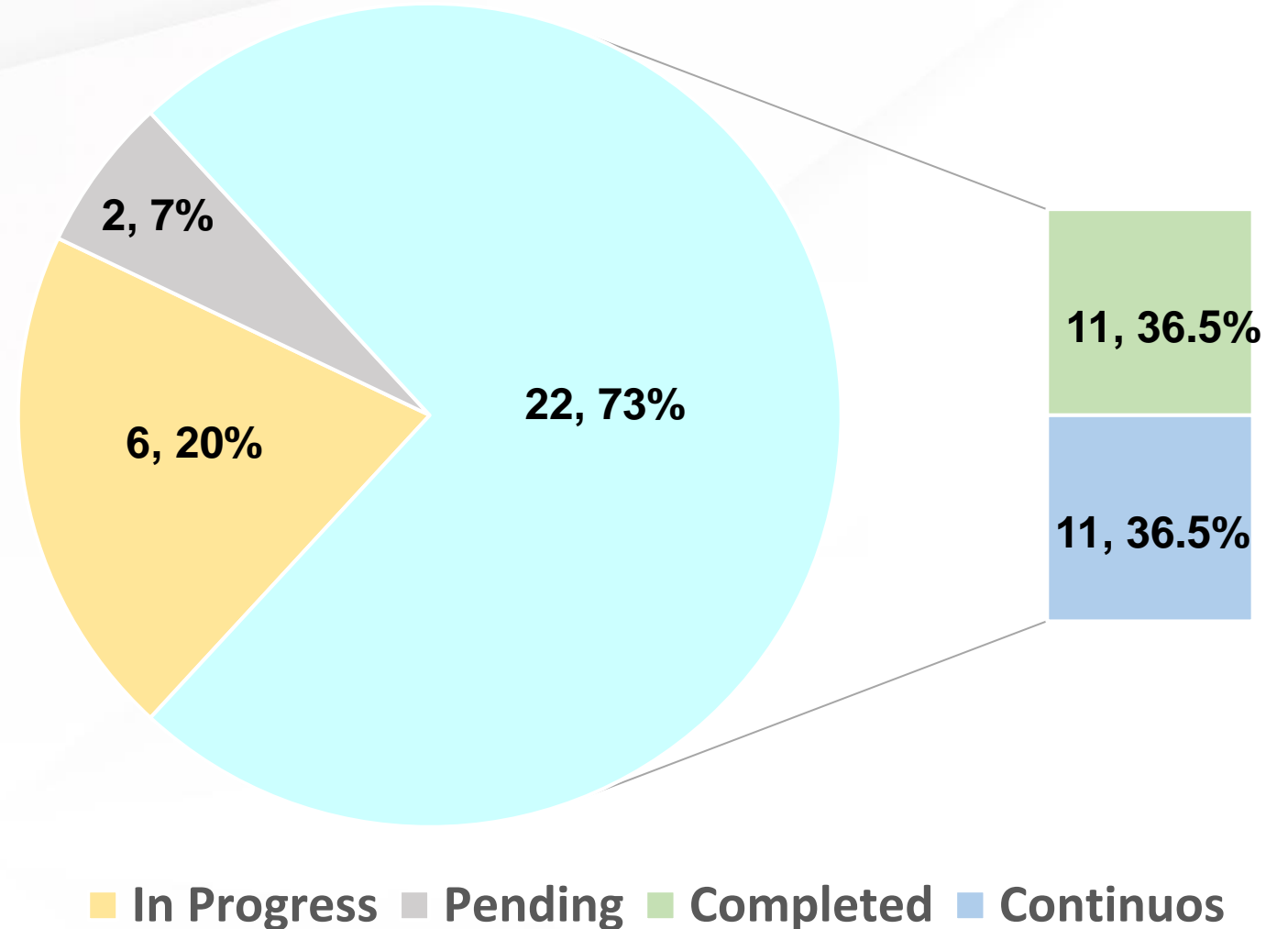
# FYE 2024 Audit Project Dashboard



### Status of Audits and Projects



### Percentage of Completion – 29 Projects



# Pending Audit Engagements & Projects



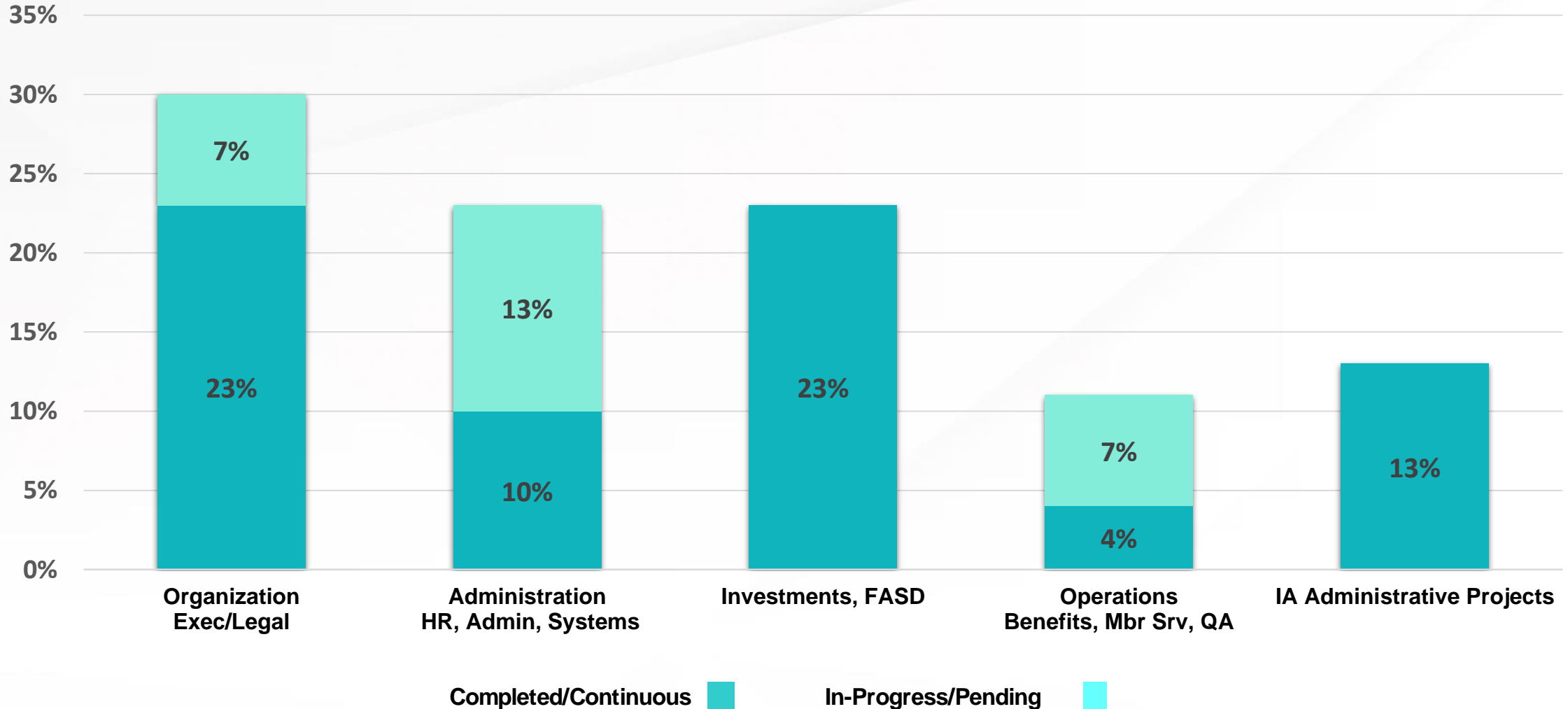
As of May 31, 2024, Internal Audit has yet to begin work on these FYE 2024 Audit Plan projects.

Pending Engagement/Project	Audit Assignment	Estimated Start
IT Risk Assessment	Internal Audit	Quarter 4
LA County Payroll	Internal Audit	Quarter 4

# FYE 2024 Audit Project Dashboard



## Audit Plan Coverage Allocated Throughout Organization

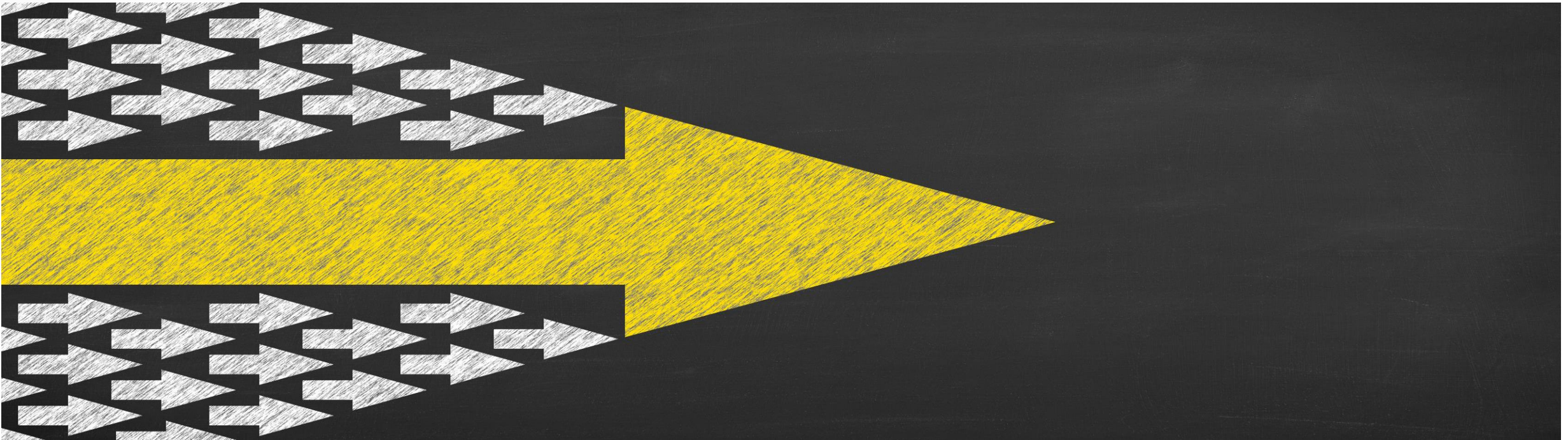


# Progress Implementing IA Recommendations



23 Recommendations were issued from our External Quality Assessment in March 2022

- 12 recommendations were implemented
- 11 recommendations remain open
  - Six recommendations are on track for 6/30/2024 completion
  - Five recommendations are on track for 6/30/2025 completion






**FOR INFORMATION ONLY**

May 31, 2024

TO: 2024 Audit Committee  
Debbie Martin, (BOI Trustee), Chair  
Wayne Moore, (BOR Trustee), Vice Chair  
Vivian Gray, (BOR Trustee), Secretary  
Nancy Durazo, BOR Trustee  
Elizabeth Ginsberg, Ex-Officio  
Jason Green, BOI Trustee  
Nicole Mi, BOI Trustee

Audit Committee Consultant  
Larry Jensen

FROM: Nathan K. Amick   
Senior Internal Auditor

FOR: June 20, 2024, Audit Committee Meeting

SUBJECT: **Recommendation Follow-Up Report**

**Background**

The Institute of Internal Auditors' (IIA) Performance Standard 2500 requires the Chief Audit Executive (CAE) to establish and maintain a follow-up process to monitor and ensure recommendations have been effectively implemented or that executive management has accepted the risk of not addressing the underlying finding of the recommendation.

**Internal Audit's Follow-Up Process**

During the audit process, Internal Audit may identify findings or make recommendations to address risks and improve a process. The division manager responsible and the Executive Office review the findings and recommendations. Subsequently, the division manager provides responses indicating how and when planned improvements will be made. The final audit report includes the audit findings, recommendations, management's responses, and targeted completion date. Internal Audit tracks recommendations through TeamMate+, our audit management software, and regularly follows up with Management. Internal Audit is responsible for 1) ensuring that Management's action plans have been effectively implemented, or 2) ensuring that Management remains aware of the risks that they accept by not taking action in a timely manner. Internal Audit reports the status of all outstanding audit recommendations to the Audit Committee quarterly.

Recommendations are classified based on the responsible party's progress:

- **On Track** – The responsible party began implementing the recommendation and is currently on track to meet the target implementation due date. Management can extend the target implementation due date with the Executive Office's approval.

- **At Risk / Behind Schedule** – The responsible party has not made enough progress to implement the recommendation by the target implementation due date.
- **Implemented** – The responsible party provided documentation and the Internal Auditor verified the satisfactory implementation of the audit recommendation.
- **Overdue** – The responsible party has failed to implement the recommendation by the target implementation due date and has not completed the extension request.
- **Pending Internal Audit’s Verification** – The responsible party has stated and provided support they addressed the recommendation, but Internal Audit has not yet verified the implementation. Internal Audit does not close out a recommendation without completing an internal verification procedure.

**Monitoring and Reporting for Fiscal Year 2024**

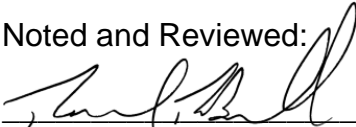
As a result of the audit and consulting projects completed in recent months, Internal Audit is tracking both audit recommendations and long-term strategic recommendations. Audit recommendations are focused on improving internal controls while strategic recommendations are centered on organizational risks that may impact LACERA in the future. The reporting period is from March 1, 2024, through May 31, 2024. Audit reports and recommendations released after May 31, 2024, will be included in the next quarterly reporting to the Audit Committee.

	# of Audit Recommendations	# of Strategic Recommendations
<b>Balance as of 03/01/2024</b>	<b>20</b>	<b>15</b>
+ New Findings	6	0
- Accepts Risk	0	0
-Pending Internal Audit Verification		0
- Implemented Findings	-8	0
<b>Balance as of 05/31/2024</b>	<b>18</b>	<b>15</b>

Included with this memo are the following attachments for the Audit Committee to review:

- Attachment A – Presentation of outstanding audit recommendations and long-term strategic recommendations for the period from March 1, 2024, through May 31, 2024.
- Attachment B – Details of outstanding audit recommendations as of May 31, 2024.
- Attachment C – Details of outstanding long-term strategic recommendations as of May 29, 2024.

Staff from the respective divisions will be present at the June 2024 Audit Committee meeting to address any questions.

Noted and Reviewed:  
  
 Richard P. Bendall  
 Chief Audit Executive





ATTACHMENT A

# Recommendation Follow-Up Progress

(As Of May 31, 2024)

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Presented by:

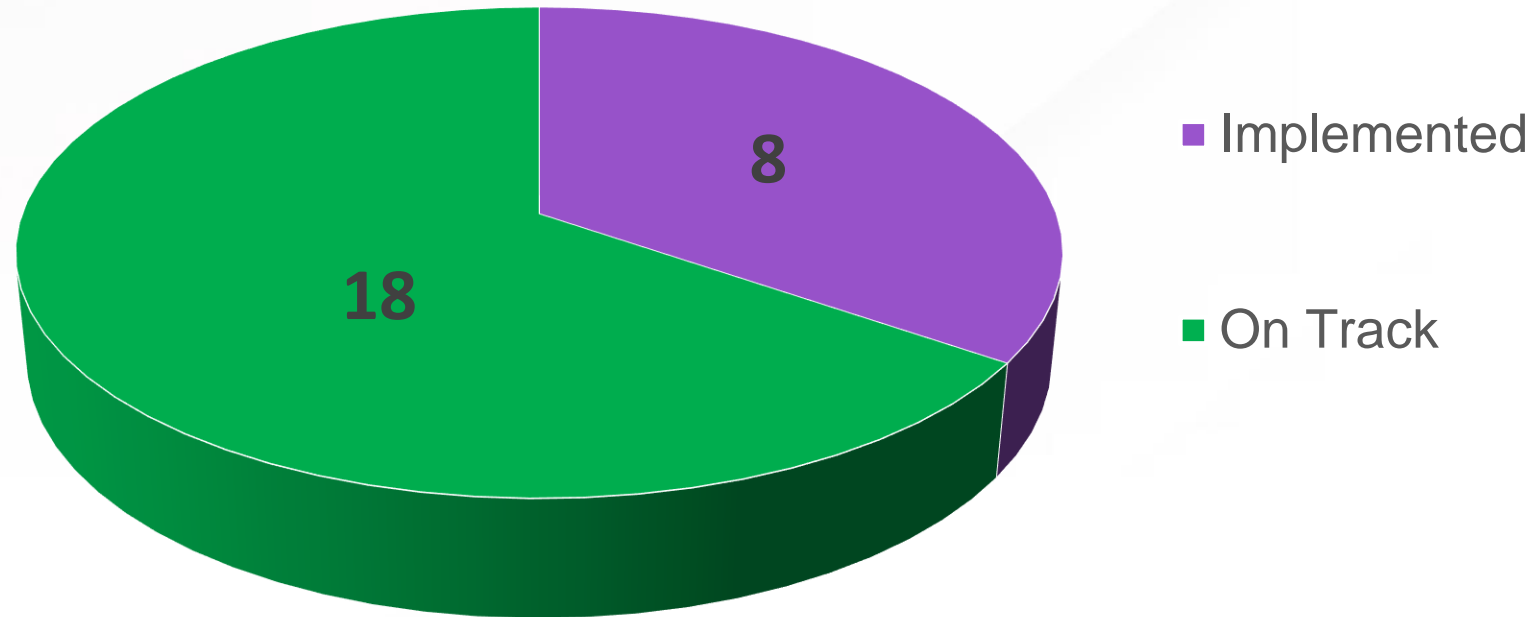
Nathan K. Amick, Senior Internal Auditor

# Status of Open Audit Recommendations



Outstanding audit recommendations are classified based on the responsible party's progress and assigned categories based on the fundamental intent of the recommendation. The reporting period is from March 1, 2024 to May 31, 2024.

Status of Outstanding Audit Recommendations  
as of May 31, 2024



# Status of Open Audit Recommendations



Audit recommendations address operational risks and focus on improving internal controls. These recommendations are directed towards specific divisions within the organization. In some cases, implementation requires extensive coordination between multiple divisions. Table below illustrates the outstanding audit recommendations by divisions.

## Open Audit Recommendation By Divisions

Division	Implemented	On Track
Administrative Services Division	-	7
Disability Retirement Services Division (DRS)	-	1
Executive Office	1	1
Financial Accounting & Services Division (FASD)	-	5
Human Resources Division (HR)	7	3
Information Security Office	-	1
<b>Total</b>	<b>8</b>	<b>18</b>

# Status of Open Strategic Recommendations



Strategic recommendations cover the broader operating risks and control gaps that require attention from the Executive Office. Executive Office is addressing many of these recommendations through LACERA's Strategic Plan FYE 2023-2028. Internal Audit last conducted its annual in-depth assessment of these recommendations in August 2023.

## Recommendations to be evaluated as part of FY23-24 strategic planning

Strategic COSO* Area	# of Recos
Organizational Structure	3
Internal and External Reporting	1
Forecasting/Budget	1
Risk Assessment	1
Training and Development & Talent Management	7
Performance Measures	2
<b>Total</b>	<b>15</b>

\* Internal Audit aligned these Strategic Recommendations against COSO's Internal Control Framework as many of these recommendations relate to broad organizational level controls described in the Framework. *COSO refers to the internal control framework developed by the Committee of Sponsoring Organizations of the Treadway Commission.*

**Operational Recommendation Follow-Up Report  
as of May 31, 2024**

<b>Project Name</b>	<b>Finding Title</b>	<b>Risk Rating</b>	<b>Recommendation</b>	<b>Status Update</b>	<b>Target Due Date</b>
<b>Responsible Division: Administrative Services Division</b>					
Audit of Contract Operations (Procurement of Services)	2019 Policy and 2020 Manual are past review dates	Medium	Administrative Services Division Management should review and update the 2019 Policy for Purchasing Goods and Services and 2020 Purchasing and Contract Administration Manual accordingly.	<b>ON TRACK - 2nd Approved Extension.</b> This recommendation will also, be incorporated into the Procurement of Goods Audit.	6/30/2024
Procurement of Goods	1. The Procurement Policy and Manual are outdated.	Medium	2. Administrative Services Management should provide training on the updated Policy and Manual to staff responsible for the procurement of goods and services.	<b>ON TRACK -</b> Management agrees, and expects have updated policy, incorporating recent audit recommendations by 6/30/2024.	6/30/2024
Procurement of Goods	1. The Procurement Policy and Manual are outdated.	Medium	1. Administrative Services Management should update the Policy for Purchasing Goods and Services (Policy) and the Purchasing and Contracting Administration Manual in accordance with the Policy's requirement.	<b>ON TRACK -</b> Management agrees, and expects have updated policy, incorporating recent audit recommendations by 6/30/2024.	6/30/2024
Procurement of Goods	4. Missing and Unclear Documentation Supporting Justification for Use of Single and Sole Source Vendors.	Medium	Administrative Services management should evaluate the pervasive use of single and sole source vendors and clarify the criteria and supporting documentation necessary to justify the practice.	<b>ON TRACK -</b> Management agrees, a revised Policy and Manual will clearly outline criteria and the required supporting documentation to support the use of single and sole source vendors.	6/30/2024

**Operational Recommendation Follow-Up Report  
as of May 31, 2024**

<b>Project Name</b>	<b>Finding Title</b>	<b>Risk Rating</b>	<b>Recommendation</b>	<b>Status Update</b>	<b>Target Due Date</b>
<b>Responsible Division: Administrative Services Division</b>					
Procurement of Goods	4. Missing and Unclear Documentation Supporting Justification for Use of Single and Sole Source Vendors.	Medium	Procurement Supervisors should ensure that requesters and procurement staff comply with providing the appropriate documentation and justification to support sole and single source procurements.	<b>ON TRACK -</b> Management agrees, a revised Policy and Manual will clearly outline criteria and the required supporting documentation to support the use of single and sole source vendors.	6/30/2024
Procurement of Goods	5. Missing and Inadequate Documentation of 3-Bid Process and Selection of Vendor.	Medium	Update the Policy and Manual to include guidelines for selecting a bid if the lowest one is not accepted; a detailed explanation for the reason should be documented.	<b>ON TRACK -</b> Management agrees, a revised Policy and Manual will include guidelines for selecting a bid if the lowest is not accepted including required supporting documentation.	6/30/2024
Procurement of Goods	Inefficiencies and discrepancies noted on the Forms Inventory Tracking Spreadsheets.	Low	Management from Administrative Services, Communications Division and other key stakeholders involved in the process of ordering forms should discuss and collaborate on additional controls to incorporate into the updated process for purchasing and inventory of forms.	<b>ON TRACK -</b> Management agrees, and expects and has directed divisions to work cooperatively to agree upon an alternative means to track the inventory of forms to be used and updated by all impacted divisions.	6/30/2024

**Operational Recommendation Follow-Up Report  
as of May 31, 2024**

Project Name	Finding Title	Risk Rating	Recommendation	Status Update	Target Due Date
<b>Responsible Division: Disability Retirement Division (DRS)</b>					
Audit of Disability Retirement Business Process	A mechanism to identify affiliated disability applicants does not exist.	Medium	DRS Management should develop a formal control mechanism for identifying disability applicants affiliated with LACERA employees or the Board of Retirement.	<b>ON TRACK - 2nd Approved Extension.</b> DRS was advised by legal counsel to make no changes to the applications until LACERA Policy For Processing Disability Retirement Applications and Appeal Filed by Internal and Internal Related Applicants (approved by BOR in December 2023).	6/30/2024

**Operational Recommendation Follow-Up Report  
as of May 31, 2024**

<b>Project Name</b>	<b>Finding Title</b>	<b>Risk Rating</b>	<b>Recommendation</b>	<b>Status Update</b>	<b>Target Due Date</b>
<b>Responsible Division: Executive Office</b>					
LA County Rehired Retirees FYE 2021	Spike in the number of Rehired Retirees Exceeding 960-Hour Limit	High	1. We recommend LACERA's CEO formally request the County CEO in conjunction with the County Director of Human Resources and Auditor-Controller to prepare a corrective action plan that consolidates and actively monitors the rehired retiree (960- hour limit) reporting requirements for all County departments.2. We recommend LACERA's Executive Office, and Auditor-Controller to establish an automated feed of rehired retirees' hours as part of payroll data.3. We recommend LACERA's Executive Office, Legal Office, and Benefits develop a policy and procedure to address both preventing overages and taking the required action on the retirement payroll of retirees that exceed the 960-hour limit.	<b>IMPLEMENTED -</b> The FYE 2023 iteration of this audit was performed. Based on the 960 test work in that audit, we have determined the recommendation implemented.	6/30/2024
LA County Rehired Retirees FYE 2021	Lack of adherence to PEPRA's "limited duration" language	High	We recommend LACERA's Executive Office and Legal Office work with the Board of Retirement to determine a more defined "bright-line" definition of limited duration to ensure compliance with PEPRA and provide for recovery of benefits paid during periods worked in violation of PEPRA law.	<b>On Track - 2ND Approved Extension.</b> Chief Legal Council has not had time to advance discussions with The County and believes that the end of FYE 2024 is a more realistic implementation date.	6/30/2024



**Operational Recommendation Follow-Up Report  
as of May 31, 2024**

<b>Project Name</b>	<b>Finding Title</b>	<b>Risk Rating</b>	<b>Recommendation</b>	<b>Status Update</b>	<b>Target Due Date</b>
<b>Responsible Division: Financial and Accounting Services Division (FASD)</b>					
Audit of Corporate Credit Cards	1 - The Corporate Credit Card Policy has not been updated to reflect current practices.	Medium	1. FASD Management should update LACERA's Corporate Credit Card Policy. The Policy should include the date of next review in accordance with LACERA's requirements.	<b>ON TRACK - 2nd Approved Extension.</b> Delays in providing updates to the Policy due to immediate competing projects. The revised Policy will include updates to strengthen procedural tasks as noted.	6/30/2024
Audit of Corporate Credit Cards	1 - The Corporate Credit Card Policy has not been updated to reflect current practices.	Medium	2. FASD Management should provide training on the new policy and requirements to all cardholders and division secretaries.	<b>ON TRACK - 1st Approved Extension.</b> There are currently delays in providing updates to the Policy due to immediate competing projects. Training will be provided when updates to the policy are completed.	6/30/2024
Audit of Corporate Credit Cards	2 - Missing and untimely reporting of supporting documentation for credit card transactions.	High	4. FASD Management should provide training to staff once the Policy is revised to ensure that staff are aware of requirements and expectations for supporting documentation.	<b>ON TRACK - 1st Approved Extension.</b> There are currently delays in providing updates to the Policy due to immediate competing projects. Training will be provided when updates to the policy are completed.	6/30/2024

**Operational Recommendation Follow-Up Report  
as of May 31, 2024**

<b>Project Name</b>	<b>Finding Title</b>	<b>Risk Rating</b>	<b>Recommendation</b>	<b>Status Update</b>	<b>Target Due Date</b>
<b>Responsible Division: Financial and Accounting Services Division (FASD)</b>					
Audit of Corporate Credit Cards	3 - There is no formal process for the identification and subsequent de-activation of credit cardholders that have terminated employment or transferred to a new position.	High	5. FASD Management should ensure that the Policy and/or procedures incorporate controls to ensure the timely notification to FASD of changes in the employment status of a cardholder.	<b>ON TRACK - 2nd Approved Extension.</b> FASD now receives HR outgoing staff emails to deactivate accounts and destroy credit cards for outgoing staff. These new procedures will be updated in the Policy which is delayed.	6/30/2024
Audit of Corporate Credit Cards	3 - There is no formal process for the identification and subsequent de-activation of credit cardholders that have terminated employment or transferred to a new position.	High	6. FASD Management should ensure that the Policy and/or procedures require FASD staff to deactivate the cards and associated access to the banking application.	<b>ON TRACK - 2nd Approved Extension.</b> FASD is also working on receiving notifications from HR for LACERA staff members that are transferred between divisions.	6/30/2024

**Operational Recommendation Follow-Up Report  
as of May 31, 2024**

<b>Project Name</b>	<b>Finding Title</b>	<b>Risk Rating</b>	<b>Recommendation</b>	<b>Status Update</b>	<b>Target Due Date</b>
<b>Responsible Division: Human Resources Division (HR)</b>					
Review of HR Recruiting & Hiring Process	#3: Lack of Structure, Culture & Service Level Agreements	N/A	HR should perform a needs assessment to determine whether additional resources are needed by performing the following activities: i.) an evaluation of the competencies of the team; ii.) performing a skills and capabilities assessment; iii.) identifying areas of strengths and professional development needs; iv.) an analysis of the division's tasks performed; and v.) the associated time requirements.	<b>On Track - Approved 2nd Extension.</b> IA reviewed the SOW for the needs assessment with HR and AEO that will be distributed in April 2024 after one additional new HR staff is onboarded.	6/30/2024
LACERA Rehired Retirees Audit	#1 - Lack of Ensuring Compliance in the Administration of The Rehired Retiree Program	High	LACERA's Executive Office and HR should meet and confer around the expectations for compliance with the Post Employment Rehired Retiree Policy. HR should then revise their procedure accordingly.	<b>ON TRACK</b> - In July of 2023, The BOR approved the updated new Policy. HR has drafted new procedures and is awaiting approval from ECC at the June 2024 meeting.	7/31/2024
LACERA Rehired Retirees Audit	#1 - Lack of Ensuring Compliance in the Administration of The Rehired Retiree Program	High	HR Management ensure 960 Request Forms are completed and approved by the Executive Office, and all required documentation is obtained each fiscal year prior to the rehired retiree beginning work.	<b>IMPLEMENTED</b> - Reviewed all four RR, "Request For Employment Of Retiree" forms for FYE 2024 (through 5/15/2024) without exception.	12/31/2023

**Operational Recommendation Follow-Up Report  
as of May 31, 2024**

<b>Project Name</b>	<b>Finding Title</b>	<b>Risk Rating</b>	<b>Recommendation</b>	<b>Status Update</b>	<b>Target Due Date</b>
<b>Responsible Division: Human Resources Division (HR)</b>					
LACERA Rehired Retirees Audit	#1 - Lack of Ensuring Compliance in the Administration of The Rehired Retiree Program	High	HR Management to ensure that missing documentations identified in this audit are obtained for the rehired retirees that worked in FY 2020-2021.	<b>IMPLEMENTED -</b> Where feasible HR management obtained the missing documentation. When not feasible HR management provided written justification as to why.	12/31/2023
LACERA Rehired Retirees Audit	#3 - Lack of Specific Limits in Defining Limited Duration	High	LACERA Executive Management should develop an expedited plan to transition from the retiree to permanent staff and report that plan to the Board of Retirement.	<b>IMPLEMENTED -</b> The updated Post Employment Retirement Policy, includes requiring a "description of the plan to complete the retiree's work or transition it to a current staff member" when requesting approval for rehired retiree.	12/31/2023
Audit of LACERA Rehired Retirees for FYE June 30, 2022	Continued Lack of Compliance in the Administration of The Rehired Retiree Program	High	4.HR Management monitor compliance with the new 2023 Policy to ensure that rehired retirees only work the period approved to work.	<b>IMPLEMENTED -</b> Tested current rehired retirees and verified work hours were being captured in WorkSpace, and obtained sample copy of template for LACERA communication with retiree regarding limiting work hours to 960.	12/31/2023

**Operational Recommendation Follow-Up Report  
as of May 31, 2024**

<b>Project Name</b>	<b>Finding Title</b>	<b>Risk Rating</b>	<b>Recommendation</b>	<b>Status Update</b>	<b>Target Due Date</b>
<b>Responsible Division: Human Resources Division (HR)</b>					
Audit of LACERA Rehired Retirees for FYE June 30, 2022	Continued Lack of Compliance in the Administration of The Rehired Retiree Program	High	5. HR Management ensure that rehired retirees are compensated at the rate of pay that is commensurate with what LACERA pays to staff performing comparable duties.	<b>IMPLEMENTED -</b> The FYE 2023 iteration of this audit was performed. Based on the compensation test work in that audit, we have determined the recommendation implemented.	12/31/2023
Audit of LACERA Rehired Retirees for FYE June 30, 2022	Continued Lack of Compliance in the Administration of The Rehired Retiree Program	High	6. For the overpayment identified, calculate the total amount overpaid and facilitate the collection of the overpayment.	<b>IMPLEMENTED -</b> Collection of overpayments has been set up through Benefits from the member's monthly retirement payment.	12/31/2023
Audit of LACERA Rehired Retirees for FYE June 30, 2022	Continued Lack of Specific Limits in defining "limited duration"	High	10. In the case that supports the need to deviate from the policy, HR Management should ensure that, at a minimum, the justification is documented and approved by the CEO on the Request.	<b>IMPLEMENTED -</b> In June of 2023, The BOR approved the updated Post Employment Retirement Policy, setting compliance standards for the program.	12/31/2023

**Operational Recommendation Follow-Up Report  
as of May 31, 2024**

Project Name	Finding Title	Risk Rating	Recommendation	Status Update	Target Due Date
<b>Responsible Division: Human Resources Division (HR)</b>					
Board Vantage Security Settings	Expected application access control restrictions were not validated	High	LACERA's Information Security Office should require and ensure that appropriate and available audit trails are built and/turned on, and periodically reviewed for all LACERA [OneMeeting] applications.	<b>On Track - 2nd Approved Extension.</b> The Information Security Office is finalizing its policy on audit trails as part of its WISP (written information security program). Subsequent to the policy being finalized, the Project Management Office will assess internal and external applications' audit logs for compliance with the policy.	8/31/2025

**Operational Recommendation Follow-Up Report  
as of May 31, 2024**

Project Name	Finding Title	Risk Rating	Recommendation	Status Update	Target Due Date
<b>Responsible Division: InfoSec</b>					
Third-Party Data Security	Finding #1 Inadequate communication regarding non-compliance with vendor contracts	High	Administrative Services should build into its control process additional warnings to Contract Administrators, escalating non-compliance to the Executive Office, and implementing consequences, like stopping payments for vendors with non-compliance contracts.	<b>On Track - 3rd Approved Extension.</b> Revised Implementation estimate to 6/30/24. InfoSec/AdminSvc commit to written task timelines including escalation to Executive Office.	8/31/2025

**Strategic Recommendation Follow-Up Report  
As of August 2023**

Project Name	Finding Title	Recommendation	Status Update
<b>COSO: Forecasting / Budgeting</b>			
Risk & Controls Assessment - Retiree Healthcare	OBS 4 - RHC's administrative fee process is not formalized.	N/A - This was a strategic observation made by Internal Audit.	The Executive Team has already met with LA County's CEO and agreed on a process for tracking, monitoring, and reporting on RHC's administrative fee. The Executive Office needs to draft a Memo of Understanding (MOU) to formalize the process.
<b>COSO: Internal &amp; External Reporting</b>			
Organizational Governance Review	OBS 7 - LACERA does not have a communication plan	LACERA should finalize the existing draft Communication Plan for the organization. In addition, guidelines for style and format of reporting should be developed to ensure consistency. Staff should be trained on the implemented Communication Plan and style and format guidelines.	This recommendation will be considered as part of the work program for the Board of Retirement's 5-Year Strategic Plan (FY 2024-2029)'s 1st objective, "Superior Member Experience."
<b>COSO: Organizational Tone</b>			
Quality Assurance Operations Review	Finding #1 - The QA Division's independence is weakened when reporting to the same AEO over the operational areas in which they perform quality assurance audits.	LACERA Executive Management should work with QA and the MOG Divisions to develop a plan and timeline for a) relocating training and metrics out of the QA Division to an operational division, and b) changing the reporting structure such that the QA Division reports independently to the Administrative AEO.	The Executive Team and HR are working together to address this in the long-term as this requires a significant amount of resource planning and strategizing within the organization.



**Strategic Recommendation Follow-Up Report  
As of August 2023**

Project Name	Finding Title	Recommendation	Status Update
<b>COSO: Organizational Tone</b>			
Organizational Governance Review	OBS 5 - The LACERA CEO job description and the responsibilities of the Board Committees overlap/conflict	The BOR's Committee Charters and the Chief Executive Officer's (CEO) job description should be reviewed and updated to reflect the appropriate responsibilities of each. The Charters should include oversight responsibilities while the CEO job description should include responsibilities for carrying out the Board directives and management of the organization.	The Executive Team and Board Leadership are actively working to address this recommendation both through the Strategic Plan.
Organizational Governance Review	OBS 6 - LACERA does not have a formal enterprise fraud prevention and detection program	LACERA should implement a formal fraud prevention and detection program that includes a policy separate from the Ethics Policy, consistent training for staff including how to report suspected fraud, and a process to incorporate what is learned from the fraud reporting into the organization's policies.	This recommendation will be considered as part of the work program for the Board of Retirement's 5-Year Strategic Plan (FY 2024-2029)'s 4th Objective "Enterprise Risk Management and Compliance."
<b>COSO: Performance Measures</b>			
Quality Assurance Operations Review	Finding #6: QA management does not have an annual quality assurance audit plan and does not have metrics and KPIs for managing their staff's work.	QA management should develop an annual quality assurance audit plan and key performance indicators (KPIs) to allocate and monitor QA staff resources.	To be evaluated as part of FY23-24 strategic planning

**Strategic Recommendation Follow-Up Report  
As of August 2023**

Project Name	Finding Title	Recommendation	Status Update
<b>COSO: Performance Measures</b>			
Organizational Governance Review	OBS 8 - LACERA lacks defined Key Performance Indicators (KPI)	LACERA should develop and implement key performance indicators (KPI's) for any divisions that have not yet defined them. The KPI's should be quantifiable and be linked to the goals of the organization as established in the Strategic Plan (see Obs-01). In addition, reporting mechanisms should be established for the reporting of the KPI's so that the data can be used to inform decision making.	This recommendation will be considered as part of the work program for the Board of Retirement's 5-Year Strategic Plan (FY 2024-2029)'s 5th objective, "Fiscal Durability."
<b>COSO: Risk Assessment</b>			
Organizational Governance Review	OBS 9 - LACERA does not have a formal enterprise risk management and compliance program	LACERA should implement a formal enterprise risk management and compliance program for the organization that includes identification of risks and how to address those risks. The risk information should be used by the organization to make decisions. The program should also include an inventory of all program requirements and a plan to monitor compliance with those requirements. Reporting mechanisms should be implemented for risk management and compliance.	This recommendation will be considered as part of the work program for the Board of Retirement's 5-Year Strategic Plan (FY 2024-2029)'s 4th Objective "Enterprise Risk Management and Compliance."
<b>COSO: Training and Development &amp; Talent Management</b>			
Organizational Governance Review	OBS 3 - LACERA has not implemented a professional development plan	LACERA executive leadership should engage in a facilitated analysis of employees across the organization and identify specific development needs of employee classifications and functional groups.	This recommendation will be considered as part of the work program for the Board of Retirement's 5-Year Strategic Plan (FY 2024-2029)'s 3rd Objective "Investing in People."
<b>COSO: Training and Development &amp; Talent Management</b>			

**Strategic Recommendation Follow-Up Report  
As of August 2023**

Project Name	Finding Title	Recommendation	Status Update
Organizational Governance Review	OBS 4 - LACERA does not have a succession plan	LACERA should implement a succession planning process to ensure that the organization can maintain a workforce that collectively possesses the core competencies and skills needed to accomplish its strategic objectives. Effective succession planning focuses on current and future needs and develops a pool of high potential personnel to meet the organization's long-term mission.	This recommendation will be considered as part of the work program for the Board of Retirement's 5-Year Strategic Plan (FY 2024-2029)'s 3rd Objective "Investing in People."
Review of HR Recruiting & Hiring Process	#1: Lack a Planned, Measured and Optimized Recruiting Approach	1.a. LACERA's Executive Team should work with HR Management to develop an effective Workforce Plan and Implementation Strategies that clearly align with the organization's current and future Strategic Plans related to recruitment efforts.	This recommendation will be considered as part of the work program for the Board of Retirement's 5-Year Strategic Plan (FY 2024-2029)'s 3rd Objective "Investing in People."
<b>COSO: Training and Development &amp; Talent Management</b>			
Review of HR Recruiting & Hiring Process	#1: Lack a Planned, Measured and Optimized Recruiting Approach	Identify an individual or committee (governance structure) to oversee the alignment of the approved Workforce Plan and HR's Implementation Strategies for recruiting.	This recommendation will be considered as part of the work program for the Board of Retirement's 5-Year Strategic Plan (FY 2024-2029)'s 3rd Objective "Investing in People."

**Strategic Recommendation Follow-Up Report  
As of August 2023**

Project Name	Finding Title	Recommendation	Status Update
<b>COSO: Training and Development &amp; Talent Management</b>			
Review of HR Recruiting & Hiring Process	#1: Lack a Planned, Measured and Optimized Recruiting Approach	LACERA's Workforce Plan should address succession planning as a key component. Each division should perform forecasting of future vacancies through retirement and attrition. Succession candidates should be identified in each division and professional development should occur to prepare these members for future roles. We recommend that LACERA identify a Workforce Planning Model such as that established by the California Department of Human Resources or an alternative model.	This recommendation will be considered as part of the work program for the Board of Retirement's 5-Year Strategic Plan (FY 2024-2029)'s 3rd Objective "Investing in People."
Review of HR Recruiting & Hiring Process	#3: Lack Structure, Culture & Service Level Agreements	Based on the anecdotal evidence shared throughout this engagement it is apparent that LACERA's workplace culture is being affected in negative ways through perceptions and experiences of individuals who are directly related to the recruiting efforts, primarily at the Division level. As such, LACERA should perform an assessment of their HR Division to evaluate the team-member cohesiveness, related to employee satisfaction, level of engagement, perception of HR division management, and alignment with organizational strategy.	This recommendation will be considered as part of the work program for the Board of Retirement's 5-Year Strategic Plan (FY 2024-2029)'s 3rd Objective "Investing in People."

**Strategic Recommendation Follow-Up Report  
As of August 2023**


Project Name	Finding Title	Recommendation	Status Update
<b>COSO: Training and Development &amp; Talent Management</b>			
Risk & Controls Assessment - Retiree Healthcare	OBS 2 - RHC is lacking succession planning between the management team and staff. RHC management has continued to rehire a retiree for over ten years	N/A - This was a strategic observation made by Internal Audit.	The OOC approved the LACERA Rehired Retiree policy which clarifies the associated requirements related to hiring rehired retirees, including ensuring a transition plan is established and followed.

**FOR INFORMATION ONLY**

June 3, 2024

TO: 2024 Audit Committee  
Debbie Martin, (BOI Trustee), Chair  
Wayne Moore, (BOR Trustee), Vice Chair  
Vivian Gray, (BOR Trustee), Secretary  
Nancy Durazo, BOR Trustee  
Elizabeth Ginsberg, Ex-Officio  
Jason Green, BOI Trustee  
Nicole Mi, BOI Trustee

Audit Committee Consultant  
Larry Jensen

FROM: Gabriel Tafoya   
Senior Internal Auditor

FOR: June 20, 2024 Audit Committee Meeting

SUBJECT: **Recommendation Follow-Up for Sensitive Information Technology Areas**

Internal Audit reports to the Audit Committee a summary of recently implemented and outstanding recommendations related to system and network security audits and assessments. This summary ensures the Committee remains informed about security measures and ongoing improvements.

Table 1 summarizes the status of recommendations related to eight sensitive information technology (IT) engagements and one category of recommendations in which we previously consolidated duplicated recommendations. Two (2) recommendations were implemented during this reporting period, March 2024 through May 2024. Table 2 summarizes the twelve (12) outstanding recommendations by the different IT general controls areas.

**SUMMARY OF OPEN RECOMMENDATIONS**

**Table 1: Recommendations Status – By Audit Engagement**

Engagement Name Report Date	Total Recos	Implemented During Prior Periods	Implemented Mar 2024 – May 2024	In Progress Jun 2024
Recommendation Status by Risk Level				
<b>PM SOC FYE 2023</b> June 2023				
Medium	5	4	—	1
<b>PM SOC FYE 2022</b> June 2022				
Medium	5	5	—	—
<b>Moss Adams Pen and Social Engineering</b> April 2022				
High	3	3	—	—
Medium	3	2	—	1
Low	1	1	—	—
<b>PM SOC FYE2021</b> September 2021				
Medium	5	5	—	—
<b>PM SOC Readiness Assessment</b> February 2020				
Medium	10	9	—	1
<b>Clear Skies Penetration Test and VeraCode Report</b> March 2020				
High	1	1	—	—
Medium	25	21	—	4
Low	17	12	—	5
<b>Tevora 2019 Penetration Test</b> June 2019				
Low	5	5	—	—
<b>Tevora 2018 Security Risk Assessment</b> July 2018				
Medium	3	3	—	—
Low	6	5	1	—
<b>Consolidated Recos</b> January 2021				
High	2	2	—	—
Medium	2	1	1	—
<b>Totals</b>	<b>93</b>	<b>79</b>	<b>2</b>	<b>12</b>

For the reporting period ended May 2024, the following two (2) recommendations have been implemented:

- The ISO has addressed one (1) consolidated recommendation and one (1) recommendation from the Tevora 2018 Security Risk Assessment, both related to the development of the Written Information Security Program (WISP). The WISP was recently approved and finalized at the May 2024 Ethics and Compliance Committee (ECC) meeting.

For recommendations which are listed as **In Progress**, the Systems Division, and Information Security provided a summary of work to be performed and a timeline for completion.

**RECOMMENDATIONS CATEGORIZED**

IT General Controls (ITGC) are the basic controls that can be applied to IT systems such as applications, operating systems, databases, and supporting IT infrastructure. The general objective for ITGC is to ensure the integrity of the data and processes that systems support.

To provide additional insight into these sensitive recommendations, we categorized the recommendations from sensitive IT engagements into the following ITGC areas:

ITGC	Description of control
<b>Data Backup and Recovery</b>	Controls provide reasonable assurance that data and systems are backed up successfully, completely, stored offsite, and validated periodically.
<b>Environmental</b>	Controls provide reasonable assurance that systems equipment and data is adequately protected from environmental factors.
<b>Information Security</b>	Controls provide reasonable assurance that policies and procedures are in place to ensure effective communication of information security practices.
<b>Logical Access</b>	Controls provide reasonable assurance that logical access to applications and data is limited to authorized individuals.
<b>Physical Security</b>	Controls provide reasonable assurance that physical access to systems equipment and data is restricted to authorized personnel.
<b>System Development &amp; Change Management</b>	Controls provide reasonable assurance that changes to or development of applications is authorized, tested, and approved. Controls also, provide reasonable assurance that segregation of duties exist.
<b>System Monitoring &amp; Maintenance</b>	Controls provide reasonable assurance that systems are monitored for security issues, and that patches and antivirus definition file updates are applied in a timely manner.



**Table 2: Recommendations Status – By IT General Control Areas**

	Total Recos	Implemented During Prior Periods	Implemented Mar 2024 – May 2024	In Progress Jun 2024
Data Back Up & Recovery	2	2	—	—
Environmental	—	—	—	—
Information Security	18	10	2	6
Logical Access	49	47	—	2
Physical Security	3	2	—	1
System Development & Change Management	2	2	—	—
System Monitoring & Maintenance	19	16	—	3
<b>Total by Implementation Status</b>	<b>93</b>	<b>79</b>	<b>2</b>	<b>12</b>

Internal Audit will continue to update the Audit Committee on the status of recommendations at each Committee meeting.

Staff will be available to address questions at the June 20, 2024, Audit Committee meeting, but please remember that due to the sensitive nature of these IT recommendations we cannot provide additional details.

Noted and Reviewed:



Richard P. Bendall  
Chief Audit Executive

**FOR INFORMATION ONLY**

June 3, 2024

TO: 2024 Audit Committee  
Debbie Martin, (BOI Trustee), Chair  
Wayne Moore, (BOR Trustee), Vice Chair  
Vivian Gray, (BOR Trustee), Secretary  
Nancy Durazo, BOR Trustee  
Elizabeth Ginsberg, Ex-Officio  
Jason Green, BOI Trustee  
Nicole Mi, BOI Trustee

Audit Committee Consultant  
Larry Jensen

FROM: Leisha E. Collins   
Principal Internal Auditor

FOR: June 20, 2024 Audit Committee Meeting

SUBJECT: **Ethics Hotline Status Report**

**BACKGROUND**

The purpose of this memorandum is to provide the Committee with information on ethics cases reported to LACERA through the Ethics Hotline. Since November 2019, LACERA has contracted with NAVEX Global's EthicsPoint Hotline for ethics reporting and case management needs. As of May 31, 2024, there are no open cases and all past cases have been closed since the December 2023 Committee meeting.

For the Committee's information, Internal Audit is not currently investigating, nor has it received any new reports of wrongdoing and/or become aware of any matters of wrongdoing outside of the Ethics Hotline. Furthermore, we have not identified any matters of fraud in any of our recent or current audit and consulting work. Staff will continue to provide updates to the Committee on future reports.

**ETHICS HOTLINE UPDATES**

To remind staff of LACERA's commitment to ethics and foster a culture of compliance and integrity, Internal Audit periodically updates and distributes information to staff about LACERA's Ethics Hotline. In the upcoming months, Internal Audit will collaborate with the Legal Office's Ethics and Compliance Program to update the Ethics Hotline materials, policies, and procedures. We are also working with the Communications Division to develop and deliver an effective awareness campaign to LACERA employees.

Noted and Reviewed:



Richard P. Bendall  
Chief Audit Executive

**FOR INFORMATION ONLY**

June 5, 2024

TO: 2024 Audit Committee  
Debbie Martin, (BOI Trustee), Chair  
Wayne Moore, (BOR Trustee), Vice Chair  
Vivian Gray, (BOR Trustee), Secretary  
Nancy Durazo, BOR Trustee  
Elizabeth Ginsberg, Ex-Officio  
Jason Green, BOI Trustee  
Nicole Mi, BOI Trustee

Audit Committee Consultant  
Larry Jensen

FROM: Richard P. Bendall   
Chief Audit Executive

FOR: June 20, 2024 Audit Committee Meeting

SUBJECT: **Internal Audit Staffing Activity Report**

At the request of the Audit Committee, at each meeting, we provide this Staffing Activity Report, to keep the Committee abreast of audit resources impacting current work and future planning.

Internal Audit has 11 budgeted positions, one Chief Internal Auditor, two Principal Internal Auditors, six Senior Internal Auditors, one Internal Auditor and one Senior Administrative Assistant.

We currently have the following vacancies:

- One Senior Internal Auditor position which was vacated in July 2020 when the employee was transferred to the Systems Division.
- One Senior Internal Auditor position which was vacated in July 2023 when the employee was transferred to the Investments Office.
- One Internal Auditor position which was vacated in October 2021 when the employee was promoted to a Senior Internal Auditor.

Additionally, of the four current Seniors, one is on leave until the end of July 2024.

We are pleased to inform the Committee that we are currently working with HR to begin the hiring process for the two vacant Senior positions and the vacant Internal Auditor position. We developed our FY 2025 Audit Plan assuming these three positions will be filled by the midpoint of the Fiscal Year, December 31, 2024.

I look forward to addressing any questions you may have at your June meeting.

RPB:rb