

IN PERSON & VIRTUAL BOARD MEETING



TO VIEW VIA WEB



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. 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, SEPTEMBER 19, 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 (f).

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
- B. Approval of the Minutes of the Regular Meeting of June 20, 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.)

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 July 9, 2024)
- 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 July 9, 2024)

VI. NON-CONSENT ITEMS (Continued)

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 for final approval. (Memo dated July 9, 2024) (Supplemental Memo dated July 9, 2024)

D. **Ethics and Compliance Program Foundational Work Plan**

Recommendation as submitted by Steven P. Rice, Chief Counsel; and Allison Barrett, Senior Staff Counsel: That the Committee (1) review and approve the proposed Ethics and Compliance Program Foundational Work Plan; and (2) forward the proposed Work Plan to the Board of Retirement and Board of Investments. (Memo dated September 4, 2024)

E. **Fiscal Year 2024 – 2025 Internal Audit Plan**

Recommendation as submitted by Richard P. Bendall, Chief Audit Executive: That the Committee review and approve the Fiscal Year End 2024 -2025 Audit Plan. (Presentation) (Memo dated September 5, 2024)

F. **LACERA Rehired Retirees Program Audit Fiscal Years 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 July 9, 2024)

VI. NON-CONSENT ITEMS (Continued)

G. **Audit of Termination of User Access Process**

Recommendation as submitted by Gabriel Tafoya, 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 August 30, 2024)

H. **Review of Chief Executive Officer's Credit Card Expenditures**

Recommendation as submitted by Gabriel Tafoya, 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 August 30, 2024)

I. **LACERA's Bonus Program Continuous Auditing Program (CAP) Audit Memorandum**

Recommendation as submitted by Richard P. Bendall, Chief Audit Executive: 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 September 4, 2024)

VII. REPORTS

- A. **Audit/Proposed ACRE Committee Training**
Richard P. Bendall, Chief Audit Executive
Steven P. Rice, Chief Counsel
(Presentation) (Memo dated September 5, 2024)
- B. **Internal Audit Annual Performance Report – Fiscal Year Ended 2024**
Nathan K. Amick, Senior Internal Auditor
(Presentation) (Memo dated September 4, 2024)
- C. **Fiscal Year Ending (FYE) 2025 Internal Audit Goals**
Richard P. Bendall, Chief Audit Executive
(Memo dated August 21, 2024)
- D. **Organizational Culture Engagement**
Christina Logan, Principal Internal Auditor
(For Information Only) (Memo dated August 30, 2024)
- E. **Recommendation Follow-Up Report**
Nathan Amick, Senior Internal Auditor
(For Information Only) (Memo dated September 4, 2024)
- F. **Recommendation Follow-Up for Sensitive Information Technology Areas**
Gabriel Tafoya, Senior Internal Auditor
(For Information Only) (Memo dated September 4, 2024)
- G. **Ethics Hotline Status Report**
Leisha E. Collins, Principal Internal Auditor
(For Information Only) (Memo dated August 21, 2024)
- H. **Internal Audit Staffing Activity Report**
Richard P. Bendall, Chief Audit Executive
(For Information Only) (Memo dated September 4, 2024)
- I. **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.)

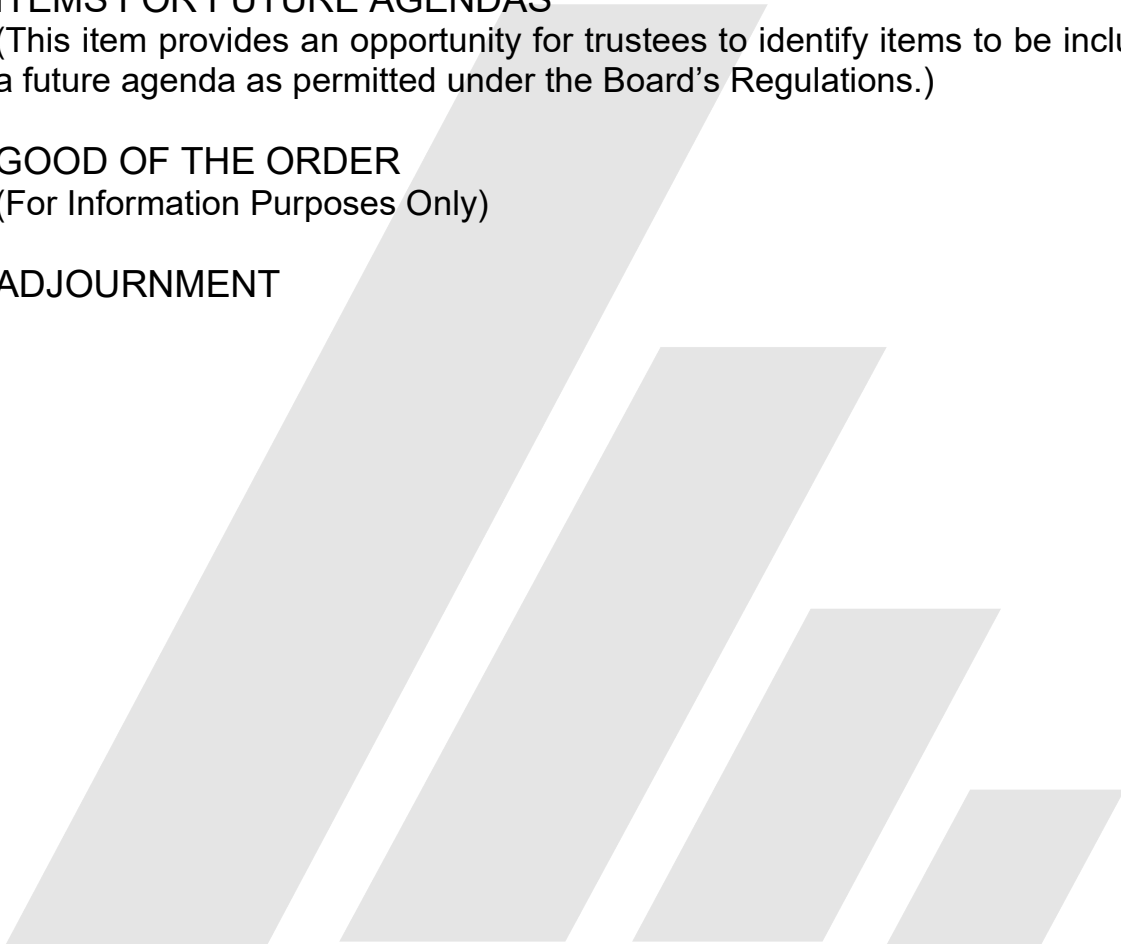
X. ITEMS FOR FUTURE AGENDAS

(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 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.

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., THURSDAY, JUNE 20, 2024

This meeting was 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).

COMMITTEE TRUSTEES:

PRESENT: Debbie Martin (BOI), Chair
Wayne Moore (BOR), Vice Chair
Vivian Gray (BOR), Secretary
Nancy Durazo (BOR), Trustee
(Teleconference Due to Just Cause under Section 54953 (f))
Jason Green (BOI), Trustee
Nicole Mi (BOI), Trustee (Teleconference under 54953(b))

ABSENT: Elizabeth Ginsberg, Ex-Officio

STAFF, ADVISORS AND PARTICIPANTS

Laura Guglielmo, Assistant Executive Officer

JJ Popowich, Assistant Executive Officer

Steven P. Rice, Chief Counsel

Jude Perez, Deputy Investment Officer

Ted Granger, Chief Financial Officer

STAFF, ADVISORS, PARTICIPANTS (Continued)

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

Rebecca Walker from Kaplan & Walker

Kristin Hunt, Plante Moran

Amanda Cronk, Plante Moran

Larry Jensen, Audit Committee Consultant

I. CALL TO ORDER

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

II. PLEDGE OF ALLEGIANCE

Chair Martin led the Trustees and staff in reciting the 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

A physical quorum was not present at the noticed meeting location. There was one request received from Trustee Durazo to attend by teleconference for Just Cause (A) contagious illness. Trustee Durazo confirmed that there were no individuals 18 years or older present at the teleconference location. No requests were received for Emergency Circumstances (B).

IV. APPROVAL OF THE MINUTES

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

Due to a lack of a quorum, this item will be agendaized for the next Audit Committee meeting.

V. PUBLIC COMMENT

There were no requests from the public to speak.

VI. NON-CONSENT ITEMS

Due to a lack of a quorum, the following items will be agendaized for the next Audit Committee meeting.

- 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)

- 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)

VI. NON-CONSENT ITEMS (Continued)

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)

Plante Moran consultants, Kristin Hunt and Amanda Cronk provided a presentation and answered questions from the Committee.

VII. REPORTS (Continued)

B. Fiscal Year Ending 2024 Audit Plan Status Report

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

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

C. Recommendation Follow-Up Report

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

This item was received and filed.

D. Recommendation Follow-Up Sensitive Information Technology Areas

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

This item was received and filed.

E. Ethics Hotline Status Report

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

This item was received and filed.

F. Internal Audit Staffing Activity Report

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

This item was received and filed.

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

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

Mr. Bendall provided an update to the Committee.

VIII. CONSULTANT COMMENTS

Larry Jensen, Audit Committee Consultant
(Verbal Presentation)
(Supplemental memo dated June 17, 2024)

Mr. Jensen briefly addressed the Committee.

IX. ITEMS FOR STAFF REVIEW

There were no items to report.

X. ITEMS FOR FUTURE AGENDAS

Items IV.A and VI. A-E will be agendized for the next Audit Committee meeting.

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

There was nothing to report.

XII. ADJOURNMENT

There being no further business to come before the Committee, the meeting was adjourned at 9:40 a.m.



July 9, 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: September 19, 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.¹ Prudence and diligence require meaningful oversight. Accordingly, the Boards designate committees to support their fiduciary oversight duties.²

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.³

¹ Constitution of the State of California, Article XVI, Sec. 17.

² 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.

³ 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.⁴ 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:

Charter Section	Page	Description of Change	Reason for Change
VII. A.1.	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
VII. A.1.d.	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.”

⁴ LACERA Board of Retirement’s 2023-2028 Strategic Plan, Strategic Priority 4.

<p>VII. A.2.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>VII. A.2.c.</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 make 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
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The Audit Committee becomes The **ACRE** Committee

AUDIT
COMPLIANCE
RISK
ETHICS

September 19, 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.

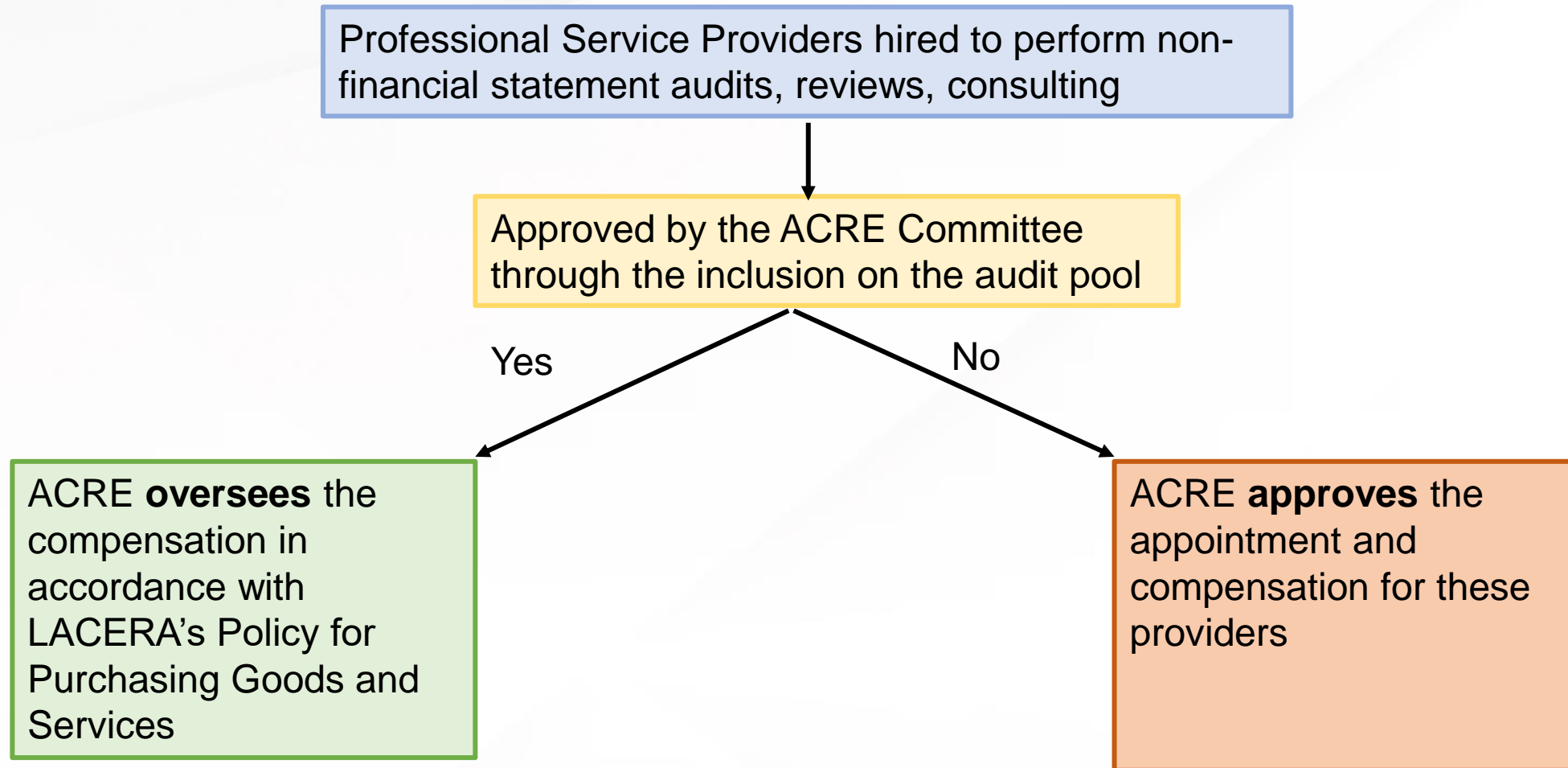
Key changes:

- 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

Enterprise Risk Management Activity



ERM Implementation Plan:

- Develop the ERM Program Charter and obtain ACRE Committee approval
 - Define the scope and objectives of the ERM Program
 - Include the organization's strategic goals, regulatory requirements and stakeholder expectations
 - Consider risk partners and responsibilities throughout the organization
- Define the proposed Risk Management Framework – COSO or ISO 31000
- Develop the formal risk management structure at LACERA



AUDIT
COMPLIANCE
RISK
ETHICS



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.

AAUDIT
COMPLIANCE
RISK
ETHICS

Thank you!



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



2024



**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.

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

Date

Patrick L. Jones
Chair, Board of Investments

Date

Shawn R. Kehoe
Chair, Board of Retirement

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. 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



July 9, 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: September 19, 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:

Charter Section	Redline Page	Description of Change	Reason for Change
I. Purpose	3	Staff proposed changing Internal Audit’s purpose to include LACERA’s mission.	Align with LACERA’s mission.
III. C. Managing the Internal Audit Function`	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.”
III. C. Managing the Internal Audit Function	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.
IV. Scope and Types of Internal Audit Services	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.
IV. Scope and Types of Internal Audit Services A. Assurance Services	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.

IV. Scope and Types of Internal Audit Services B. Advisory Services	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



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

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

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



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 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

July 9, 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.

Re: Ethics and Compliance Program Charter

July 9, 2024

Page 2 of 5

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

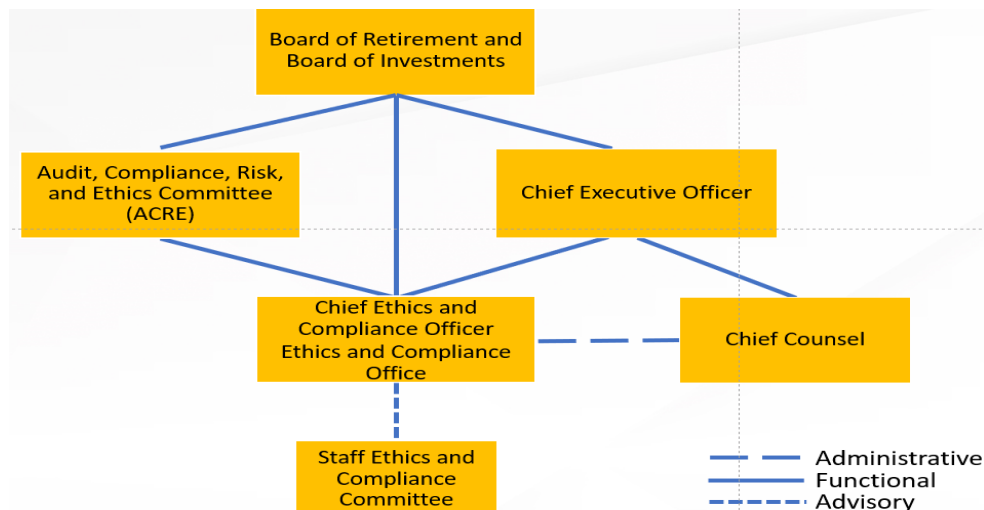
Currently, LACERA does not have a formal Ethics and Compliance Program, but rather,

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

July 9, 2024

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Attachments

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

July 9, 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.

DRAFT

ATTACHMENT B

Redlined Copy

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.

DRAFT

ATTACHMENT C
Presentation



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

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

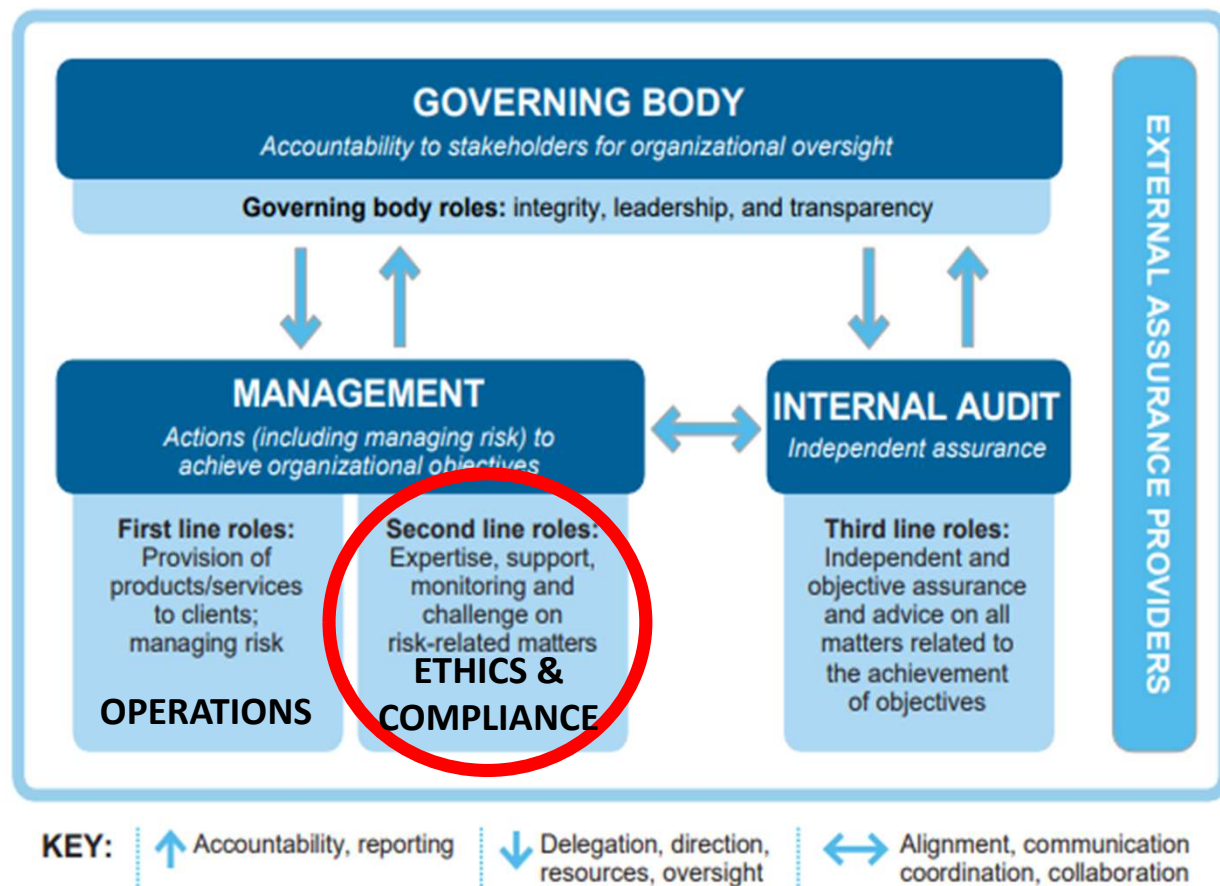
Loyalty and Prudence require that the Boards have a process to oversee the ethical and compliant operation of LACERA and respond to ethics and compliance risks and issues. The fiduciary duty of oversight also applies to management and staff.

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

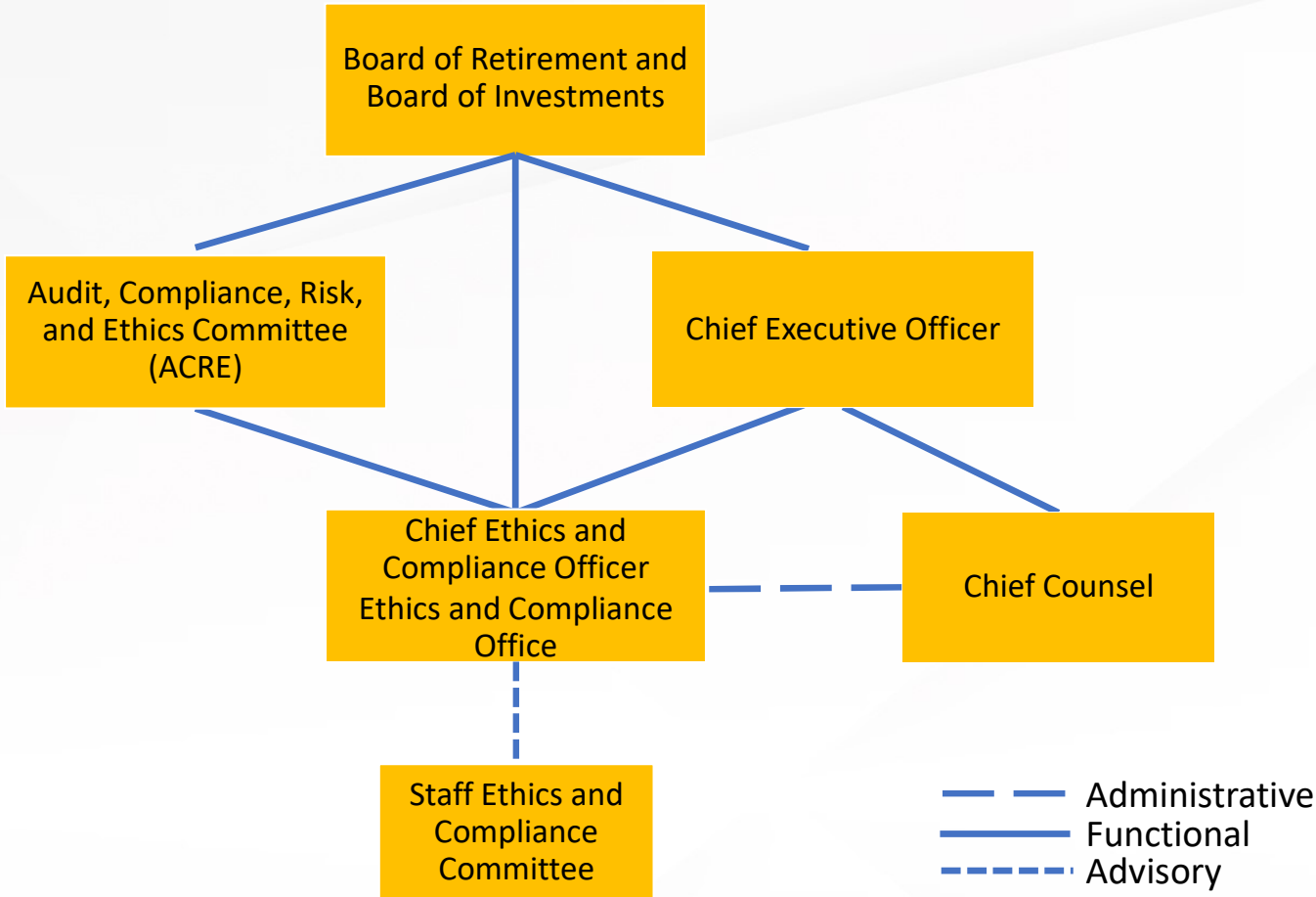
February 2024
Charter presented to JOGC,
which voted to recommend that it be
referred by the Boards to the
Audit Committee

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:

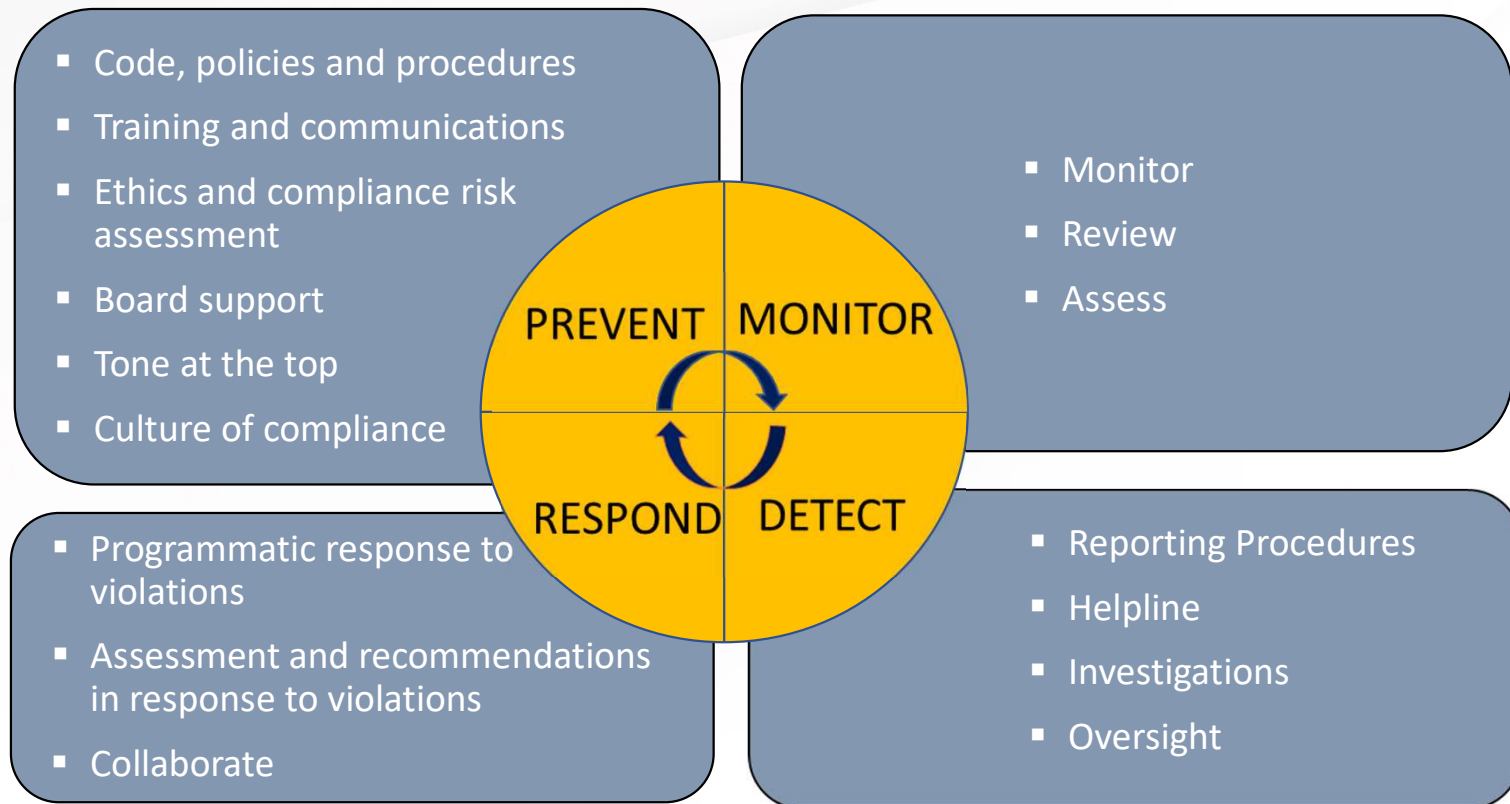
- Selection, training, and development of Ethics and Compliance Office staff
- Development of processes for LACERA staff input and involvement in the Program, including the staff Ethics and Compliance Committee
- Annually present E&C Program work plan for approval to the ACRE Committee, Boards, and CEO
- 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



September 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), Trustee

Audit Committee Consultant: Larry Jensen

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

Allison E. Barrett, *ASB*
Senior Staff Counsel

FOR: September 19, 2024 Audit Committee Meeting

SUBJECT: Ethics and Compliance Program Foundational Work Plan

RECOMMENDATION

That the Audit Committee (1) review and approve the proposed Ethics and Compliance Program Foundational Work Plan; and (2) forward the proposed Work Plan to the Board of Retirement and Board of Investments.

DISCUSSION

A formal Ethics and Compliance Program (“Program”) is one of the priorities of the Board of Retirement’s 2023-2028 Strategic Plan and is supported by best practices in the public pension community. Once the Ethics and Compliance Program Charter and updated Audit, Compliance, Risk, and Ethics (ACRE) Committee Charter are approved by the ACRE Committee and the Boards, it is recommended Staff begin implementation of the proposed Ethics and Compliance Program Foundational Work Plan (“Work Plan”). This Work Plan has been reviewed and vetted by LACERA’s Ethics and Compliance consultants. The Work Plan outlines foundational Ethics and Compliance Program activities, which are essential to launch the Program and manage LACERA’s ethics and compliance risks in the interim between Charter approval and establishing and staffing the Ethics and Compliance Office in the Legal Division. Legal Division staff members currently leading the Ethics and Compliance Program strategic initiative will oversee the Work Plan, in ongoing consultation with the ACRE Committee, key members of the executive office, management, and the staff Ethics and Compliance Committee.

The following chart provides an overview of the proposed Work Plan activities and target dates for completion, with descriptions of each activity outlined below.

Program Activity	Target Completion Date
Ethics and Compliance Education Plan	Ongoing
Policy Management Phase 1	December 2024
Baseline Ethics and Compliance Risk Assessment	January 2025
Baseline Ethics and Compliance Cultural Survey	January 2025
Chief Ethics and Compliance Officer (CECO) and Deputy Job Descriptions and Salaries	January 2025
LACERA Code of Ethical Conduct Update	March 2025

Ethics and Compliance Education Plan

A central goal of the Program is to infuse ethics and compliance into LACERA’s culture, such that ethics and compliance become as inherent as our mission to produce, protect and provide the promised benefits and for all staff to understand the significance of the Program and how it will support day-to-day operations. Initial education efforts have already begun as the Ethics and Compliance Program strategic initiative team and the Ethics and Compliance Committee regularly communicate the meaning and value of ethics and compliance to staff. Following monthly meetings, the multi-divisional Ethics and Compliance Committee members are charged with reporting out to their respective divisions on Committee activities (including new or updated policies and updates on Program development). Program socialization will also include separate orientations tailored to particular roles and responsibilities (Trustees, Executive Office, Management, Supervisors, Front-Line Staff), an Ethics and Compliance Intranet landing page, and frequent updates at LACERA’s monthly brown bag meetings which are directed by the executive office. Staff are also pursuing education from third-party providers, such as the Society of Corporate Compliance and Ethics and the Practising Law Institute.

Policy Management

Policy management is a critical element of mitigating ethics and compliance risk. Members of the Ethics and Compliance Committee have been diligently inventorying organizational policies and procedures to organize and render those documents searchable and accessible to all staff. A subcommittee is currently working with the Systems division Project Management Group to develop an in house software solution (leveraging Microsoft SharePoint) to create *Compass: LACERA’s Policy Library*. *Compass* will ensure every LACERA staff member is able to readily locate, apply, and adhere to policies and procedures as they perform their day-to-day operations in compliance with the law and regulations.

Baseline Ethics and Compliance Risk Assessment

Ethics and Compliance strategic team leaders will conduct a baseline query of division leaders about ethics and compliance risk profiles and operational gaps to assist in determining what additional controls may be needed, such as divisional training, ethics and compliance action plans, policies and procedures. These initial assessments will include ethics and compliance risk questionnaires or surveys followed by interviews. The assessment process will also ensure management understands how the Program will serve as a valuable resource to support their individual operations.

Baseline Ethics and Compliance Culture Survey

This survey will establish a baseline for benchmarking the organization's understanding of, appetite for, and adherence to LACERA's ethics and compliance standards at a cultural level. The initial survey will measure elements such as: 1) staff's comprehension of the meaning, value, and necessity of ethics and compliance for the organization; 2) staff's perception of senior leadership's commitment to ethics and compliance; 3) staff's knowledge of reporting channels--how to access those channels and report suspected misconduct; 4) staff's confidence in LACERA's commitment to nonretaliation; and 5) staff's trust in organizational justice, i.e. that LACERA has a methodical and fair investigative process and treats misconduct consistently. The survey will also serve as an additional educational tool and communicate to staff the significance of the Program, their involvement in it and leadership's commitment to it.

CECO and Deputy Job Descriptions and Salaries

Job Descriptions for the Chief Ethics and Compliance Officer and the Deputy position are being drafted in conjunction with Human Resources. Evaluation of the appropriate salary level for both positions is also underway. The CECO recruitment plan is dependent on County approval of the position. Once the CECO is approved, recruited, and hired, they will oversee the recruitment process and hiring of additional Ethics and Compliance Office Staff (e.g., the Deputy position).

LACERA's Code of Ethical Conduct Update

LACERA's Code of Ethical Conduct is a cornerstone of the organization's Ethics and Compliance Program, sets expectations, and serves as an ethical decision-making guide. The document will be updated to reflect the Ethics and Compliance Program, other applicable 2023-2028 strategic plan initiatives, LACERA's new vision, values, and guiding principles. The Code will continue to address and further define reporting roles and responsibilities, LACERA's investigative process for instances of misconduct, as well as ethics and compliance risks specific to LACERA's business operations. In addition to any substantive revisions, the format of the Code will be updated to improve accessibility via additional channels and made interactive where indicated. The Code update will be followed by organization-wide training, further educating staff on its significance, value, and their responsibility to always work in accordance with the Code. The Code was last reviewed and revised in November 2021 and has a three-year review cycle, so review is timely.

CONCLUSION

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. Accordingly, upon approval of the Ethics and Compliance Program Charter, it is imperative to implement the foundational elements of the Program through the proposed Work Plan.

Staff recommends that the Audit Committee (1) review and approve the proposed Ethics and Compliance Program Foundational Work Plan; and (2) forward the proposed Work Plan to the Boards.

C: Santos H. Kreimann
Luis A. Lugo
Jonathan Grabel
JJ Popowich
Laura Guglielmo
Ted Granger
Chaitanya Errande
Richard Bendall
Carly Ntoya, Ph.D.
Christina Logan



September 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: September 19, 2024 Audit Committee Meeting

SUBJECT: **Fiscal Year 2024 - 2025 Internal 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*) *Global Internal Audit Standards (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 September Meeting.

Attachments:

- A: Fiscal Year 2024 – 2025 Internal Audit Plan
- B: Fiscal Year 2024 – 2025 Internal Audit Plan Presentation

FISCAL YEAR 2024 - 2025 INTERNAL AUDIT PLAN				
ENTERPRISE RISK MANAGEMENT (ERM) PLAN				10 - 20 Percent
	DIVISION	ERM Task	PROJECT TYPE	SOURCE/STATUS
INTERNAL AUDIT				
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
AUDIT PLAN				80 - 90 Percent
	DIVISION	AUDIT / PROJECT NAME	PROJECT TYPE	SOURCE/STATUS
EXECUTIVE/LEGAL/ORGANIZATIONAL				
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	Organizational	Organizational Culture	Value-Added	Risk Based
11	Legal Office	Ethics and Compliance (Hotline)	Value-Added	Risk Based
ADMINISTRATION - Admin Serv, HR, Systems, Info Sec				
12	Admin Serv	Inventory Asset Management	Value-Added	FY 2024 Carryover
13	HR	HR Operations Review	Advisory	Risk Based
14	HR	Follow-up Assessment of Recruitment & Hiring	Assurance/Audit	FY 2024 Carryover
15	Systems	IT Risk Assessment	Assurance/Audit	FY 2024 Rollover
16	Systems	Oversight of SOC Audits FY 24 & 25	Oversight	Annual/Continuous
17	Info Sec	Cyber Security NIST Review	Assurance/Audit	Risk Based
INVESTMENTS & FASD				
18	FASD	Financial Controls Review - Phase 2	Advisory	Risk Based
19	FASD	CEO Credit Card	Assurance/Audit	Annual Compliance
20	FASD	Oversight of Financial Audit FY 24 & 25	Oversight	Annual/Continuous
21	FASD/Inv	Investment Accounting Middle/Back-Office	Advisory	Risk Based
22	FASD/Inv	Oversight of Actuarial Audit FY 24 & 25	Oversight	Annual/Continuous
23	Investments	Strategic Asset Allocation	Assurance/Audit	Continuous
24	Investments	Securities Lending Review	Assurance/Audit	Risk Based
25	Investments	THC Financial Audits/Tax - FY 24 & 25	Oversight	Annual/Continuous
OPERATIONS - Benefits, DRS, RHC, Member Services				
26	Benefits	Accounts Settlement Collections	Value-Added	FY 2024 Carryover
27	Benefits	LA County Payroll (LACERA Controls)	Assurance/Audit	FY 2024 Rollover
28	Benefits	Death Claims Process	Assurance/Audit	Risk Based
29	Benefits	GRC Review - Benefits Protection Unit (BPU)	Advisory	Risk Based
30	RHC	Provider Premium Calculations & Payments	Assurance/Audit	Risk Based
31	Mbr Serv	TBD - Project aligned with Strategic Priority 1 -	Advisory	Risk Based/Strategic Plan
INTERNAL AUDIT OPERATIONS				
32	IA	Quality Assurance Improvement Program	Other Projects	Annual/Continuous
33	IA	Audit Committee Support	Other Projects	Annual/Continuous
33	IA	Develop Internal Audit 3-Year Roadmap	Strategic/IA Goal	Annual/Continuous
34	IA	Provide training to MAC and Audit Committee	Strategic/IA Goal	Annual/Continuous
35	IA	Develop IA Staff Training Plan	Strategic/IA Goal	Annual/Continuous
36	IA	RFP to Expand Audit Pool	Strategic/IA Goal	Annual/Continuous
37	IA	Develop formal Continuous Audit Process (CAP)	Strategic/IA Goal	Annual/Continuous



ATTACHMENT B

Internal Audit FY 2024 - 2025 Audit Plan

Presented by:

Richard P. Bendall, Chief Audit Executive

Audit Plan Overview

According to the Institute of Internal Auditor's (IIA's) *Global Internal Audit Standards (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. If needed, amendments to the approved Audit Plan will be requested to the Audit Committee for approval in advance.

Types of Audit Engagements and Audit Activities

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.

FY 2024 - 2025 Audit Plan Development Cycle

Step 1- Propose Audit Plan & Budget

Based on:

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

Step 2- Define/Refine Audit Universe

Based on:

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

Step 3 - 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.

Step 4 – Complete FY 2024 - 2025 Audit Plan

Based on:

- Input from Executive Office and Audit Committee
- Committee Approval of Audit Plan

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 & 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 innovation.
Financial Durability/Liquidity	Risk to an organizations financial condition arising from inability to meet contractual obligations.

Key Risks Addressed the in 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

Priority	Related Projects on the Audit Plan
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!

QUESTIONS?



July 9, 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: September 19, 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:

Richard P. Bendall
Chief Audit Executive



LACERA INTERNAL AUDIT DIVISION

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

June 3, 2024

AUDIT PERFORMED BY:

George Lunde
Senior Internal Auditor

AUDIT REPORT

Audit Name:	LACERA's Rehired Retiree Program
Division:	Human Resources
Audit Rating*:	Satisfactory
Prior Audit Rating*:	Unsatisfactory
Prior Report Date:	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

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?






August 30, 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: September 19, 2024 Audit Committee Meeting

SUBJECT: **Audit of Termination of User Access Process**

RECOMMENDATION

In accordance with your current Audit Committee Charter, staff recommends that the Audit 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

Audit of Termination of User Access Process
(Report Issued: August 30, 2024)

Noted and Reviewed:



Richard P. Bendall
Chief Audit Executive

GT



LACERA INTERNAL AUDIT DIVISION

**Audit of Termination of User
Access Process**

August 30, 2024

AUDIT PERFORMED BY:

Gabriel Tafoya, CISA
Senior Internal Auditor

AUDIT REPORT

Audit Name:	Audit of Termination of User Access Process
Responsible Divisions:	Human Resources Systems Division Executive Board Assistants
Audit Rating*:	Unsatisfactory
Prior Audit Rating*:	N/A
Prior Report Date:	N/A

BACKGROUND

We reviewed LACERA's Termination of User Access Process as part of Internal Audit's Fiscal Year End (FYE) 2023-2024 Audit Plan. The overall objective of the audit was to assess the effectiveness of procedures and processes related to the termination of access rights to LACERA's applications and network. The timely deactivation of terminated user access is critical to the security of sensitive member data and business information. Gaps and weaknesses in the controls provide an opportunity for unauthorized access and potential breaches of data.

LACERA utilizes a variety of applications and platforms to enable staff and trustees to execute LACERA's mission. Applications include those that manage member and financial information along with others, such as applications that manage board meeting materials. Together, with related hardware, they make up the information technology resources that Systems Division manages.

The Systems Division is moving to managing all applications through a Single Sign On (SSO) platform which allows them to grant or revoke access to multiple applications by user. Currently, Systems Division only manages all LACERA core critical applications through SSO. Other applications are managed manually by the Divisional application owners, but Systems Division is in the process of incorporating these under SSO.

When a user terminates their tenure with LACERA, access to these systems is removed. Prior to 2023, terminating access was predominantly a manual notification process. However, starting in 2023, the Systems Division's Help Desk began to use the application, Service Now (SNOW), to record, manage, and track user termination requests. For employee terminations, the user access termination process usually consists of these steps:

1. HR will send a termination email to all relevant stakeholders, which includes the Systems Division's Help Desk within one business day of notification from either the division manager or employee.
2. Help Desk opens a SNOW ticket, documenting the need to remove the user's access rights from the network, SSO platform, and other assigned resources.
3. Help Desk staff removes user access and then closes the ticket and notifies relevant stakeholders of the closure. Help Desk staff removes user access within one business day of notification from HR.

The complete process for deactivating user access rights requires the collaboration of Human Resources, Systems Division, and depending on the user, either the Executive Board Assistants (Board Assistants) or the division management team. Each has specific responsibilities in the

* See Appendix 1 for Audit Rating

process to ensure the timely removal of user access rights from LACERA's applications and the Network:

Human Resources – Human Resources (HR) is responsible for the administration and oversight of employment as well as terminations. This includes:

- Receiving termination notifications from division managers.
- Emailing employee termination notifications to key stakeholders and the Systems Division.
- Opening SNOW tickets which notify and assign Systems Division staff to update and monitor the removal of access rights.
- Performing the off-boarding process and collecting employee property.
- Maintaining of all employee termination documentation in the employees' personnel file.

Systems Division – Systems Division is responsible for the administration of user access to these applications. This includes:

- Creating SNOW tickets upon notification by HR of the employee's termination if HR has not already created a SNOW ticket.
- Removing terminated user access rights from the Network.
- Performing periodic user access reviews for SSO applications.

Executive Office – The Board Assistants are responsible for the off-boarding of trustees when their term ends on either the Board of Retirement and/or Board of Investments. This includes:

- Notifying HR of trustee terminations.
- Creating SNOW tickets that notify the Systems Division to remove the Trustee's access rights from the Network and SSO platform.
- Overseeing the removal of trustee access rights from stand-alone applications, Board Vantage and One Meeting after removal by the Systems Division.

AUDIT OBJECTIVES AND SCOPE

Based on Internal Audit's engagement risk assessment, we focused this engagement on the removal of access to all systems. The objectives for this audit were to assess:

- Policies and procedures for removal of access rights have been established and communicated to stakeholders and controls exist to ensure adherence – Assess whether termination of access processes have been designed to remove user access rights in a timely manner after termination.
- Rights to LACERA applications are removed in a timely manner after employee or trustee terminations - Assess whether the termination of access processes have been designed to produce the desired or intended results, and controls are in place to mitigate risks.

* See Appendix 1 for Audit Rating

The Engagement scope included a review of a sample of selected terminations occurring between July 1, 2022 – March 30, 2024. This includes users in the following categories:

- Permanent employees
- Agency Temporary Employees
- Trustees

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

The control environment managed by Human Resources, Systems, and the Board Assistants relating to the oversight of the termination of user access processes contained some effective controls, however, we did identify some control failures and areas for process improvements. We have rated this audit as **Unsatisfactory**. The Audit Results Dashboard shows each process reviewed, the associated control attributes tested, and the test results leading to the audit findings.

Audit Results Dashboard – Termination of User Access Process Audit		
Audit Objectives	Associated Control Tested	Test Results
Policies and procedures for removal of access rights have been established and communicated to stakeholders and controls exist to ensure adherence.	Policies and procedures are formally documented, periodically updated to reflect current practices.	Finding #1
	Procedures are communicated to key stakeholders involved in the process on a frequent basis.	Finding #1
	Controls include appropriate levels of supervisory review and approvals.	No Exceptions
	Controls include adequate segregation of duties.	No Exceptions
	Procedures include criteria and timeliness requirements for the removal of access rights.	Finding #1
	Procedures include Off-boarding checklists to ensure all required activities have been completed and approved.	Finding #1
	Procedures include the retention of documentation to support the completion of deactivation of user access rights.	Finding #2
Assess rights to LACERA applications are removed in a timely manner after termination and completion of the process is	Termination of access rights is consistently completed in a timely manner, including timely removal of access rights.	Finding #3
	Off-boarding checklists are completed and retained, documenting confirmation that all steps have been completed and approved.	Finding #2
	HR and Board Assistants notify key stakeholders of terminations in a timely manner (1 business day) to start the process for deactivation of user access rights.	No Exceptions

adequately performed and documented.	Monitoring and review mechanisms exist to detect and address unauthorized access following termination.	No Exceptions
	Network access is removed within one business day of termination.	Finding #3
	Keycard access is removed within one business day of termination.	Finding #3
	Network access for terminated employees is disabled in Active Directory.	No Exceptions
	There is an established process to periodically review user access rights to SSO applications to ensure user access has been granted to appropriate staff and to identify access rights that should be terminated.	No Exceptions
	The Systems Division performs a periodic review of user access rights for non-SSO applications upon employee termination.	Finding #4

A total of four (4) audit findings were issued related to operational controls. Each of the below Findings are detailed in the subsequent pages, including our Recommendations and Management’s Responses.

Summary of Findings

Finding#	Page	Finding Title	Risk Rating**
F1	6	Policies and procedures relating to the Termination Process are outdated and incomplete.	High
F2	8	There are inconsistencies in the application of Off-Boarding Procedures resulting in missing and incomplete separation records.	High
F3	10	Systems Access was not consistently deactivated in a timely manner.	High
F4	13	Process improvements are needed to adequately monitor and deactivate user access to non-network applications.	High

Each of the above findings are detailed in the following pages, including our Recommendations and Management Action Plans.

We would like to thank the Human Resources Division, Executive Office, and Systems Division for their cooperation with this audit.

**See Appendix 2 for Findings’ Risk Rating

REVIEWED AND APPROVED



Richard P. Bendall
Chief Audit Executive

Date: August 30, 2024

REPORT DISTRIBUTION

2024 Audit Committee	Santos H. Kreimann, CEO	J.J. Popowich, AEO
2024 Plante Moran Audit Team	Luis Lugo, DCEO	Carly Ntoya, Manager, Human Resources
Larry Jensen, Audit Committee Consultant	Laura Guglielmo, AEO	Kathy Delino, Manager, Systems Division
	Bonnie Nolley, Linda El-Farra, Executive Board Assistants	Internal Audit Group

FINDING #1

Policies and procedures relating to the Termination Process are outdated and incomplete

Risk Level**
High

OBSERVATION

As part of our audit, we reviewed relevant policies and procedures and compared them to current and industry best practices. We observed that the Off-boarding Procedures (Procedures) which include the Termination of Access Process are outdated and incomplete. Procedures do not reflect current practices and lack the inclusion of some key controls.

In reviewing the current process and procedures we identified areas for improvement in the procedures, including the need for:

- Clear and complete instructions on the process for deactivating user access rights for employees, temps and trustees.
- Documenting the roles and responsibilities of the key stakeholders (HR, Systems, Division Managers, and the Executive Office) involved in Off-Boarding and deactivating of user rights.
- Detailed requirements of the documentation necessary to be generated and or maintained by the various stakeholders to support their actions in the process to terminate user access.
- Instructions relating to the use of the Smart Sheets and the Service Now (SNOW) ticket process.
- Guidelines or instructions for the use of adobe e-signature for approvals in lieu of wet signature, and/or email approvals.
- Removing specific names of employees in the procedures, some of whom are no longer working for LACERA.

In our comparison of LACERA procedures to industry best practices, we noted the following areas where processes could be enhanced:

- The Outgoing Employee Checklist excludes information necessary to verify that all employee separation tasks are completed, such as:
 - a current listing of assigned equipment to be retrieved from terminating staff and trustees.
 - confirmation of the removal of access rights from non-Single Sign On (non-SSO) applications, and the related dates of deactivation.
- No specific timeframes have been established to address deadlines for deactivation of user access rights.
- The Systems Division does not use an application checklist to identify and confirm that all user access rights are disabled.
- Procedures for termination of vendors user access rights does not exist.
- The frequency of reviews, updates and training relating to policies and procedures is not documented in procedures.

** See Appendix 2 for Findings' Risk Rating

Policies and procedures provide guidance in the pursuit of achieving the objectives of the process. Clear and complete policies and procedures help to ensure that processes are performed in a timely and consistent manner.

As noted in our audit test work and documented in findings #2-3 of this audit report, the gaps noted above have weakened the Termination of Access Process resulting in inconsistencies in the application of Off-Boarding, delays in termination of access privileges, and missing and/or incomplete required documentation.

RISK

Outdated and or incomplete termination procedures may result in inconsistent and insufficient practices exposing the organization to the risk of data breaches, and potential reputational and/or financial loss.

RECOMMENDATIONS

1. Human Resources (HR) management revise the Off-Boarding Forms and instructions to ensure that all separation activities, as noted in our report, are included.
2. HR, Systems, and the Executive Board Assistants collaborate on developing and documenting comprehensive procedures related to each of their respective roles in offboarding staff and terminating system access rights.
3. HR establish criteria for the frequency of updates to the off-boarding procedures and training to key stakeholders.

MANAGEMENT RESPONSE

Management agrees with Finding #1 of the Termination of User Access Process Audit. During the testing phase, significant portions of the offboarding and termination processes were automated following the implementation of ServiceNow's Human Resources Service Delivery (HRSD) module in October 2023. Additionally, LACERA adopted ServiceNow's Hardware Asset Module (HAM) in October 2022, enhancing the organization's ability to track equipment for retrieval during terminations.

Management will revise offboarding forms and instructions per the recommendation while eliminating redundant procedures already in progress through the implementation of HRSD, collaborate on developing and documenting comprehensive procedures, establish criteria for the frequency of updates, and provide training on these procedures while continuing to leverage ServiceNow to further automate additional manual workflows.

TARGET COMPLETION DATE

Planned for completion by 12/31/2024.

FINDING #2

There are inconsistencies in the application of Off-Boarding Procedures resulting in missing and incomplete separation records

Risk Level**
High

OBSERVATION

A key focus of our audit was to assess the effectiveness of controls and efficiency of operations relating to the removal of system access privileges upon the users' termination. The timely and complete deactivation is critical to the security of sensitive and confidential data and information. Gaps and weaknesses in the controls provide an opportunity for unauthorized access to data and/or data breaches.

As mentioned in Finding #1, off-boarding procedures, which includes the deactivation process, are outdated and incomplete. This has resulted in inconsistencies in the methods used for Off-Boarding, and incomplete and/or missing documentation supporting network access removal.

Based on our testing of 21 terminated users (11 permanent employees, 4 agency temps, and 6 trustees) we identified the following:

- Two (2) Email Notifications to division stakeholders/help desk were missing.
- Seven (7) Notifications of Termination from division managers to HR were missing.
- Three (3) SNOW tickets requesting the termination of access were not created.
- Nine (9) Off-Boarding Checklists were missing.
- Four (4) Off-Boarding Checklists were missing approval signatures.
- Five (5) Notice of Transfer, Resignation, or Retirement forms were missing.

While individually these exceptions may appear as minor infractions with minimal risk, collectively they indicate a lack of consistency in the controls and process. Overall, this underscores the need for process improvements, and training to reinforce guidelines and requirements.

Risk

The timely deactivation of terminated employee's user access on network applications is critical to the security of sensitive and confidential information. Gaps and weaknesses in the controls provide an opportunity for unauthorized access and breach of data that could result in data breaches as well as reputational and/or financial loss to LACERA.

RECOMMENDATION

4. After implementation of Recommendations 1 and 2, ensure that the appropriate staff in all divisions are provided training on the revised off boarding and termination of access processes.
5. Executive Board Assistants and the Systems Division should incorporate a checklist into their off-boarding process to manage collection of devices and the removal of access privileges from all applications.

** See Appendix 2 for Findings' Risk Rating

MANAGEMENT RESPONSE

Management agrees with Finding #2 of the Termination of User Access Process Audit. Following the execution of recommendations 1 and 2 from Finding #1, management will establish suitable procedures to train relevant stakeholders on the updated offboarding and access termination processes. Additionally, the Board Assistants and Systems Division will work closely with Human Resources to integrate a standardized checklist into their offboarding protocols.

TARGET COMPLETION DATE

Planned for completion by 12/31/2024.

FINDING #3

Systems Access user rights were not consistently deactivated in a timely manner

Risk Level**
High

OBSERVATION

Best practices such as the National Institute of Standards and Technology (NIST) and Control Objectives for Information and related Technology (COBIT) emphasize the importance of timely removal of access rights to prevent unauthorized access, aligning with best practices for security and privacy. System and Organization Controls (SOC) also stipulate that removal or revision of access rights take place in a timely fashion, typically within one business day, and is both verified and documented. LACERA's FYE 2023 SOC1 Type2 audit identified areas of concern relating to untimely deactivation. In response to the SOC audit findings, LACERA management decided to implement a new workflow to ensure timely deletion of terminated employee accounts within one business day of termination date.

To determine adherence to these controls, our audit included a review of reports and other supporting documentation to assess if deactivation of user access is being performed in a timely manner. The Systems Division could not provide reports to confirm the actual date user access rights were removed due to limitations on the Active Directory (AD) System. The system does not archive the deactivation dates. However, we performed testwork of 21 outgoing users (15 employees and agency temps, and 6 trustees) to supporting documentation to assess, as closely as possible, the timeliness of deactivation of user access.

The following summarizes the results from our testwork:

Employee Testwork Results

The off-boarding process starts when HR sends the email notification to key stakeholders involved in the process. Upon receipt of HRs' notification, the Systems Division, opens a SNOW Ticket for the deactivation of user access rights. Once the Systems Division completes deactivation, the SNOW ticket is closed, and HR receives notification of completion. Based on our testwork of the 15 terminated employees and agency temps, we noted that HR notified Systems and Key Stakeholders of the employee's termination in a timely manner (within 1 day) for 13 of the employees tested. Due to missing documentation, we could not determine the email notification date for the other 2.

Our testwork also disclosed some delays by the Systems Division in the completion of deactivation and the timeliness of closing of the SNOW Tickets. Per our review of the SNOW Ticket open and close dates, we noted that the Systems Division closed seven (7) SNOW Tickets within 1 day, three (3) within 2-5 days and two (2) SNOW Tickets between 20-32 days. Due to missing documentation, we could not determine open and close dates for three (3) terminations included in our sample.

Trustee Testwork Results

When trustees are approaching the end of their term on either of the boards, the Board Assistants send an email notification to key divisions involved in Off-Boarding the trustees. This

** See Appendix 2 for Findings' Risk Rating

also starts the process for deactivating the trustee's user access rights. The Board Assistants also open a SNOW Ticket for the deactivation of user access rights and Systems closes the SNOW ticket upon completion.

We performed testwork to assess the timeliness of deactivation of trustee user rights. Based on our testwork of the 6 departing trustees, we noted that the Board Assistants notified Key Stakeholders of the trustee's termination date in a timely manner (within 1 day) for the 6 trustees tested. The Board Assistant's opened the SNOW Tickets for two (2) trustees within 1 day of their termination dates and three (3) SNOW tickets were opened 16 days after their termination date. One of the Trustees included in our testwork ended their term in 2022 and prior to the use of SNOW Tickets.

Our testwork disclosed some delays in the completion of deactivation and closing of the trustees' SNOW Tickets. Per our review of the open and close date of the SNOW tickets, we noted that the Systems Division closed three (3) SNOW Tickets within 1 day of the SNOW ticket being opened and three (3) SNOW tickets within 7 days of being opened.

Our audit testwork also included a review of staff and trustee key cards, which provide for access to LACERA's building and suites. We reviewed the June 2024 Key Card Summary Report for any staff or trustees no longer with LACERA. Based on our review, we discovered 2 trustees still had active key cards several months after they had terminated their service with LACERA.

Active Directory Testwork Results

We also reviewed the June 14, 2024, terminated users lists for (employees, agency temps and trustees) and compared it with the current Active Directory (AD) Listing of users on the network to verify if network access was deactivated. Although we could not confirm the actual date of deactivation, we were able to confirm that as of the report date, all terminated employees, agency temps and trustees were not on the AD listing, providing assurance that, at a minimum, access had been removed.

RISK

When users are terminated or transferred, but their access is left in place, that access becomes a possible entry point for data breaches.

RECOMMENDATION

6. HR, Systems, and the Executive Board Assistants collaborate in establishing a timeline and criteria to ensure timely removal of user access rights upon termination [for inclusion in the policies/procedures developed per recommendation #1].
7. Perform a periodic review of user access to the Keycard system and Network, for removal of users that no longer require access.

MANAGEMENT RESPONSE

Management agrees with Finding #3 of the Termination of User Access Process Audit. As noted in Finding #1, management will work together to develop and document thorough offboarding procedures, while setting a timeline and criteria for ensuring prompt removal of access after termination. Currently, Systems management conducts a quarterly review of keycard access to sensitive IT areas and an annual review of network access. Moving forward, Systems will

collaborate with Human Resources and the Board Assistants to broaden the scope and frequency of these reviews.

TARGET COMPLETION DATE

Planned for completion by 12/31/2024.

FINDING #4

Process improvements are needed to adequately monitor and deactivate user access to non-network applications

Risk Level**
High

OBSERVATION

The Systems Division manages and supports LACERA's software/applications, hardware, and information technology resources, and is responsible for maintaining and configuring software systems. Currently, the Systems Division only manages and supports core Single Sign On (SSO) applications which employees' access through the Network using Active Directory (AD) authentication. SSO is an authentication solution that allows multiple applications to use the same authentication session, avoiding repetitive credential entry, and is used to secure access to important resources and enhance access management. These applications include, for example, Workspace, eHR, State Street, Certify-AP, Service-Now, Smartsheet, Great Plains, and Microsoft suite products.

As part of our audit, we compiled an inventory of all non-SSO applications that are utilized in each division. These applications are managed internally by the assigned administrator, usually the division manager, and vary by division and staff assignment. Examples of these applications are: Internal Audit's Navex Ethics Hotline, The Admin Services' Enterprise Contract Lifecycle Management (ECLM) system, Executive Office's BoardVantage, FASD's Bank of America Works/Credit Card, Investment Office's ESG Research Analytics Systems, and Legal's Nexus Legal Research System. We identified over 80 non-SSO cloud-based applications across all divisions.

There is an established process to periodically review user access rights to SSO applications to ensure user access has been granted to appropriate staff and to identify access rights that should be terminated. However, the process does not include monitoring of non-SSO Applications in which removal of access rights is not done under the purview of the Systems Division. Currently, this control is the responsibility of division managers/staff however, this role has not been clearly documented or communicated to managers.

The Systems Division has also identified this problem. During this audit they began working with division management to identify the non-SSO applications and add them to SSO allowing them to be controlled under the central purview of the Systems Division. This will strengthen controls and ensure timely deactivation when applicable. Internal Audit's Teammate Audit Software Solution is an example of such a software that was recently added to SSO by Systems.

RISK

Without good controls and monitoring of all applications, there is a risk for unauthorized access and breach of data that could result in reputation, regulatory and or financial loss to LACERA.

** See Appendix 2 for Findings' Risk Rating

RECOMMENDATIONS

8. Systems Division Management should maintain a complete and current inventory of all non-SSO applications within LACERA.
9. Systems Division Management should continue in their effort to incorporate current non-SSO applications under the SSO control umbrella whenever feasible.
10. HR Management should update the Off-Boarding process to include divisional management's responsibilities for the removal of user access rights of non-SSO applications.

MANAGEMENT RESPONSE

Management agrees with Finding #4 of the Termination of User Access Process Audit. Systems management is currently gathering a detailed list of all non-SSO applications within the LACERA infrastructure to further our initiative of implementing SSO where practicable. Additionally, Systems management will develop appropriate procedures for regular reviews of the non-SSO application list. Furthermore, divisional responsibilities related to the removal of non-SSO applications will be integrated into the offboarding procedures as outlined in Finding #1.

TARGET COMPLETION DATE

Planned for completion by 12/31/2024.

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.

APPENDIX 2 FINDING'S RISK RATING SCALE

Findings identified during the course of the audit are assigned a risk rating, as outlined in the table below. The risk rating is based on the financial, operational, compliance, or reputational impact that the issue identified could have on LACERA.

Rating	Financial	Internal Controls	Compliance	Reputational	Executive Management
High	<p>Large financial impact to LACERA or members</p> <p>Actions not aligned with fiduciary responsibilities</p>	<p>Missing or inadequate key internal controls</p> <p>Not adequate to identify fraud, noncompliance or misappropriation</p>	<p>Non-compliance with applicable Federal or state laws or LACERA's policies</p>	<p>High probability foreexternal auditissues and/or negative public perception</p>	<p>Important critical business process identified by Exec Office</p> <p>Requires immediate attention</p>
Medium	<p>Moderate financial risk to LACERA or members</p> <p>Actions could be better aligned with fiduciary responsibilities</p>	<p>Partial key internal controls</p> <p>Not adequate to identify noncompliance or misappropriation in timely manner</p>	<p>Inconsistent compliance with applicable Federal or state laws or LACERA's policies</p>	<p>Potential for external auditissues and/or negative public perception</p>	<p>Relatively important</p> <p>May or may not require immediate attention</p>
Low	<p>Low financial impact to LACERA or members</p>	<p>Internal controls in place but not consistently efficient/effective</p> <p>Implementing / enhancing controls could prevent future problems</p>	<p>General compliance with applicable Federal or state laws or LACERA's policies, but some minor discrepancies exist</p>	<p>Low probability foreexternal auditissues and/or negative public perception</p>	<p>Lower significance</p> <p>Does not require immediate attention</p>



Audit of Termination of User Access Process

Audit Report Date: August 30, 2024

Presented by:

Gabriel Tafoya, Senior Internal Auditor

Summary of Engagement



Responsible Division:	Human Resources, Systems Division, Executive Board Assistants
Type of Engagement:	Assurance
Audit Rating:	Unsatisfactory
Prior Audit Rating:	N/A

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 assessment 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

We reviewed LACERA's Termination of User Access Process as part of the Fiscal Year 2023-2024 Audit Plan. The complete process for deactivating user access rights requires the collaboration of Human Resources, Systems Division, and depending on the user, either the Executive Board Assistants (Board Assistants) or the division management team. Each has specific responsibilities in the process to ensure the timely removal of user access rights from LACERA's applications and the Network.

Objectives

The overall objective of the audit was to assess the effectiveness of procedures and processes related to the termination of access rights to LACERA's applications and network. Objectives included:

- Policies and procedures for removal of access rights have been established and communicated to stakeholders and controls exist to ensure adherence.
- Termination of access processes have been designed to remove user access rights in a timely manner after termination for employees, agency temps, and trustees.
- Termination of access processes have been designed to produce the desired or intended results and controls are in place to mitigate risk.



Scope

The engagement scope included review of terminations occurring between July 1, 2022 - March 30, 2024. This included users in the following categories: Permanent employees, Agency Temporary Employees, and Trustees.

Audit Results



Audit Results Dashboard – Termination of User Access Process Audit		
Audit Objectives	Associated Control Tested	Test Results
Policies and procedures for removal of access rights have been established and communicated to stakeholders and controls exist to ensure adherence.	Policies and procedures are formally documented, periodically updated to reflect current practices.	Finding #1
	Procedures are communicated to key stakeholders involved in the process on a frequent basis.	Finding #1
	Controls include appropriate levels of supervisory review and approvals.	No Exceptions
	Controls include adequate segregation of duties.	No Exceptions
	Procedures include criteria and timeliness requirements for the removal of access rights.	Finding #1
	Procedures include Off-boarding checklists to ensure all required activities have been completed and approved.	Finding #1
	Procedures include the retention of documentation to support the completion of deactivation of user access rights.	Finding #2

Audit Results - continued



Assess rights to LACERA applications are removed in a timely manner after termination and completion of the process is adequately performed and documented.	Termination of access rights is consistently completed in a timely manner, including timely removal of access rights.	Finding #3
	Off-boarding checklists are completed and retained, documenting confirmation that all steps have been completed and approved.	Finding #2
	HR and Board Assistants notify key stakeholders of terminations in a timely manner (1 business day) to start the process for deactivation of user access rights.	No Exceptions
	Monitoring and review mechanisms exist to detect and address unauthorized access following termination.	No Exceptions
	Network access is removed within one business day of termination.	Finding #3
	Keycard access is removed within one business day of termination.	Finding #3
	Network access for terminated employees is disabled in Active Directory.	No Exceptions
	There is an established process to periodically review user access rights to SSO applications to ensure user access has been granted to appropriate staff and to identify access rights that should be terminated.	No Exceptions
	The Systems Division performs a periodic review of user access rights for non-SSO applications upon employee termination.	Finding #4

Summary of Findings



Finding #	Title of Finding	Rating	Management Response
1	Policies and procedures relating to the Termination Process are outdated and incomplete.	High	<p>Management agrees with Finding #1 of the Termination of User Access Process Audit.</p> <p>Management will revise offboarding forms and instructions per the recommendation while eliminating redundant procedures already in progress through the implementation of HRSD, collaborate on developing and documenting comprehensive procedures, establish criteria for the frequency of updates, and provide training on these procedures while continuing to leverage ServiceNow to further automate additional manual workflows. Planned for completion by 12/31/2024.</p>
2	There are inconsistencies in the application of Off-Boarding Procedures resulting in missing and incomplete separation records.	High	<p>Management agrees with Finding #2 of the Termination of User Access Process Audit.</p> <p>Following the execution of recommendations 1 and 2 from Finding #1, management will establish suitable procedures to train relevant stakeholders on the updated offboarding and access termination processes. Additionally, the Board Assistants and Systems Division will work closely with Human Resources to integrate a standardized checklist into their offboarding protocols. Planned for completion by 12/31/2024.</p>

Summary of Findings



Finding #	Title of Finding	Rating	Management Response
3	Systems Access user rights were not consistently deactivated in a timely manner.	High	<p>Management agrees with Finding #3 of the Termination of User Access Process Audit.</p> <p>As noted in Finding #1, management will work together to develop and document thorough offboarding procedures, while setting a timeline and criteria for ensuring prompt removal of access after termination. Currently, Systems management conducts a quarterly review of keycard access to sensitive IT areas and an annual review of network access. Moving forward, Systems will collaborate with Human Resources and the Board Assistants to broaden the scope and frequency of these reviews. Planned for completion by 12/31/2024.</p>
4	Process improvements are needed to adequately monitor and deactivate user access to non-network applications.	High	<p>Management agrees with Finding #4 of the Termination of User Access Process Audit.</p> <p>Management agrees with Finding #4 of the Termination of User Access Process Audit. Systems management is currently gathering a detailed list of all non-SSO applications within the LACERA infrastructure to further our initiative of implementing SSO where practicable. Additionally, Systems management will develop appropriate procedures for regular reviews of the non-SSO application list. Furthermore, divisional responsibilities related to the removal of non-SSO applications will be integrated into the offboarding procedures as outlined in Finding #1. Planned for completion by 12/31/2024.</p>

Thank you



We would like to thank Human Resources, the Systems Division and Executive Board Assistants for their cooperation on this engagement and invite them to provide any comments.






August 30, 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: September 19, 2024 Audit Committee Meeting

SUBJECT: **Review of Chief Executive Officer's Credit Card Expenditures**

RECOMMENDATION

In accordance with your current Audit Committee Charter, staff recommends that the Audit 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

Review of Chief Executive Officer's Credit Card Expenditures
(Report Issued: August 30, 2024)

Noted and Reviewed:



Richard P. Bendall
Chief Audit Executive

GT



LACERA INTERNAL AUDIT DIVISION

**Review of Chief Executive Officer's
Credit Card Expenditures**

August 29, 2024

AUDIT PERFORMED BY:

Gabriel Tafoya, CISA
Senior Internal Auditor

AUDIT REPORT

Audit Name:	Review of Chief Executive Officer's Credit Card Expenditures
Responsible Division:	Executive Office and Financial & Accounting Services Division
Audit Rating*:	Satisfactory
Prior Audit Rating*:	Satisfactory
Prior Report Date:	February 10, 2023

BACKGROUND

LACERA maintains a Corporate Credit Card (Corporate Card) Program (Program) to facilitate the purchase of items described and permitted within its Corporate Credit Card Policy (Policy).

Cardholders are responsible for ensuring:

- Purchases are compliant with the Policy.
- The corporate card is kept secure.
- Required documentation is maintained to substantiate the purchase.
- Monthly reconciliations are complete and submitted timely.
- Monthly sign-off in the Bank of America Online Works System (BofA Works) is complete and submitted timely.

The cardholder's manager is responsible for verifying that all charges are legitimate and conform to the Policy. They also approve the credit card charges in BofA Works. The Financial & Accounting Services Division (FASD) is responsible for administering the Program, including providing a high-level review of expenditures and coding the expenditures to the general ledger.

The Chief Executive Officer's (CEO) corporate card expenditures are not reviewed and approved by a manager. Therefore, in FY 2021, Internal Audit established an annual compliance audit of the CEO's credit card expenditures to assess compliance with the Policy.

AUDIT OBJECTIVES AND SCOPE

The objective of this audit was to assess the CEO's compliance with the Policy.

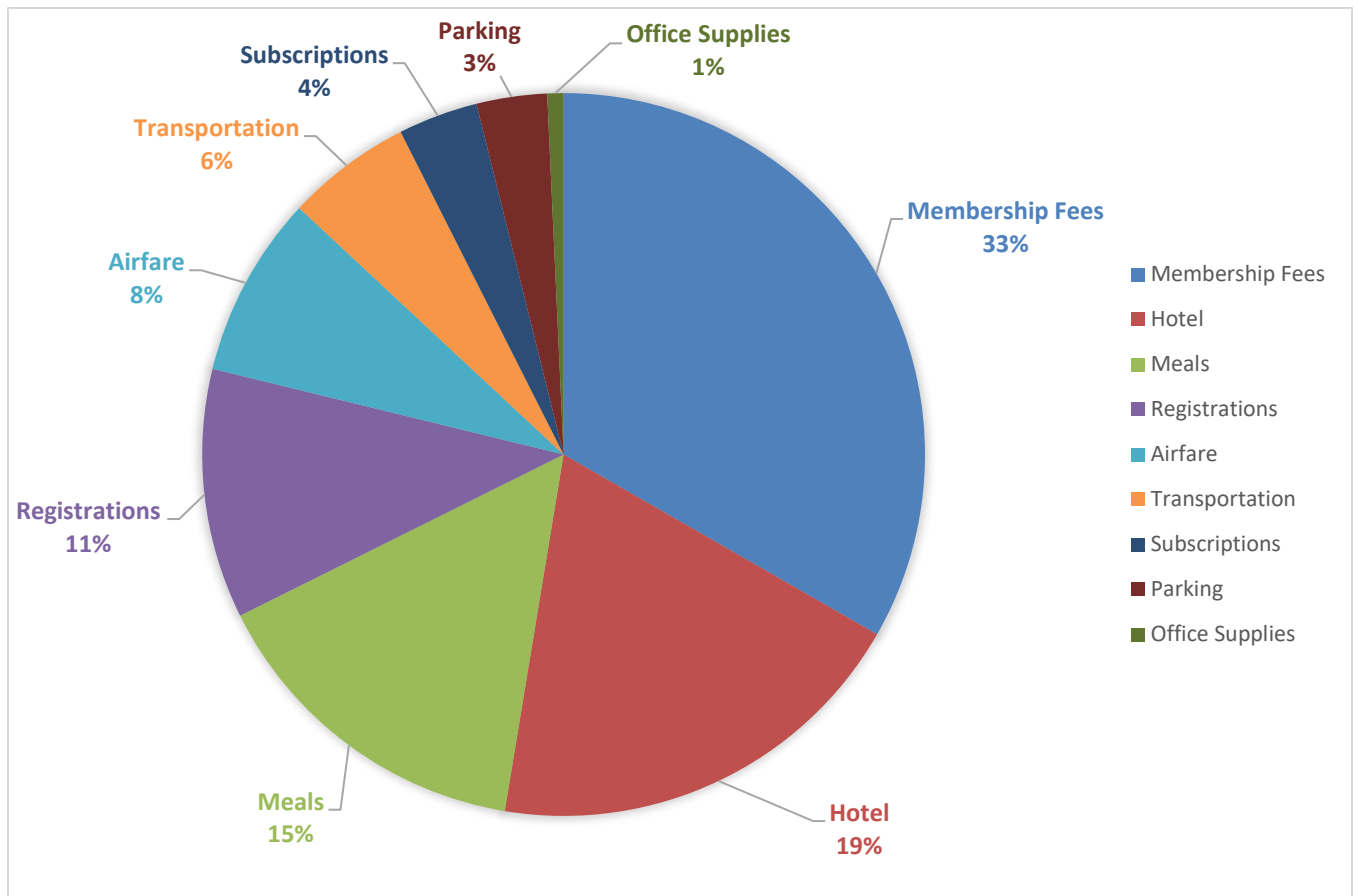
The engagement scope included 100% of CEO credit transactions occurring between July 1, 2023 – June 30, 2024.

*See Appendix 1 for Audit Rating

AUDIT RATING & RESULTS

The CEO's 71 expenditures totaled \$24,315.29 for the fiscal year 2023 - 2024. The matrix below shows the percentage of spending by category. The highest expenditure category was for Membership Fees which includes registration for educational seminars/conferences.

Percentage of Spending by Category



Review of Chief Executive Officer’s Credit Card Expenditures

August 29, 2024

Page 3 of 5

The Audit Results Dashboard shows control objectives reviewed, the associated control attributes tested, and the test results.

Audit Results Dashboard – Review of Chief Executive Officers Credit Card Expenditures		
Audit Objective(s)	Associated Control Attributes Tested	Test Results
All charges are legitimate and made in compliance with current policies and procedures	Defined and documented criteria for allowable purchases	No Exceptions
	Required receipts for all card transactions	No Exceptions
	Timely submission of supporting documentation for incurred charges	No Exceptions
	Card transactions are accurately input into the BofA Works System	No Exceptions
	FASD reviews card transactions input into the BofA Works System for errors	No Exceptions
	Reconciliation process is completed to identify, track, and follow-up on discrepancies	No Exceptions
	Correct GL codes used for each expenditure	No Exceptions

Through our testing and analysis of 71 expenditures for the audit period, we determined that CEO expenditures were compliant with the Policy. There were no areas identified for improvement.

AUDIT RATING AND SUMMARY OF FINDINGS

Based on the testing performed, compliance with the Policy for the CEO’s credit card expenditures is satisfactory. We found all the charges were reasonable and conformed to the Policy, and the documentation adhered to the Policy requirements. No exceptions were noted; therefore, no findings were issued.

We thank the Executive Office and the FASD staff for their cooperation and assistance with this audit.

REVIEWED AND APPROVED



Richard P. Bendall
Chief Audit Executive

Date: August 29, 2024

REPORT DISTRIBUTION

2024 Audit Committee	Santos H. Kreimann, CEO	Ted Granger, CFO
2024 Plante Moran Audit Team	Luis Lugo, DCEO	Laura Guglielmo, AEO
Larry Jensen, Audit Committee Consultant	J.J. Popowich, AEO	Internal Audit Group

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.



Review of Chief Executive Officer's Credit Card Expenditures

Audit Report Date: August 29, 2024

Presented by:

Gabriel Tafoya, Senior Internal Auditor

Summary of Engagement



Responsible Division:	Executive Office and Financial & Accounting Services Division
Type of Engagement:	Assurance
Audit Rating:	Satisfactory

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 assessment 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, Objective, Scope



Background

Since the Chief Executive Officer's (CEO) corporate card expenditures are not reviewed and approved by management, Internal Audit established an annual compliance audit to ensure CEO expenditures are made in compliance with the Corporate Credit Card Policy.

Objective

The objective of this audit was to assess compliance with the Corporate Credit Card Policy.

Scope

Engagement scope included 100% of CEO credit card transactions occurring between July 1, 2023 – June 30, 2024.

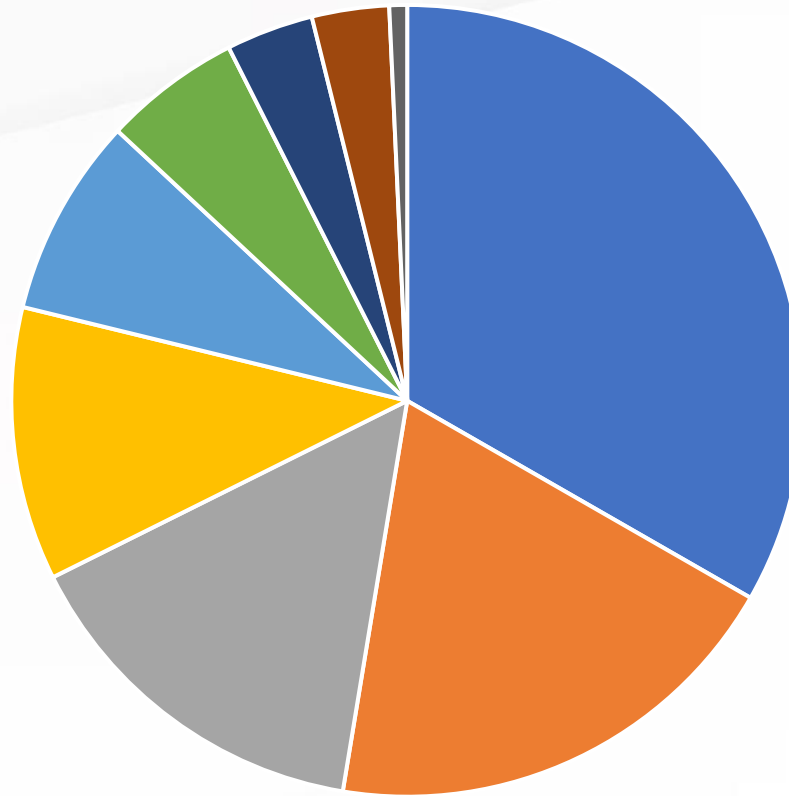


Engagement Results



Based on our testing of 71 credit card transactions:

- All CEO expenditures, in the amount of \$24,315.29, were compliant with the Policy
- All charges were reasonable and conformed to the Policy
- All documentation adhered to the Policy requirements.



Expenditures:

- MEMBERSHIP FEES 33%
- HOTEL 19%
- MEALS 15%
- REGISTRATIONS 11%
- AIRFARE 8%
- TRANSPORTATION 6%
- SUBSCRIPTIONS 4%
- PARKING 3%
- OFFICE SUPPLIES 1%

There were no areas identified for improvement.

Questions





September 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

FOR: September 19, 2024 Audit Committee Meeting

SUBJECT: **LACERA Bonus Program Continuous Auditing Program (CAP) Audit Memorandum**

RECOMMENDATION

In accordance with your current Audit Committee Charter, staff recommends that the Audit 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.

Background

Internal Audit's continuous audit program (CAP) is a way we perform quick transactional tests in areas of known controls and expectations of outcome. This allows us to obtain and be able to provide assurance to management and the Audit Committee that controls are effective and working in a broader area of the organization than we can do through the performance of full scope audits alone.

We perform these CAP tests in areas that we have previously performed audits and either obtained assurance that controls are satisfactory and working well or areas where we have made recommendations to improve controls and management has implemented changes to address our recommendations. In this latter case, our CAP tests serve, beyond Internal Audit's recommendation follow-up efforts, to obtain and provide assurance that the control improvements are in fact operating as intended. Our CAP testing usually provides us positive

assurance that controls are operating as intended, and we report the results to divisional and Executive Management and summarize the results of all testing done to the Audit Committee. In cases where Internal Audit performs CAP transactional tests in an area and finds that a significant portion of the sample population fails the test, signifying a failure of the overall control, we report that to the Audit Committee in an audit memorandum such as this one. In this case the CAP test was of the LACERA Bonus Program managed by Human Resources (HR).

LACERA Bonus Program

The County Code and LACERA's Bonus Program provide for the ability to pay staff additional compensation in the way of bonuses if staff qualify to receive them in certain limited circumstances. As of April 2024, the following bonuses were active and being paid by LACERA:

Additional Responsibilities Bonus (ARB)	11
Bilingual Bonus (BB)	14
Certification Bonus (CB)	53
Out of Class Bonus (OCB)	6
Supervisory-Subordinate Bonus (SSB)	<u>2</u>
	86

The bonus program has been an area of heightened focus because it was included as an area of concern in an audit of LACERA by the Plan Sponsor, LA County, in November 2019. Subsequently, Internal Audit performed an audit of the LACERA Bonus Program in February 2022 and noted ongoing concerns, reporting an unsatisfactory result for the audit. Both audits identified the need for and recommended the development of a comprehensive bonus policy (Policy) and procedure(s), improved reporting on bonuses by HR to the Executive Office, and a reconciliation to ensure that current bonuses being paid complied with the Policy.

Internal Audit validated through our recommendation follow-up process that the audit recommendations had been satisfactorily implemented by April 2022.

Bonus Program CAP Test 2024

We recently completed a CAP test of bonuses paid by LACERA, covering the period of July 1, 2023 through the end of Fiscal Year 2024.

We tested a sample of certification bonuses and determined that HR had current renewal documentation and/or that the licenses were active and valid on all, in compliance with the Policy.

However, our testing of 100 percent of the Additional Responsibility Bonuses (ARBs), Out of Class Bonuses (OCB) and Superior/Subordinate Bonuses (SSB) identified that 95% of the bonuses were out of compliance with the Policy. They were out of compliance because, although most had Personnel Requests, they did not contain Executive Office approval.

Of the eleven (11) ARBs, nine (9) had been renewed from June 30, 2023 end dates to June 30, 2024 end dates but HR had no documentation to support that the Executive Office had approved the renewals. The other two (2) had end dates of June 30, 2023 but were still being paid as of the time of our test work in April 2024.

Of the six (6) OCBs, three (3) had been renewed from June 30, 2023 end dates to June 30, 2024 end dates but HR had no documentation to support that the Executive Office had approved the renewals. The other three (3) had end dates of June 30, 2023 (1) and December 31, 2023 (2) but were also still being paid as of the time of our test work in April 2024.

Of the two (2) SSBs being paid as of April 2024, HR did not have documentation of Executive Office approval for one of them.

We did not test the bilingual bonus category during this CAP test but intend to include them in our follow-up CAP test, discussed further below.

Conclusion

We presented the results of our CAP testing to both HR and the Executive Office, and they both acknowledged the lack of compliance and the need to remediate the issue found by our CAP test. They attributed much of the non-compliance to the need for clarifying the Bonus Policy and procedures with an emphasis on refining the process surrounding the determination of bonuses to be awarded and the approval of them.

To that end, the HR Director has taken the lead and assembled a cross-functional team that is assessing the Policy and the procedures around bonuses. This team consists of representatives from numerous divisions, including the Administrative Services Division Manager, the Chief Legal Counsel and the Chief Audit Executive.

As a participant on the cross-functional team, I have seen that the Executive Office and the HR Director are working to remediate the shortcomings of the current Policy and process. They plan to present the revised Policy and procedures to the Management Action Committee (MAC) at their September meeting.

Further, we have proposed the following recommendations to management.

1. Upon approval and adoption of the revised Policy and procedure(s), Management and HR should ensure that necessary management, supervisors and staff are adequately trained on the Policy and procedures to ensure compliance.
2. Executive Management and HR should work together to perform a comprehensive review of all bonuses currently being paid and ensure they are approved in compliance with the Policy (current and/or revised) or take action to remediate unauthorized bonuses and collect any associated overpayments.

Management expressed that while they did not disagree with the recommendations, there are certain staffing and workforce considerations that also contribute to the bonus issues. Due to these complexities and the short window of time we provided them to provide responses to our

recommendations before the mailing for this meeting, they requested additional time to provide those responses and action plans.

Internal Audit will report back to the Committee at the December meeting on managements responses and actions taken or planned by that time. We also plan to perform additional audit work or CAP testing once management has completely implemented their revised Bonus Policy and process.

Staff will be available to address any questions you may have at your September meeting.


RPB:gl




September 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

Steven P. Rice 
Chief Counsel

FOR: September 19, 2024 Audit Committee Meeting

SUBJECT: **Audit/Proposed ACRE Committee Training**

The Audit Committee Chair with input from the Audit Committee Consultant, requested that we provide the Committee training in the following eight areas:

1. Audit Committee Roles and Responsibilities
2. Reading Financial Statements
3. Risk Management
4. Compliance Program
5. Actuarial Section of Financial Statements
6. Internal Audit Roles and Responsibilities
7. Oversight Functions
8. Information Security

The Internal Audit and Legal Office's Ethics and Compliance Program teams met with the Audit Committee Consultant to develop an approach to providing this training. We agreed that it made sense to include training for numbers 1, 4 and 6 at this September 19th Committee meeting as we will be presenting the ACRE Charter, Compliance Charter and Internal Audit Charter for approval. Our presentation, attached, will take approximately twenty minutes with additional time for any questions you may have.

Further, we propose holding a special meeting of the newly elected 2025 ACRE Committee in February 2025 to provide training on each of the eight areas to the Committee and all other trustees that wish to attend.

Please provide thoughts on this plan and the areas to be covered.

Attachment
RPB

Overview of Proposed ACRE Committee Roles & Responsibilities

Audit Committee
September 19, 2024



- Introduction to LACERA Proposed Audit, Compliance, Risk, and Ethics (ACRE) Committee
- LACERA's Governance Structure for Organizational Risk Management
- Strategic Importance of ACRE Committee
- Principles Guiding the ACRE Committee
- ACRE Committee Authority
- ACRE Committee Roles and Responsibilities, and How Staff Supports Them
 - Audit
 - Ethics and Compliance Program
 - Enterprise Risk Management

Introduction to LACERA ACRE Committee



Establishment: The Audit Committee was established in November 2003.

Purpose: Audit Committee is to assist LACERA's Board of Retirement and Board of Investments fulfill their fiduciary oversight duties.

Core Functions: Audit Committee ensures effective governance by providing oversight in risk management, fraud, internal controls, and ethics and compliance.

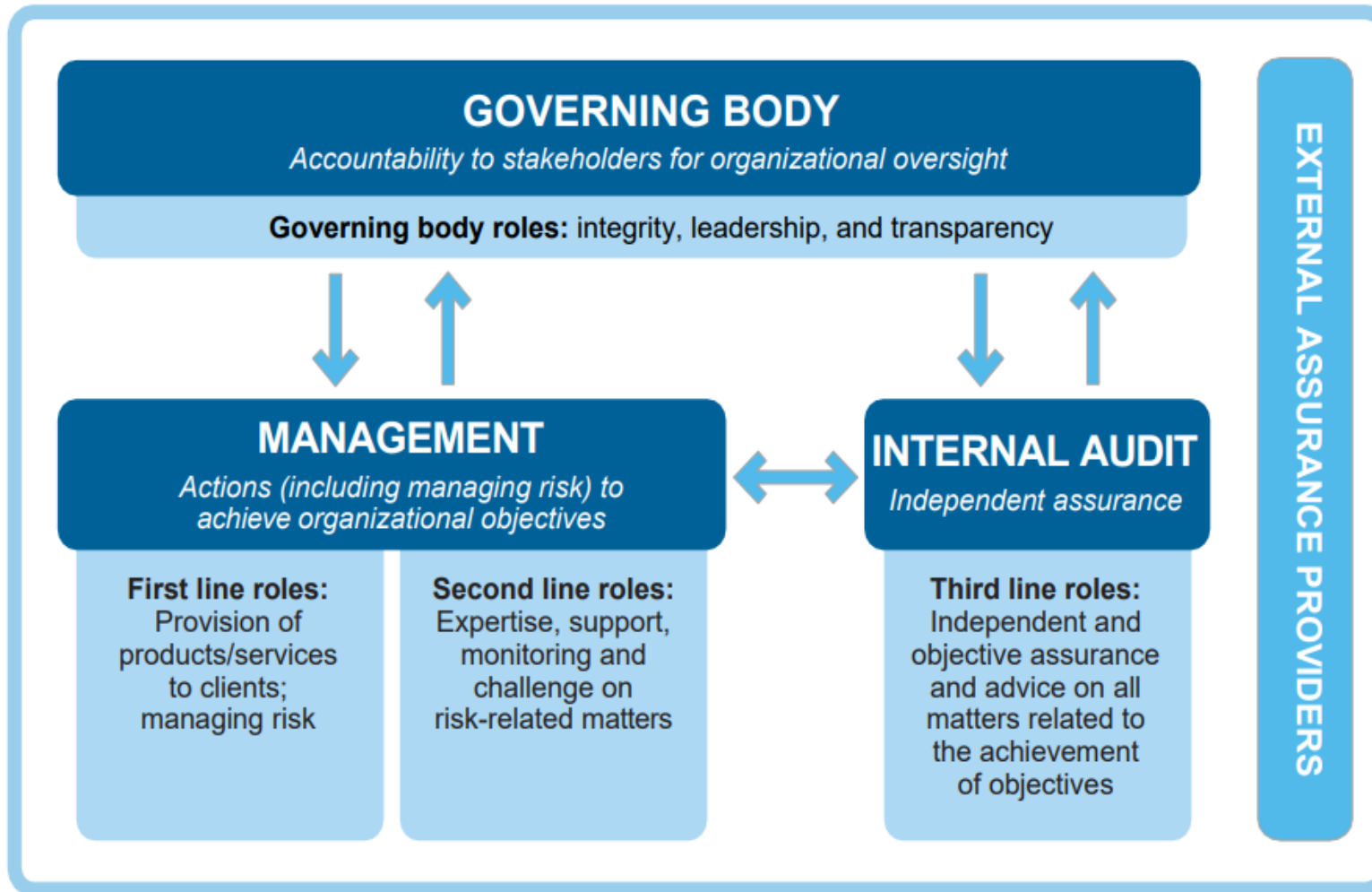
Responsibilities:

- Internal Audit Activity
- Professional Service Provider Activity
- Financial Reporting Process
- Ethics and Compliance Program, and Organizational Values
- Enterprise Risk Management
- Organizational Governance
- Audit Committee and Internal Audit Budget

Expanded Responsibilities: Following from the Board of Retirement's July 2023 Strategic Plan and best governance practices, there is now a proposal to expand the committee's work to include:

- Ethics
- Compliance
- Risk

The IIA's Three Lines Model of Risk Management and Governance



First Line Roles (Delivery of Services)

- Benefits
- Member Services
- Disability Retirement
- Disability Litigation
- Retiree Healthcare
- Communications

Second Line Roles (Risk-Related Matters)

- Legal/Ethics and Compliance
- Quality Assurance
- Information Security

First and Second Line Roles

- Process Management Group
- Human Resources
- FASD
- Systems
- Administrative Services
- Investments

KEY: ↑ Accountability, reporting ↓ Delegation, direction, resources, oversight ↔ Alignment, communication coordination, collaboration

Explanation of Three Lines Model



The globally recognized Three Lines Model helps organizations identify structures and processes that best assist the achievement of objectives and facilitate strong governance and risk management. The Governing Body is equivalent to the board, as referenced in the Standards, while Management is a combination of senior management, as referenced in the Standards, and other levels of management. The model's principles are:

1. **Governance** – Governance of an organization requires appropriate structures and processes that enable accountability, actions, and independent assurance and advice.
2. **Governing Body Roles** – The governing body ensures (a) appropriate structures and processes are in place and (b) organizational objectives and activities are aligned with the prioritized interests of stakeholders. The governing body delegates responsibility and resources and oversees an independent, objective, and competent internal audit function.
3. **Management and 1st and 2nd Line Roles** – Management's responsibility is to achieve organizational objectives. The 1st and 2nd line roles help enable actions to achieve objectives.
4. **Third Line Roles** – Internal audit provided independent and objective assurance and advice on the adequacy and effectiveness of governance and risk management.
5. **Third Line Independence** – Internal audit's independence from the responsibilities of management is critical to its objectivity, authority, and credibility.
6. **Creating and Protecting Value** – All roles working together collectively contribute to the creation and protection of value when they are aligned with each other and with the prioritized interests of stakeholders.

Board of Retirement/Board of Investments

Committees of the Boards/ACRE Committee

Chief Executive Officer

1st Line Operations

Officers & Staff

2nd Line Risk Functions

Officers & Staff

Principal Business Operations

(Primary responsibility for Delivery of Services: Performance, Risk & Compliance)
Benefits
Member Services
Disability Retirement/DLO
Retiree Healthcare Systems

Legal

Ethics & Compliance

Quality Assurance

Finance / Accounting

Information Systems and Security

Process Management Group

Human Resources

Administrative Services

Investments

3rd Line Chief Audit Officer

External Third Parties



- Enhance Fiduciary Duty of Oversight
 - Joint Board Vehicle to Monitor and Question Risk Across LACERA
- Dedicated Time and Opportunity to Focus on Risk Management
 - Process for Identification of Risks; Adequacy of Controls, Recommendations to Address Gaps; and Follow Up
 - ACRE Committee Members Wear Additional Risk Hat
- Monitor Management's Mitigation of Business, Compliance, and Ethics Risks
- Foster Risk-Aware Culture of Ethics and Compliance, and Support LACERA's Values of Integrity and Accountability

★ Set a Positive Tone at the Top

Principles Guiding the ACRE Committee



Integrity: The committee fosters integrity through transparent communication and adherence to ethical principles while executing its duties.

Independence & Objectivity: Members maintain independence, ensuring unbiased evaluations free from conflicts of interest throughout all operations.

Competency: Ongoing training ensures committee members possess essential knowledge in governance, audit, risk, and compliance frameworks.

Professional Standards: The committee ensures all related work meets the industry and professional standards for auditing, ethics and compliance, and risk management.



Access to Information: The committee has unrestricted access to relevant information essential for fulfilling its oversight responsibilities.

Employee Cooperation: All employees are required to cooperate with the committee, facilitating effective risk management and compliance.

Board and Management Relations: The committee operates closely with Boards and Management, ensuring alignment in governance and internal controls.

Composition of the ACRE Committee



Committee Composition: The ACRE Committee comprises seven members, including three elected annually from each Board and the ex-officio member of the Boards.

Leadership Positions: Members elect a Chair, Vice Chair, and Secretary at the first committee meeting of each year, serving one-year terms.

Consultant Role: The engaged Consultant provides financial reporting and audit expertise, along with guidance on ethics, compliance and risk management activities.

General Approach to Responsibilities



- Preparation
 - Review reports and other agenda materials in advance of meetings
- Monitoring
- Ask the right questions
- Follow up to ensure actions taken are effective
- Training
- Apply fiduciary duty
 - Duty of prudence
 - Duty of loyalty
- Members are not expected to be experts
 - Rely on internal and external experts, and sound fiduciary judgment
- Committee members work through the committee, not through individual investigation



Oversight Responsibilities of the Audit



Under the ACRE Charter, the Committee and its members are responsible to oversee and monitor Internal Audit's work in conformance with the IIA's Global Internal Audit Standards.

These responsibilities can be divided into the following four categories of activity, which are described more fully in the ACRE Charter and the Internal Audit Charter:

- 1. Governing Program Documents** - Review, Update, and Approve the ACRE Committee Charter and Internal Audit Charter at least every three years.
- 2. Internal Audit Activity**
- 3. Professional Service Provider Activity**
- 4. Financial Reporting Process**

Internal Audit Activity Oversight



- **Ensure the Internal Audit Activity is Independent:** An independently positioned internal audit function supports the internal auditor's ability to maintain objectivity.
- **Access to the Audit Committee:** The chief audit executive has unrestricted access to and communicates with the audit committee.
- **Approval of Internal Audit Charter:** The Audit Committee reviews and approves the Internal Audit Charter every three years for compliance.
- **Risk-Based Audit Planning:** Committee evaluates and approves a risk-based Audit Plan ensuring thorough assessment of governance processes.
- **Monitor Internal Audit Activity Performance:** The audit committee reviews periodic status reports on the progress towards accomplishing the Audit Plan. Review internal audit engagement reports, encourage and track resolution of findings.
- **Approval of the Roadmap:** Review and approve the internal audit three-year roadmap to enhance the internal audit activity.
- **Quality Assurance and Improvement Program:** Ensures adherence to the IIA's Global Internal Audit Standards throughout all internal audit activities conducted. Review annual report and monitor progress on initiatives.
- **Resources:** The audit committee ensure the internal audit activity has appropriate resources for accomplishing the Audit Plan including salaries, administrative expenses, and professional service providers.
- **Chief Audit Executive:** The audit committee participates in recruitment, performance management, and compensation of the chief audit executive to maintain independence and objectivity of the internal audit activity.

Professional Service Provider Oversight



Financial Auditor: The Committee oversees the appointment of External Financial Statement Auditors to promote independence and professionalism.

Internal Audit Pool: The Committee approves appointment of professional service providers for inclusion in the Internal Audit's Pool to perform non-financial statement audits.

Professional Service Provider Evaluation: Regular reviews assess Professional Service Providers' performance, ensuring quality of deliverables aligns with LACERA standards.

Compensation Approval Process: Appointment and compensation recommendations for service providers are subject to Committee approval reflecting transparency principles.

Financial Reporting Oversight



Independent Audit Oversight: The committee ensures independent audits of LACERA's financial statements are performed annually and adhere to established accounting standards.

Performance of the Work: The committee oversees the work of the Financial Auditor, including review of the proposed audit scope, approach, and coordination with Internal Audit and management. Review significant accounting and reporting issues and understand impact on the financial statements.

Audit Results Review: The committee reviews significant audit findings to address internal control deficiencies and enhance accountability measures. Review the required communications to the committee as required by auditing standards.



Under the ACRE Charter, the ACRE Committee and its members are responsible to oversee, monitor, and question the Program and its staff and hold management accountable for the ethics and compliance process and outcomes throughout LACERA. These are fiduciary responsibilities, as a prudent public pension fund provides oversight of ethics and compliance risk management.

These responsibilities can be divided into the following six subject matter areas, which are described in full in the ACRE Charter and the Ethics and Compliance Program Charter:

- 1. Governing Program Documents**
- 2. Budget, Program Personnel, and Other Resources**
- 3. Program Strategic Roadmap and Work Plan**
- 4. Ethics and Compliance Risk Assessment**
- 5. Ongoing Monitoring and Evaluation of LACERA Ethics and Compliance Risks**
- 6. Ethics and Compliance Program Assessment**



1. **Governing Program Charters.** Review, update, approve, and recommend the ACRE Committee Charter and Ethics and Compliance Program Charter in consideration of the changing risk environment, program performance, and other ethics and compliance needs of LACERA
2. **Budget, Program Personnel, and Other Resources.** Provide and evaluate necessary Ethics and Compliance Office resources
 - a. Recommend an Ethics and Compliance Office budget to the Boards annually
 - b. Authorize funds for special projects as needed
 - c. CECO. Approve the hiring, annual evaluation, and discipline of the Chief Ethics and Compliance Officer (CECO)
 - d. CEO. Evaluate the CEO annually based on their functional oversight of the CECO and the Ethics and Compliance Program
 - e. Chief Counsel. Evaluate the Chief Counsel annually based on their administrative oversight of the CECO
3. **Program Strategic Roadmap and Work Plan.** Review and approve the Ethics and Compliance Program's scope of work:
 - a. A three-year roadmap of strategic priorities and periodic progress reports
 - b. Annual work plan and quarterly reports
4. **Ethics and Compliance Risk Assessments.**
 - a. Review periodic risk assessment reports to identify potential compliance vulnerabilities and ethical issues
 - b. Review recommendations for new or enhanced controls to address ethics and compliance risks based on the results of the risk assessments



5. **Ongoing Monitoring and Evaluation of LACERA Ethics and Compliance Risks**, through frequent staff reporting; providing direction and input to ethics and compliance staff; and making recommendations to the Boards, including:
 - a. **Policies and Procedures.** Review reports on the evaluation of policies and procedures; Review and Approve Ethics and Compliance policies, such as the Code of Ethical Conduct and Conflict of Interest Code
 - b. **Vendor/Third-Party Risk Management.** Review quarterly reports on vendor/third-party ethics and compliance risks and organizational response
 - c. **Training and Communications.** Review staff training and communications plans to promote the importance of ethical and compliant behavior; the ACRE Committee members will also receive training on ethics and compliance
 - d. **Reporting Channels and Non-Retaliation; Investigation; Recommendations for Mitigation and Remediation.** Review quarterly reports regarding ethics and compliance concerns raised through internal and external reporting channels, including the LACERA Ethics Hotline, and review steps to address, mitigate, and follow up on investigation findings
 - e. **Privacy.** Review the annual report on LACERA's efforts to protect privacy and confidentiality of protected information
 - f. **Organizational Culture of Ethics and Compliance.** Review reports of the periodic survey to measure LACERA's culture of ethics and compliance
6. **Ethics and Compliance Program Assessment.** Review the 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



In performing its oversight duty, the ACRE Committee should consider the three questions used by the U.S. Department of Justice to evaluate the effectiveness of the ethics and compliance program:

- 1. Is the program well designed?**
- 2. Is the program adequately resourced and empowered to function effectively?**
- 3. Does the program work in practice?**

Enterprise Risk Management



ERM Program Charter: The committee reviews and approves the ERM program charter that defines the scope and objectives.

Risk Management Framework: Review and approve the risk management framework for risk governance, risk management, and reporting.

Risk Management Structure: Review and approve enterprise risk management policies, processes, procedures, and responsibilities.

Internal Audit Charter



Under the Internal Audit Charter, the CAE and IA staff are responsible to carry out the responsibilities of the internal audit activity under the oversight of the ACRE Committee.

The Internal Audit Charter is divided into the following five sections:

- I. Purpose**
- II. Mandate**
- III. Chief Audit Executive Roles and Responsibilities**
- IV. Scopes and Types of Internal Audit Services**
- V. Approval**

The Purpose of Internal Audit



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 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.

II. Mandate



- A. Authority – This section defines how Internal Audit derives its authority from the ACRE Committee and the reporting relationships of Internal Audit to the Committee and Boards, including Internal Audit's unrestricted access to organization data and information, resources to accomplish its scope of work including the ability to obtain internal or outside assistance to complete specialized responsibilities.

- B. Independence, Organizational Position and Reporting Relationships – This section defines the CAE's Independence, reporting restructure and responsibilities.

- C. Changes to the Mandate and Charter – This section defines circumstances that might require changes the mandate and charter such as changes to the Global IA Standards. Significant organizational changes or changes in the CAE, ACRE Committee, Boards and/or Executive Management.

Chief Audit Executive Roles and Responsibilities



- Ethics and Professionalism
 - Conforms with the Global Internal Audit Standards
 - Encourage and promote an ethics-based culture
- Objectivity
 - Ensure Internal Audit remains free from all conditions that threaten the ability to carry out their responsibilities in an unbiased manner.
 - Disclose impairments of independence or objectivity.
- Managing the Internal Audit Function
 - Develop 3-Year Roadmap
 - Develop a risk-based Internal Audit Plan
 - Ensure engagements are performed in accordance with the Global Internal Audit Standards.
 - Follow up on engagement findings and confirm the implementation of recommendations.
 - Ensure sufficient knowledge, skills, and other competencies to fulfill the Internal Audit mandate.
 - Consider emerging trends and successful practices in internal auditing.
 - Establish and ensure adherence to methodologies designed to guide Internal Audit



- Communication with the ACRE Committee and Executive Management
 - Internal Audit's mandate
 - Confirmation of Internal Audit's independence
 - Progress on and updates to Internal Audit's 3- Year Roadmap
 - Internal Audit Plan and performance relative to its Plan, including results from assurance and advisory services
 - Internal Audit's budget and resource requirements
 - Results from the quality assurance and improvement program
 - The CAE will report as needed to the Committee and Executive Management regarding
 - Significant revisions to the Internal Audit Plan and budget
 - Potential impairments to independence
 - Significant risk exposures and control issues that could interfere with the achievement of LACERA's strategic objectives.
 - Management's responses to risk that Internal Audit determines may be unacceptable or acceptance of a risk that is beyond LACERA's risk appetite
- Quality Assurance and Improvement Program
 - Develop, implement, and maintain a quality assurance and improvement program that includes external and internal assessments of Internal Audit's conformance with the Global Internal Audit Standards and progress toward the achievement of Internal Audit's objectives.



- Internal Audit provides independent assurance and advisory services to the ACRE Committee and management on the adequacy and effectiveness of governance, risk management, and controls processes. Internal audit engagements may include:
 - Risks relating to the achievement of LACERA's strategic objectives.
 - Compliance with 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.
 - LACERA's ethics and values are upheld.

Type of Internal Audit Services



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.

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.

Value-Added Services

Internal Audit also provides other value-added services, such as informal advice to management training, tools, and participating in various committees. Internal Audit provides insight and foresight, aids management in identifying and managing risks effectively, and designing adequate internal controls.

Ethics and Compliance Program Charter



The Ethics and Compliance Charter is divided into the following sections:

- I. Statement of Purpose**
- II. Authority**
- III. Roles and Reporting Structure**
- IV. Objectives**
- V. Standards for the Independent and Objective Operation of the Program**
- VI. Authority for Access**
- VII. Scope of Program Activities**
- VIII. Accountability of the Program**
- IX. Responsibilities of Managers, Supervisors, and Staff**
- X. Resources**
- XI. Charter Review**

The Charter is separately on the agenda for the September 2024 ACRE Committee meeting, where it is proposed for approval and recommendation to the Boards. A full discussion of the Charter is in the memo for that item. The Charter includes the elements stated in the U.S. Department of Justice guidance for evaluating the effectiveness of corporate compliance programs.

Chief Ethics and Compliance Officer's Roles and Responsibilities



- Report functionally to the ACRE Committee, the Boards, and the CEO, with administrative support from Chief Counsel
- Manage Ethics and Compliance Office staff
- Update the ACRE Committee Charter and Ethics and Compliance Program Charter for Committee and Board approval
- Submit an annual budget for approval by the ACRE Committee and inclusion in LACERA's budget; evaluate necessary resources
- Prepare and present the triennial Program Strategic Roadmap and annual Work Plans
- Prepare and present reports as provided in the Ethics and Compliance Program Charter:
 - Ethics and Compliance Risk Assessment reports; recommendation for new or enhanced controls to address risks
 - Evaluate policies and procedures from an ethics and compliance perspective
 - Update ethics and compliance policies, such as the LACERA Code of Ethical Conduct and Conflict of Interest Code
 - Vendor/third-party ethics and compliance risks
 - Training and communication plans and implementation
 - Reporting channels and non-retaliation policy; investigations; recommendations for mitigation and remediation
 - Privacy Policy and Privacy Report
 - Organizational culture of ethics and compliance
- Annual report on status and effectiveness of the Program, controls, consulting engagements, exceptions to controls, and a Program self-assessment
- Pursue personal education and professional development
- Act collaboratively with independence and objectivity, modeling LACERA's Values; report conflicts of interest relating to the Program
- Respond to feedback from the ACRE Committee, Boards, and CEO in annual evaluations; seek comment and accept accountability

Scope of Ethics and Compliance Office Services



The scope of the Ethics and Compliance Office is to

- (1) provide an independent structure within LACERA for identification, assessment, mitigation, and reporting of ethics and compliance risks,
- (2) provide ongoing assurance and accountability, in a changing environment, that LACERA's operations are conducted in an ethical and compliant manner, and
- (3) promote continuous improvement of LACERA's ethics and compliance controls.

Within this scope, the CECO and Ethics and Compliance Office perform services described in the ACRE Committee Charter and Ethics and Compliance Program Charter, and on Slides 16-19 and 28-29.

The scope of the Office does not include

- (1) other organizational and business risks, although some such other risks may interact with ethics and compliance risks, or
- (2) provide assurance as to the adequacy of controls, which is the responsibility of Internal Audit.



- **Ethics and Compliance Program:** Proposed foundational activities pending hiring of CECO*
 - Chief Ethics and Compliance Officer and Deputy Job Descriptions and Salaries
 - Continue to promote ethics and compliance education
 - Baseline ethics and compliance risk assessment
 - Baseline ethics and compliance culture measurement, in collaboration with Internal Audit
 - Development of internal Policy Management Tool
 - Code of Ethical Conduct update

*Included in proposed Ethics and Compliance Work Plan on September 2024 ACRE Committee meeting agenda

The Ethics and Compliance team is also collaborating with Internal Audit on review of the Ethics Hotline and will continue to work with the staff Ethics and Compliance Committee (known as the ECC) at its monthly meetings to continue to promote ethics and compliance among staff.

- **Enterprise Risk Management:** Future priorities include incorporating efforts in the area of risk management, defining the framework, structure and developing the program charter. The development of a formal ERM program will allow us to better anticipate and mitigate organizational vulnerabilities.

Thank You!




Questions



September 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: Nathan K. Amick 
Senior Internal Auditor

FOR: September 19, 2024, Audit Committee Meeting

SUBJECT: **Internal Audit Annual Performance Report – Fiscal Year Ended 2024**

BACKGROUND

According to the Institute of Internal Auditor's Standard 2010 on audit planning¹, the Chief Audit Executive must establish risk-based plans to determine the priorities of internal audit and ensure audit resources are appropriately allocated to address top priorities and key risk areas. Internal Audit developed the Fiscal Year Ended (FYE) 2024 Audit Plan which the Committee approved at the June 2023 Meeting. Due to emerging work and changing priorities, Internal Audit amended the FYE 2024 Audit Plan (pg. 2), which the Committee approved at the December 2023 meeting.

The final FYE 2024 Audit Plan consisted of 30 engagements, which included assurance, advisory and other operational projects. As of August 30, 2024, Internal Audit staff has completed 24 (80%) of the 30 Audit Plan projects. Of the six (6) remaining projects, four (4) are currently in progress, two (2) have been rolled over to the FYE 2025 Audit Plan.

Staff has prepared and will present the attached FYE 2024 Annual Performance Report (**Attachment A**) which provides additional details and insight into the work performed throughout FYE 2024.

Noted and Reviewed:



Richard P. Bendall
Chief Audit Executive

Attachment
NKA

¹ For IIA 2010 Standard, refer to website at www.globaliaa.org/standards-guidance or www.theiia.org/guidance.

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



ATTACHMENT A

Internal Audit Annual Performance Report

For Fiscal Year Ended June 30, 2024

Prepared by:

Nathan Amick, Senior Internal Auditor

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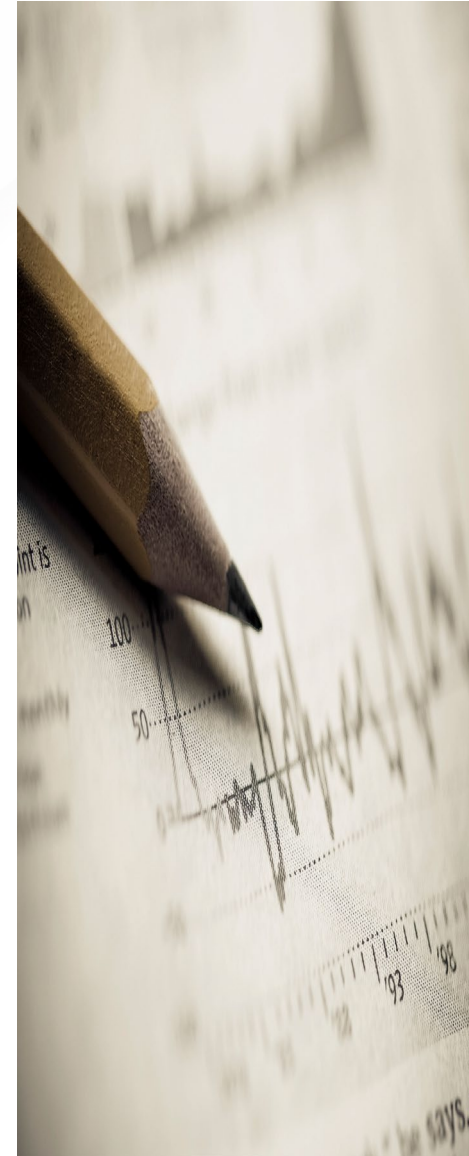
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Annual Report Overview

Internal Audit is pleased to present the Annual Performance Report for the Fiscal Year Ended June 30, 2024 (FYE 2024). This report details the completion of our FYE 2024 Audit Plan.

In addition to updating the Committee on the status of Internal Audit's activities for the fiscal year ending 2024, this report also outlines Internal Audit's progress in completing FYE 2024 divisional goals and provides an update on anticipated activities for FYE 2025 and audit projects currently underway.

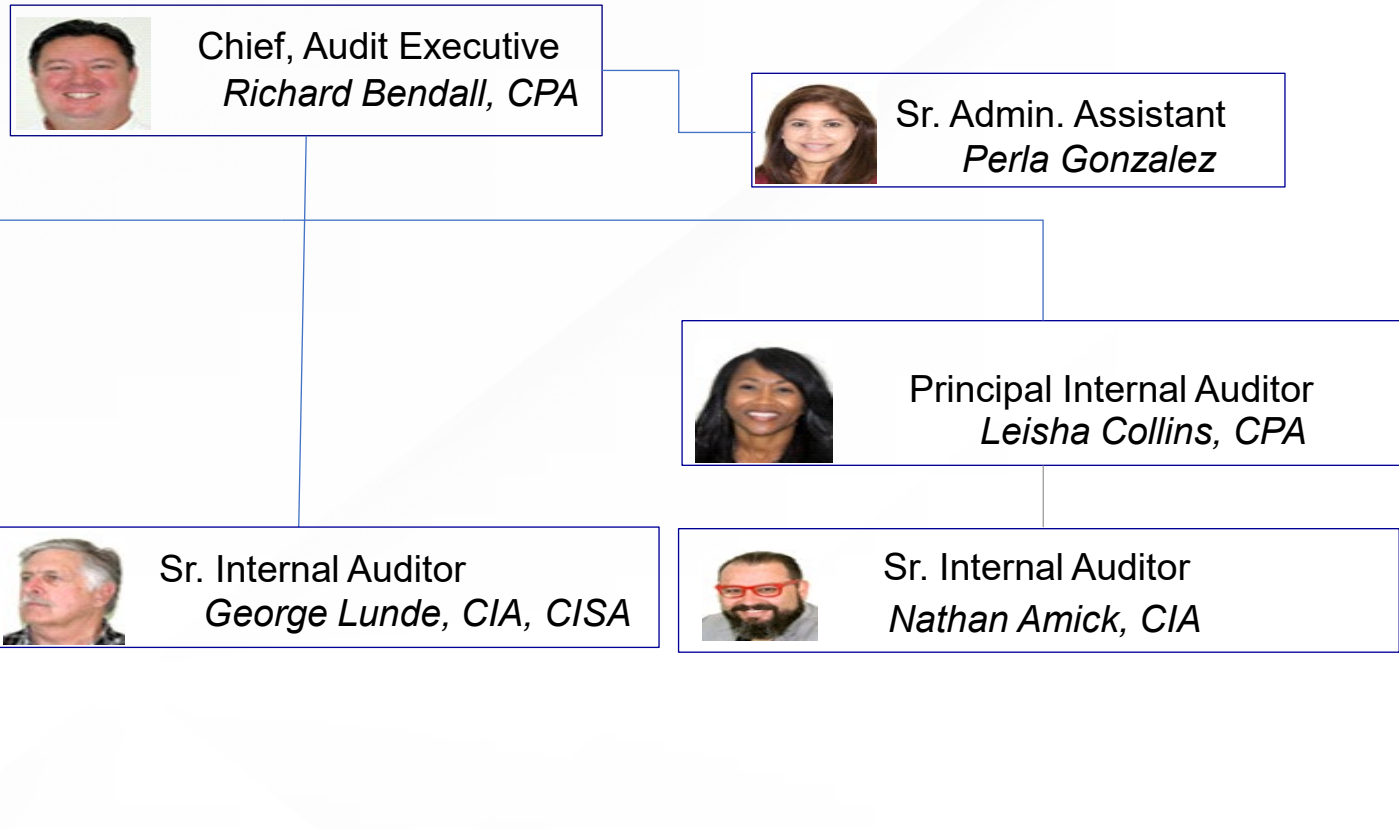
Internal Audit's work enhances accountability, integrity, and effective management practices at LACERA. The assurance, consulting, and advisory projects outlined in this report focus on improving risk management, control, and governance processes.



Internal Audit

The Internal Audit department has 11 budgeted positions, with 8 currently filled. Among the three vacancies, two are for “Senior Internal Auditor” roles and one is for an “Internal Auditor.” The qualifications and professional development of our personnel are key measures of our department’s effectiveness. Our team is well-rounded, boasting years of audit experience and professional designations such as Certified Public Accountant (CPA), Certified Internal Auditor (CIA), Certified Fraud Examiner (CFE), and Certified Information Systems Analyst (CISA).

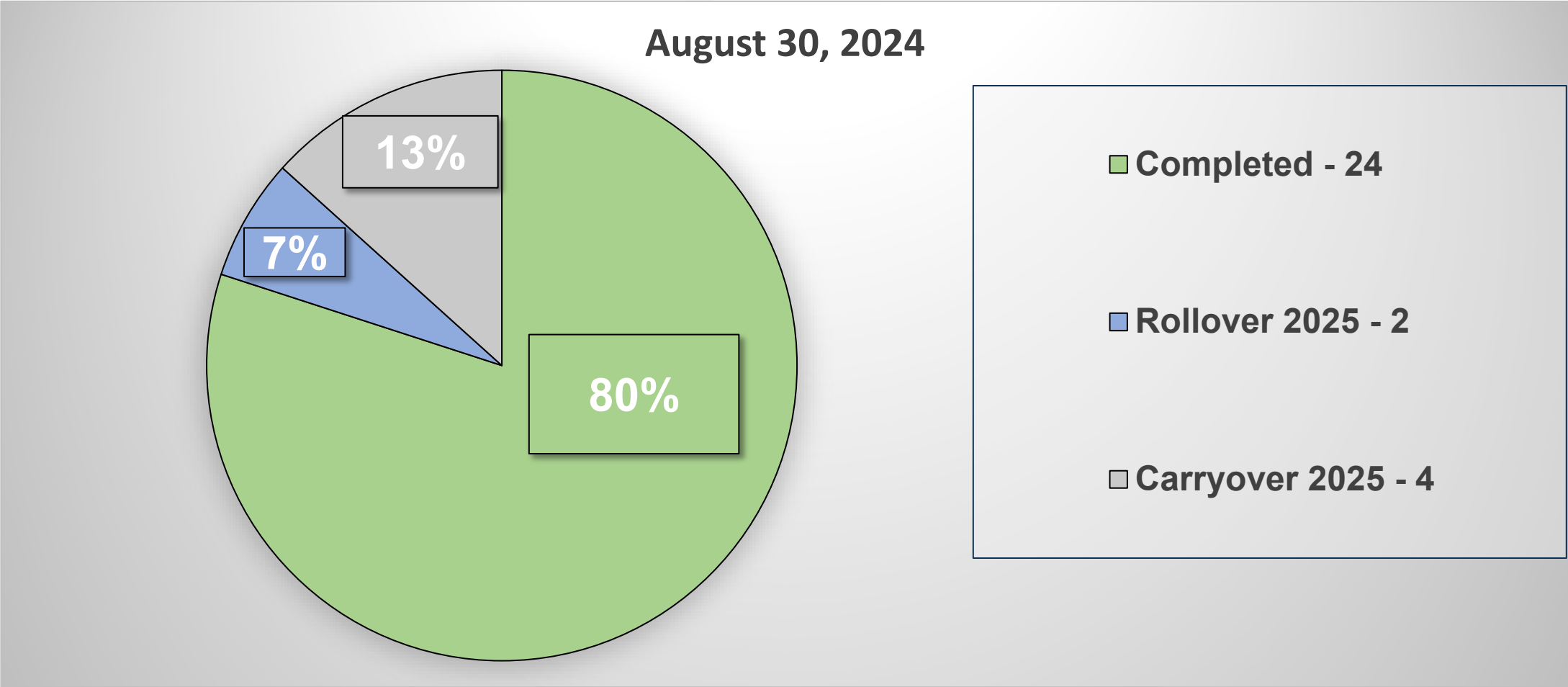
The Internal Audit Team



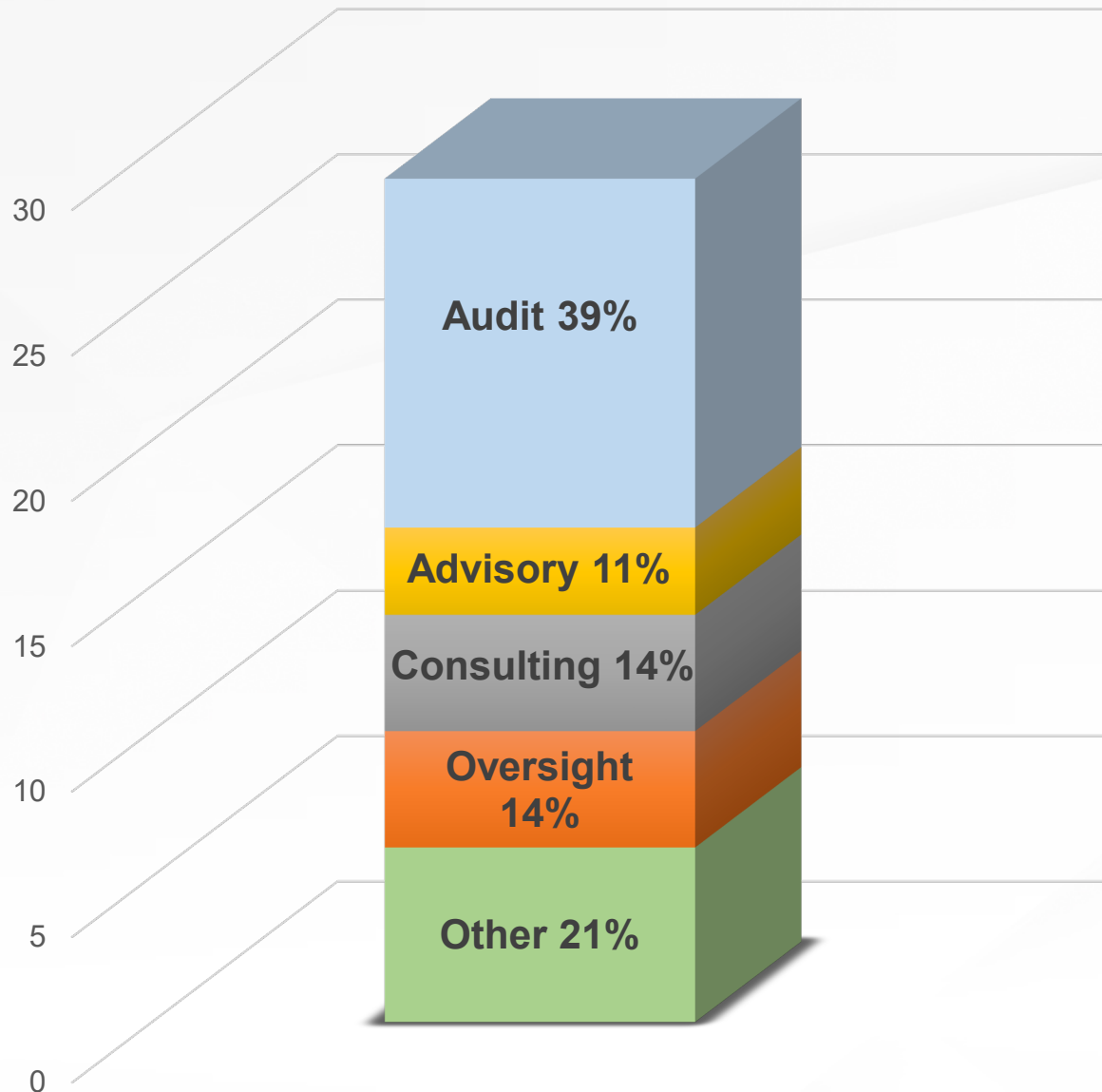
FYE 2024 Year In Review

FYE 2024 Audit Plan Results

As of August 30, 2024, Internal Audit completed 24 (80%) of the 30 FYE 2024 Audit Plan projects. The six remaining projects have been added to the FYE 2025 Audit Plan, with four in progress (Carryover) and two pending commencement (Rollover).



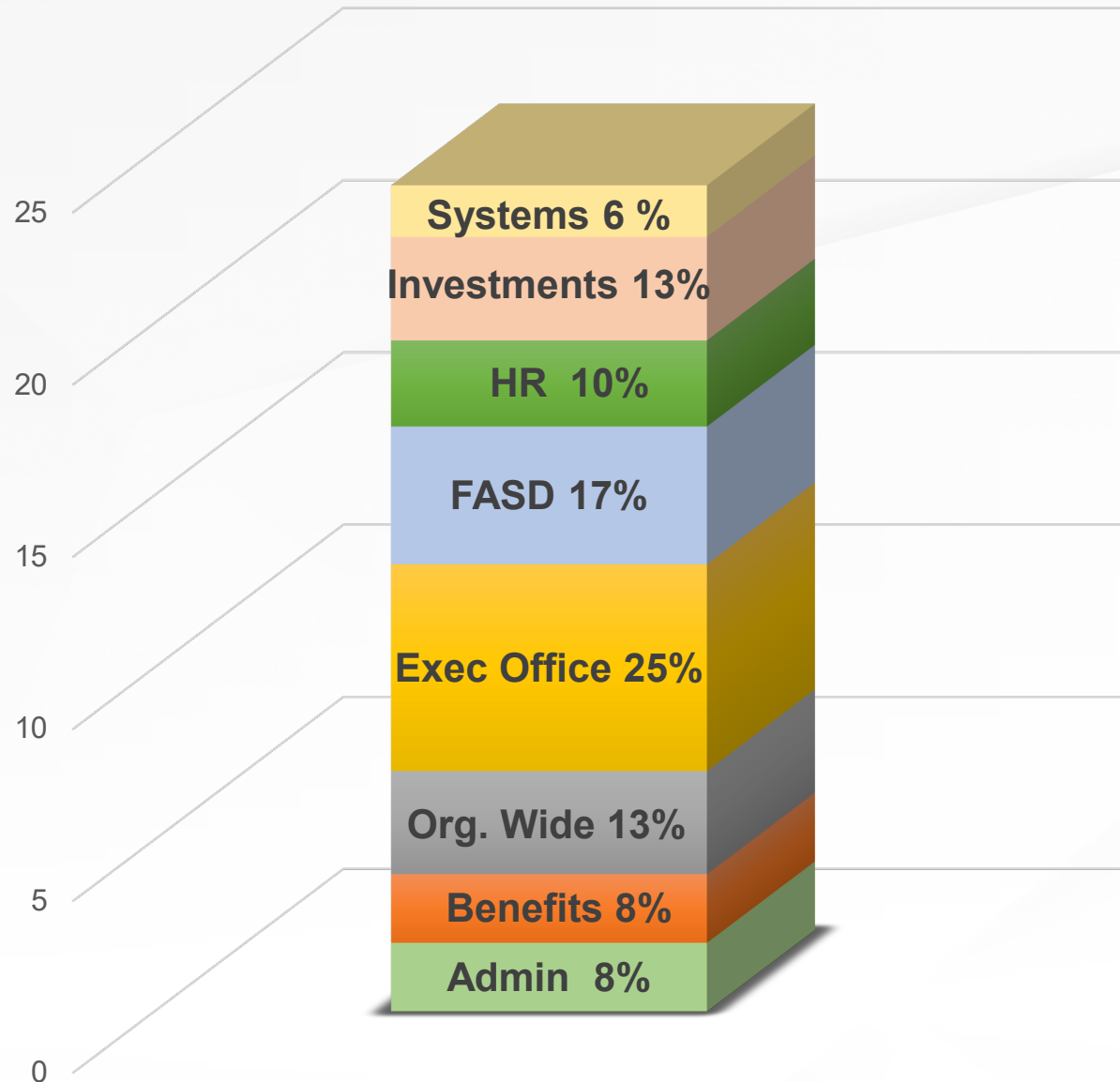
Coverage and Allocation



Of the 24 completed projects and the 4 in-progress carryover projects (28 total), Internal Audit provided the following services to the organization:

1. Audit – Assurance engagements providing an objective examination of evidence for the purpose of providing an independent assessment to Management and the Audit Committee.
2. Advisory – engagements providing informal advice to Management.
3. Consulting – engagements providing Management with formal assessments and advice for improving LACERA's governance, risk management, and control processes.
4. Oversight – project administration of external audits, and other significant projects or engagements.
5. Other - Administrative tasks necessary for managing internal audit activities.

Coverage and Allocation



Excluding our own administrative projects, Internal Audit has addressed 24 projects in eight different divisions.

1. Systems – One and a half projects completed, including a joint project with Human Resources
2. Investments – Three projects completed
3. Human Resources (HR)– Two and a half projects completed, including a joint project with Systems
4. FASD – Four projects completed
5. Executive Office – Six projects completed
6. Organizational (Org. Wide)– One project completed
7. Benefits – Four projects completed
8. Administrative Services (Admin)- One projects completed

FYE 2024 Outstanding Projects

Outstanding Projects From FYE 2024 Audit Plan	Status as of June 30, 2024	Status as of August 30, 2024
Termination of Access	In Progress	Completed
One Meeting Follow-Up Application Review	In Progress	Carryover
Inventory Asset Management	In Progress	Carryover
Account Settlement Collections (Overpayments)	In Progress	Carryover
Follow-up Assessment of Recruitment & Hiring	In Progress	Carryover
LA County Payroll	Pending Start	Rollover
IT Risk Assessment	Pending Start	Rollover



Enterprise Resource Management (ERM)

ACTIVITY	OVERVIEW
Develop ACRE Charter	IA led the drafting of the ACRE Charter, updating it to align with the new IIA Standards and incorporating compliance and ethics sections developed by the Legal Office.
COSO Enterprise Risk Management (ERM) Training	IA Management participated in the 'COSO ERM' training course offered by the Institute of Internal Auditors
Ethics Compliance Committee participation	IA Management actively participates on the Ethics and Compliance Committee, reviewing and discussing recent policies.
Policy Software Mgmt.	IA Management participated in the discussions and planning related to procuring an enterprise-wide software for governance and compliance.
Supporting Compliance with regards to strategic pillar	CAE participated in Board and Committee meetings in support of the compliance side of the strategic goal.

Audit Committee Calendar for FYE 2024

Documentation	Ref to AC Charter	Frequency	Aug-23	Dec-23	Mar-24	Jun-24
Audit Engagement Reports	VII.A.2.a.	Every Mtg	C	C	C	Z
Audit Plan Status Update	VII.A.1.d. & VII.A.2.c-d.	Every Mtg	C	C	C	C
Summary of Hotline Investigations	VII.D.3 & VII.E.2.b.	Every Mtg	C	C	C	C
Recommendation Follow-Up Reports	VII.A.2.b.	Every Mtg	C	C	C	C
Proposed Audit Plan and Budget	VII.A.1.c.	Annually			C	
Annual Risk Assessment	VII.A.1.a.	Annually				Z
Annual Audit Plan	VII.A.1.b.	Annually				Z
Presentation / memo by Financial Auditor detailing proposed scope of work and timing.	VII.B.2	Annually				C
Internal Audit Charter	VII.A.3.a.	Annually				Z
Internal Audit Annual Performance Report	VII.A.3.b.-c.	Annually	C			
CAE Performance Evaluation	VII.A.4.b.-c.	Annually		C		
Ethics & Values Review	VII.D.1-3.	Annually	C			
Organizational Governance Review	VII.E.	Annually	C			
Compliance Memo from Legal Office	VII.E.4.c.	Annually			C	
Financial Statements, Correspondence, & Presentation	VII.C.1.-4.	Annually		C		
Audit Committee Annual Performance Report	VII.F.1.	Annually		C		
Audit Committee Charter	VII.F.4	Every 3rd year				Z
Approve the appointment and compensation of the External Financial Auditor	VII.B.1	Every 5th year**	Appointed in 2023. Contacts end 2026			
Ensure IA has an external quality assessment performed every five years	VII.A.3.d.	Every 5th year	Completed in 2022.			
Provide an open avenue of communication between IA, all Professional Service Providers, Management, and the Boards	VII.F.2	Continuous	C	C	C	C
Approve the appointment & compensation of other Professional Service Providers, hired to perform non-financial statement audits, reviews or consulting, subject to limitations	VII.B.2	As needed		C		
Review with Professional Service Providers, including the Financial Auditor, and Mgmt the results of the work performed, any findings & recommendations, Mngmt's responses, and actions taken to implement the audit recommendations	VII.B.3	As needed	C	C	C	C
Advise the Boards about any recommendations for the continuous improvement of the internal audit activity	VII.A.3.e.	As needed				
Make recommendations to both Boards regarding the appointment, discipline, and/or dismissal, of the CAE, which will be addressed by the Boards in a joint meeting	VII.A.4.a.	As needed				
Perform other activities related to this Charter as requested by the Boards	VII.F.3	As needed				

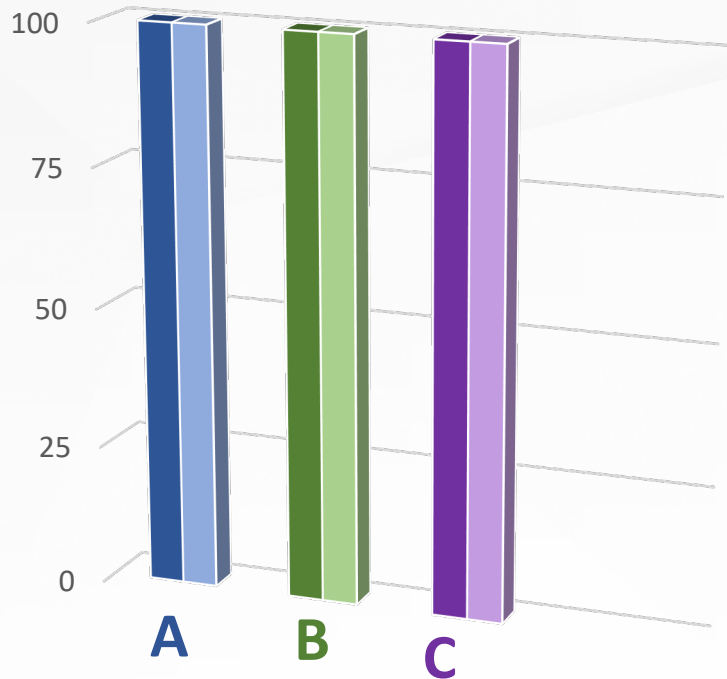
C = completed

Z = Items were presented to the committee, but no action was taken due to a lack of quorum

FYE 2024 Goals

Goal #1 – Develop and Execute a Risk-Based Audit Plan

Goal #1 – Performance



Darker shades reflect goal scale while the lighter shades reflect performance levels

- A.** Complete 80% of FYE 2024 Audit Plan
 - We completed 80% of our FYE June 30, 2024 Audit Plan.

- B.** Complete Annual Risk Assessment
 - We completed our Risk Assessment process and presented our risk-based Audit Plan for the fiscal year ending June 30, 2025. However, no action was taken on the Audit Plan due to a lack of quorum at the June 19, 2024, AC meeting.

- C.** Expend 70% or more of total available staff hours on direct assurance, consulting, and advisory services.
 - We met our goal with having only three projects not related to assurance, consulting, and advisory services.

Goal #2 – Continue to Improve Internal Audit's Presence and Value with Key Stakeholders

A. Provide biannual training to the Audit the Committee

- Staff provided Ethics Hotline training at the Dec-23 meeting,
- Staff provided Audit Committee orientation training at the Mar-24 meeting.

B. Provide quarterly presentation to the MAC on key current and upcoming projects

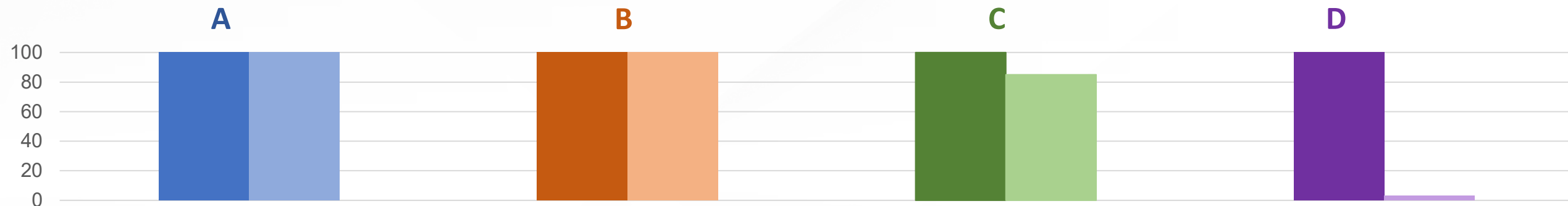
- CAE updated the MAC Team on key projects throughout FYE 2024

C. 80% or higher satisfactory score on surveys from Audit Committee and the Executive Office

- We received an average score of 75% from the Audit Committee, 91% from the Executive Office

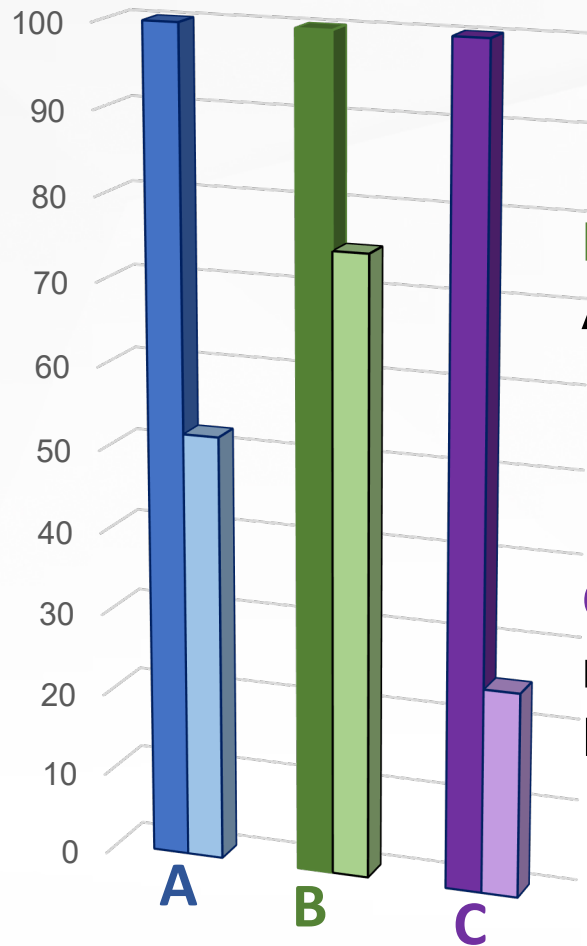
D. Create and enhance the strategy for establishing an Enterprise Risk Management (ERM) Program.

- Participated in foundational activities



Goal #3 - Continue to Enhance Internal Audit's Competency and Efficiencies

Goal #3 – Performance



A. Implement 2022 External Quality Assessment recommendations due this fiscal year

- We have implemented 12 of the 23 EQA recommendations.
- Seven of the remaining 11, are slated for completion by 12/30/24 the remain four by 06/30/25

B. Develop and complete a divisional training plan that strengthens Internal Audit's competencies

- All staff completed the required 40 hours of training including:
 - Division wide attendance at 1 of the 2 APPFA conferences
 - Division wide ethics training, IT audit training, and AI training

C. Conduct monthly Quality Assessment Improvement Program (QAIP) meetings focusing each month on a different Institute of Internal Auditors Practice Guide

- During the year, we did not regularly conduct QAIP meetings but instead discussed new trends, risks, and the updated Standards during weekly Staff meetings.

FYE 2025 Current Status

Current FYE 2025 Audit Engagements and & Projects

In Progress - Engagement/Project	Engagement Assignment	Estimated Completion	Planning Scope	Prelim Audit Work	Audit Field Work	Draft Report	Exit Meeting
Termination of Access	Systems/HR	Completed					
CEO Credit Card	Executive	Completed					
Oversight - SOC Audit FY 24 & 25	Systems	Oct 2024					
Oversight of Financial Audit FY 24 & 25	FASD	Oct 2024					
IT Risk Assessment	Systems	Feb 2025					
LA County Payroll	Executive	Feb 2025					
*Inventory Asset Management	Admin Systems	n/a	n/a	n/a	n/a	n/a	n/a
*Account Settlement Collections (Overpayments)	Benefits	n/a	n/a	n/a	n/a	n/a	n/a

*These are value-added engagements so audit workflow (planning, fieldwork, etc) are not applicable.

Thank you!


QUESTIONS?



August 21, 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: September 19, 2024 Audit Committee Meeting

SUBJECT: **Fiscal Year Ending (FYE) 2025 Internal Audit Goals**

Attached are the FYE 2025 Internal Audit Division Goals. To improve efficiency and effectiveness of the Internal Audit function, we are continuing to focus on three primary goals: 1) Develop and Execute a Risk-Based Annual Audit Plan that Aligns with Organizational Strategic Plan, 2) Continue to Improve Internal Audit's Presence and Value with Stakeholders, and 3) Continue to Enhance Internal Audit's Competence and Efficiencies.

We made minimal changes to these goals from the FYE 2024 goals as these continue to be core to our mission and success. However, we did refine and make changes to some of the performance measures under the goals to ensure that they provide for meaningful measures of success in achieving the overall goals. Attachment A provides a description of each goal and the associated performance measurements.

We welcome the opportunity for discussion and feedback from the Committee.

Internal Audit Goals - FYE 2025

Goal 1: Develop and Execute a Risk-Based Annual Audit Plan that aligns with Organizational Strategic Plan

Performance Measures:

- Complete 80% or more of Audit Plan.
- Redesign and complete annual Risk Assessment to align with the Organizational Strategic Plan and updated IIA Standards.
- Employ Metrics and KPI's in the management of the Audit Plan and provide updates in the Audit Plan Status Reports.

Goal 2: Continue to Improve Internal Audit's Presence and Value with Stakeholders

Performance Measures:

- Quarterly presentations to MAC on current risks and upcoming Internal Audit Projects.
- Provide education to the Committee at least twice per year in relevant areas of their responsibilities.
- Create and enhance the strategy for establishing an Enterprise Risk Management (ERM) Program:
 - Develop ERM Charter,
 - Select and define Framework,
 - Initiate development of ERM structure at LACERA
- Receive 80% or higher satisfaction score on Internal Audit Surveys from Committee, Executive Office, and auditees.

Goal 3: Continue to Enhance Internal Audit's Competence and Efficiencies

Performance Measures:

- Establish Internal Audit 3-year Road Map.
- Implement remaining 2022 External Quality Assessment (EQA) recommendations due this fiscal year.
- Develop and complete a divisional training plan based on an assessment of Internal Audit's current competencies.
- Conduct quarterly Quality Assessment Improvement Program (QAIP) meetings focusing on current industry, audit risks, and best practices.
- Develop a formal Continuous Audit Process (CAP) Program.

**FOR INFORMATION ONLY**

August 30, 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: September 19, 2024 Audit Committee Meeting

SUBJECT: **Organizational Culture Engagement**

Background

At the request of a former Audit Committee Chair and aligned with current industry risks, Internal Audit initially had an Organizational Culture engagement on our FYE 2023-2024 Audit Plan. The purpose of the engagement was to assess LACERA's culture. However, after completing our preliminary research, we determined that an assurance engagement on culture would be premature based on Internal Audit's knowledge of assessing culture. We felt it would be more of a value-add to provide education on culture and the tools the Boards and management should use to monitor culture.

Summary of Work Performed

Staff reviewed the following key documents to help better understand how to assess Organizational Culture:

- Institute of Internal Auditors (IIA) 1st and 2nd editions, "Auditing Culture"
- Audit Board's "2023 Organizational Culture and Ethics Report – Internal Audit's Role in Unlocking Culture Catalyst and 21st Century Differentiator"
- Attended IIA training on updates to ethical standards

Additionally, staff did more general research on developing, setting, and assessing an organizational culture.

Conclusion

Because of the importance that organizational culture has on an organization's success, Internal Audit and the Legal Office's Ethics and Compliance Program (Ethics and Compliance) are collaborating to learn more and provide insight to the Committee and Executive Management on the topic. We will be spending the current fiscal year, focused on learning about:

- The core elements of culture and their inherent and actual risks to LACERA
- The attributes of healthy cultures and how to properly measure and assess them
- The Key Culture Risk Indicators (KCRIs) and how to properly measure and assess them
- Tools for measurement of ethical culture

Internal Audit and Ethics and Compliance are meeting with the Executive Office and Human Resources in late September to discuss our approach and obtain their feedback before we develop a project plan. We will provide the Committee with periodic updates throughout the remainder of the fiscal year.

Noted and Reviewed:



Richard P. Bendall
Chief Audit Executive

**FOR INFORMATION ONLY**

September 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: Nathan K. Amick 
Senior Internal Auditor

FOR: September 19, 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

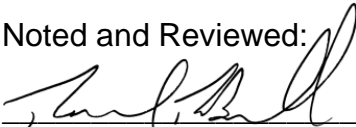
As a result of the audit and consulting projects completed in recent months, Internal Audit is tracking both audit recommendations and long-term strategic recommendations. Audit recommendations are focused on improving internal controls while strategic recommendations are centered on organizational risks that may impact LACERA in the future. The reporting period is from June 1, 2024, through September 4, 2024.

	# of Audit Recommendations	# of Strategic Recommendations
Balance as of 06/01/2024	20	15
+ New Findings	0	0
- Accepts Risk	0	0
Transitioned (+In, -Out)	-1	+1
[-]Pending Internal Audit Verification	-1	0
- Implemented Findings	-1	-1
Balance as of 09/4/2024	17	15

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 June 1, 2024, through September 4, 2024.
- Attachment B – Details of outstanding audit recommendations at of September 4, 2024.
- Attachment C – Details of outstanding long-term strategic recommendations as of September 4, 2024.

Staff from the respective divisions will be present at the September 19, 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 September 4 , 2024)

Presented by:

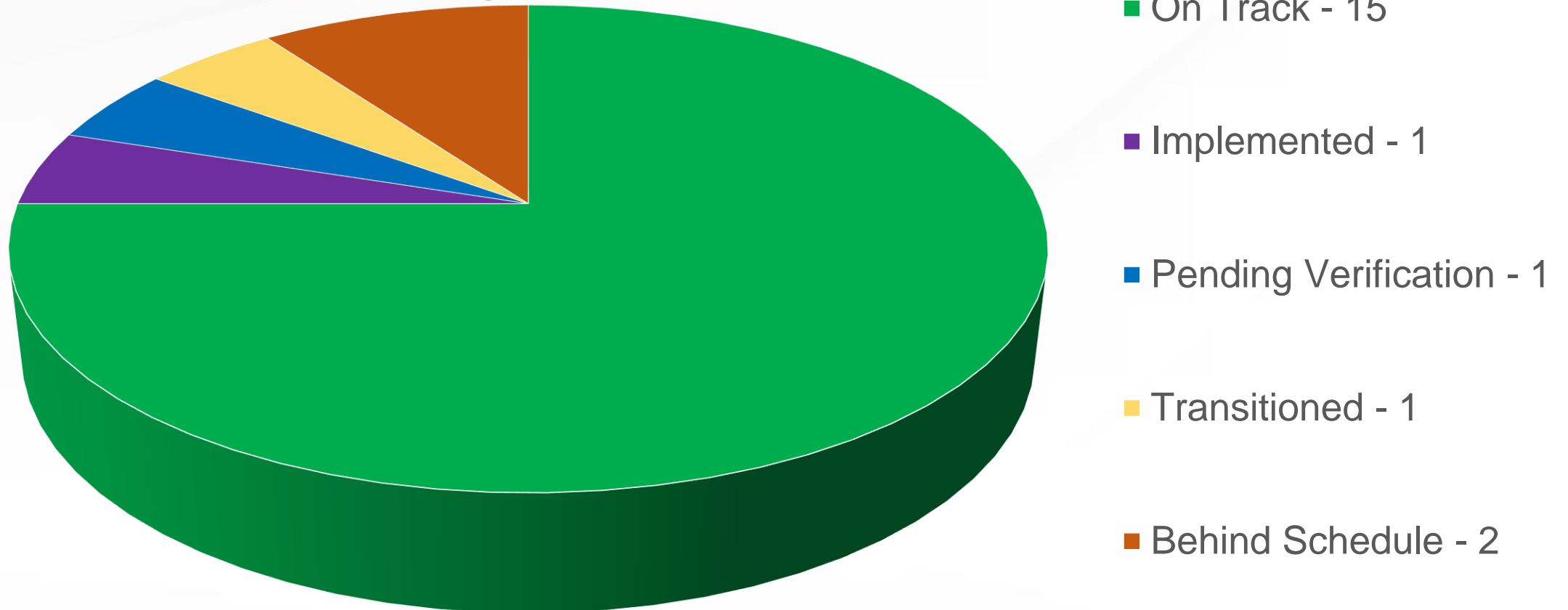
Nathan K. Amick, Senior Internal Auditor

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 June 1, 2024 to September 4, 2024

**Status of Outstanding Audit Recommendations
as of September 4, 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	Pending Internal Audit's Verification	Transitioned Out	Behind Schedule	On Track
Administrative Services Division	-	1	-	-	8
Disability Retirement Services Division (DRS)	1	-	-	-	-
Executive Office	-	-	1	-	-
Financial Accounting & Services Division (FASD)	-	-	-	-	5
Human Resources Division (HR)	-	-	-	1	1
Information Security Office	-	-	-	1	1
Total	1	1	1	2	15

Status of Open Strategic Observations



Strategic observations 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 September 2024.

Strategic COSO* Area	# of Observations as of August 2023	Completed during FY	Added during FY	# of Observations as of Sept 2024
Forecasting / Budget	1			1
Internal and External Reporting	1			1
Organizational Structure	3		1	4
Performance Measures	2			2
Risk Assessment	1			1
Training and Development & Talent Management	7	-1		6
Total	15	-1	1	15

* 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.*

Project Name	Finding Title	Risk Rating	Recommendation	Status Update	Target Due Date
Responsible Division: Administrative Services Division					
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.	ON TRACK - 2nd Approved Extension This recommendation will also, be incorporated into the Procurement of Goods Audit.	9/30/2024
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.	ON TRACK - 1st Approved Extension The BOR approved the Policy at the September Meeting. Staff is working on updating the manual, training materials, and finalizing ECLM for the centralized vendor management program.	9/30/2024
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.	ON TRACK - 1st Approved Extension The BOR approved the Policy at the September Meeting. Staff is working on updating the manual, training materials, and finalizing ECLM for the centralized vendor management program.	9/30/2024
Procurement of Goods	2. Missing and Incomplete Procurement Forms and Supporting Documentation.	Medium	3. Provide Training to Staff on Procurement Requirements Once the Policy and Manual are Updated.	ON TRACK - 1st Approved Extension The BOR approved the Policy at the September Meeting. Staff is working on updating the manual, training materials, and finalizing ECLM for the centralized vendor management program.	9/30/2024
Procurement of Goods	3. Missing Documentation of the Verification of Receipt of Goods.	Medium	4. Ensure that a Three-Way Match Between the PO, Invoice, and Packing Slip is Performed and Documented.	Pending Internal Audit's Verification The Three-Way-Match is now executed in Certify. Documented procedures will be included in the Policy and Manual.	9/30/2024

Project Name	Finding Title	Risk Rating	Recommendation	Status Update	Target Due Date
Responsible Division: Administrative Services Division					
Procurement of Goods	4. Missing and Unclear Documentation Supporting Justification for Use of Single and Sole Source Vendors.	Medium	5. 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.	ON TRACK - 1st Approved Extension The BOR approved the Policy at the September Meeting. Staff is working on updating the manual, training materials, and finalizing ECLM for the centralized vendor management program.	9/30/2024
Procurement of Goods	4. Missing and Unclear Documentation Supporting Justification for Use of Single and Sole Source Vendors.	Medium	6. Procurement Supervisors should ensure that requesters and procurement staff comply with providing the appropriate documentation and justification to support sole and single source procurements.	ON TRACK - 1st Approved Extension The BOR approved the Policy at the September Meeting. Staff is concurrently working on updating the manual, training materials, and finalizing ECLM for the centralized vendor management program.	9/30/2024
Procurement of Goods	5. Missing and Inadequate Documentation of 3-Bid Process and Selection of Vendor.	Medium	7. 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.	ON TRACK - 1st Approved Extension The BOR approved the Policy at the September Meeting. Staff is working on updating the manual, training materials, and finalizing ECLM for the centralized vendor management program.	9/30/2024

Project Name	Finding Title	Risk Rating	Recommendation	Status Update	Target Due Date
Responsible Division: Administrative Services Division					
Procurement of Goods	6. Inefficiencies and discrepancies noted on the Forms Inventory Tracking Spreadsheets.	Low	8. 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.	ON TRACK - 1st Approved Extension The BOR approved the Policy at the September Meeting. Staff is working on updating the manual, training materials, and finalizing ECLM for the centralized vendor management program.	9/30/2024
Responsible Division: Disability Retirement Services (DRS)					
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.	Implemented Updates have been made to digital and paper applications to identify affiliated relationships. This identification provides reference for additional followup by Legal Office and/or outsourced. Staff has been trained on the updated process.	6/30/2024
Responsible Division: Executive Office					
LA County Rehired Retirees FYE 2021	Lack of adherence to PEPRAs "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 PEPRAs and provide for recovery of benefits paid during periods worked in violation of PEPRAs law.	Shifted to Strategic in September 2024 Pending discussions with staff and the Board of Retirement, LACERA is considering the creation of a new policy as the pension administrator. This policy would address the County's use of rehired retirees and supplement the existing LACERA policy.	N/A

Project Name	Finding Title	Risk Rating	Recommendation	Status Update	Target Due Date
Responsible Division: Financial and Accounting Services Division (FASD)					
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.	ON TRACK - 2nd Approved Extension Revised Policy is scheduled in September to be submitted to the Internal Policy Committee for review and discussion.	9/30/2024
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.	ON TRACK - 2nd Approved Extension Revised Policy is scheduled in September to be submitted to the Internal Policy Committee for review and discussion. Training will be provided when updates to the policy are completed.	12/31/2024
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.	ON TRACK - 3rd Approved Extension Revised Policy is scheduled in September to be submitted to the Internal Policy Committee for review and discussion. Training will be provided when updates to the policy are completed.	12/31/2024
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	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.	ON TRACK - 3rd Approved Extension FASD now receives HR outgoing staff emails to deactivate accounts and destroy credit cards for outgoing staff. Revised Policy is scheduled in September to be submitted to the Internal Policy Committee for review and discussion.	9/30/2024
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.	ON TRACK - 3rd Approved Extension Internal processes for card deactivation and card destruction are in place. Revised Policy is scheduled in September to be submitted to the Internal Policy Committee for review and discussion.	9/30/2024

Project Name	Finding Title	Risk Rating	Recommendation	Status Update	Target Due Date
Responsible Division: Human Resources Division (HR)					
Review of HR Recruiting & Hiring Process	#3: Lack 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.	On Track - 3rd Approved Extension HR created a requested for bid for this scope of work and sent it to three vendors. All three vendors responded, one was selected, and HR is in the contracting process to begin work. Estimated completion date is pending.	03/30/2025
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.	At Risk / Behind Schedule In July of 2023, The BOR approved the updated new Policy. HR has drafted new procedures and is awaiting final approval from Ethics and Compliance Committee.	7/31/2024
Responsible Division: InfoSec					
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.	On Track - 2nd Approved Extension 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
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.	At Risk / Behind Schedule Information Security Office is drafting procedures which will be submitted to the Information Security Council by mid-September 2024	6/30/2024

**Strategic Observation Status Update
As of September 2024**

Project Name	Finding Title	Recommendation	Status Update
COSO: Forecasting / Budgeting			
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. As of August 2024, the Executive Office is in the process of drafting a Memo of Understanding (MOU) to formalize the process.
COSO: Internal & External Reporting			
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 is being addressed through various means - 1) currently there is a draft staff communications plan, which Management expects to finalize FY 2024-2025, 2) a task within the Strategic Plan's 1st Objective is to develop a member-centric communications plan, and 3) Management plans to hire a public relations consultant
COSO: Organizational Structure			
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, QA and Benefits, are working together to address this in the long-term as this requires a significant amount of resource planning and strategizing within the organization.
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.	Management will address this when Board charters are reviewed at a later date.

**Strategic Observation Status Update
As of September 2024**

Project Name	Finding Title	Recommendation	Status Update
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."
LA County Rehired Retirees FYE 2021	Lack of adherence to PEPRA's "limited duration" language	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.	Moved to Strategic in September 2024. Pending staff and then Board of Retirement discussions regarding creating a new LACERA policy as pension administrator with respect to the County use of rehired retirees, to supplement the existing policy applicable to LACERA.
COSO: Performance Measures			
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.	The Executive Team, QA and Benefits, are working together to address this in the long-term as this requires a significant amount of resource planning and strategizing within the organization.
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. 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 Innovation thru Technology. Management is in the process of creating data lakes to use Power Bi to update KPIs for Member Operations groups.

**Strategic Observation Status Update
As of September 2024**

Project Name	Finding Title	Recommendation	Status Update
COSO: Risk Assessment			
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.	During FY 2023-2024, Management made significant strides in formalizing LACERA's Compliance Program, including developing a program charter and revising the Audit Committee's charter. Enterprise Risk Management to be focused on during FY 2024-2025.
COSO: Training and Development & Talent Management			
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 is part of the work program for the Board of Retirement's 5-Year Strategic Plan (FY 2024-2029)'s "Investing in People." Foundational work on this objective was done in FY 2023-2024. This specific recommendation is targeted for FY 2024-2025.
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.	This recommendation is part of the work program for the Board of Retirement's 5-Year Strategic Plan (FY 2024-2029)'s "Investing in People." Foundational work on this objective was done in FY 2023-2024. This specific recommendation is targeted for post FY 2024-2025.
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 is part of the work program for the Board of Retirement's 5-Year Strategic Plan (FY 2024-2029)'s "Investing in People." Foundational work on this objective was done in FY 2023-2024.

**Strategic Observation Status Update
As of September 2024**


Project Name	Finding Title	Recommendation	Status Update
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 is part of the work program for the Board of Retirement's 5-Year Strategic Plan (FY 2024-2029)'s "Investing in People." Foundational work on this objective was done in FY 2023-2024.
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.	This recommendation is part of the work program for the Board of Retirement's 5-Year Strategic Plan (FY 2024-2029)'s "Investing in People." Foundational work on this objective was done in FY 2023-2024.
Review of HR Recruiting & Hiring Process	#3: Lack Structure, Culture & Service Level Agreements	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.	HR created a request for bid for this scope of work and sent it to three vendors. All three vendors responded, one was selected, and HR is currently in the contracting process before starting work.
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.	Addressed. Retiree Healthcare Management has been having its supervisors take a more active role in the various aspects of managing RHC and the Rehired Retiree is no longer with RHC.

**FOR INFORMATION ONLY**

September 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: Gabriel Tafoya 
Senior Internal Auditor

FOR: September 19, 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. There have been no recommendations implemented during this reporting period, June 2024 through August 2024.

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. 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 Jun 2024 – Aug 2024	In Progress Sep 2024
Recommendation Status by Risk Level				
PM SOC FYE 2023 June 2023				
Medium	5	4	—	1
PM SOC FYE 2022 June 2022				
Medium	5	5	—	—
Moss Adams Pen and Social Engineering April 2022				
High	3	3	—	—
Medium	3	2	—	1
Low	1	1	—	—
PM SOC FYE2021 September 2021				
Medium	5	5	—	—
PM SOC Readiness Assessment February 2020				
Medium	10	9	—	1
Clear Skies Penetration Test and VeraCode Report March 2020				
High	1	1	—	—
Medium	25	22	—	3*
Low	17	11	—	6*
Tevora 2019 Penetration Test June 2019				
Low	5	5	—	—
Tevora 2018 Security Risk Assessment July 2018				
Medium	3	3	—	—
Low	6	6	—	—
Consolidated Recos January 2021				
High	2	2	—	—
Medium	2	2	—	—
Totals	93	81	—	12

*Risk Rating, from the June 2024 report, was re-categorized to more accurately reflect the risk level.

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
Data Backup and Recovery	Controls provide reasonable assurance that data and systems are backed up successfully, completely, stored offsite, and validated periodically.
Environmental	Controls provide reasonable assurance that systems equipment and data is adequately protected from environmental factors.
Information Security	Controls provide reasonable assurance that policies and procedures are in place to ensure effective communication of information security practices.
Logical Access	Controls provide reasonable assurance that logical access to applications and data is limited to authorized individuals.
Physical Security	Controls provide reasonable assurance that physical access to systems equipment and data is restricted to authorized personnel.
System Development & Change Management	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.
System Monitoring & Maintenance	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 Jun 2024 – Aug 2024	In Progress Sep 2024
Data Back Up & Recovery	2	2	—	—
Environmental	—	—	—	—
Information Security	12*	12	—	0
Logical Access	55*	46	—	9*
Physical Security	3	3	—	0
System Development & Change Management	2	2	—	—
System Monitoring & Maintenance	19	16	—	3
Total by Implementation Status	93	81	—	12

* ITGC Recommendation category was revised, from the June 2024, reporting to more accurately reflect the ITGC area.

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 September 19, 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



August 21, 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: Leisha E. Collins 
Principal Internal Auditor

FOR: September 19, 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 this reporting date, 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.

2024 ETHICS HOTLINE COMMUNICATION

Internal Audit periodically updates LACERA's Hotline communications to foster staff's awareness of this program and to encourage LACERA's culture of ethics and compliance. In the upcoming months, Internal Audit will collaborate with the Legal Office's Ethics and Compliance Program in updating the Ethics Hotline materials, policies, and procedures. We'll also work with the Communications Division in developing an effective awareness campaign to provide focused and clear messaging to LACERA employees.

Noted and Reviewed:



Richard P. Bendall
Chief Audit Executive

FOR INFORMATION ONLY

September 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

FOR: September 19, 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.

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 September meeting.

RPB:rb