

IN PERSON & VIRTUAL BOARD MEETING

Amended Agenda



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Attention: If you have any questions, you may email PublicComment@lacera.com.

AMENDED AGENDA

A REGULAR MEETING OF THE AUDIT, COMPLIANCE, RISK, AND ETHICS
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, MARCH 13, 2025

This meeting will be conducted in person and by emergency teleconference under California Government Code Section 54953(e) based on the Governor's Proclamation of a State of Emergency due to the Los Angeles County fires.

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.

AUDIT, COMPLIANCE, RISK, AND ETHICS (ACRE) COMMITTEE TRUSTEES:

Debbie Martin (BOI), Trustee
Alma K. Martinez (BOI), Trustee
Nicole Mi (BOI), Trustee
Nancy Durazo (BOR), Trustee
Jason Green (BOR), Trustee
Wayne Moore (BOR), Trustee
Elizabeth Ginsberg, Ex-Officio

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

Larry Jensen

A. Approval of Governor's Proclamation of State of Emergency Due to The Los Angeles County Fires.

- I. CALL TO ORDER
- II. PLEDGE OF ALLEGIANCE
- III. ELECTIONS OF OFFICERS (Election of Chair, Vice Chair, and Secretary)

IV. 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

V. APPROVAL OF THE MINUTES

- A. Approval of the Minutes of the Regular Meeting of December 12, 2024

VI. PUBLIC COMMENT

(Members of the public may address the Board orally and in writing. To provide Public Comment, you should visit <https://LACERA.com/leadership/board-meetings> and complete the request [form](#).

If you select oral comment, we will contact you via email with information and instructions as to how to access the meeting as a speaker. You will have up to 3 minutes to address the Board. 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 within the form 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.)

VII. NON-CONSENT ITEMS

- A. **Proposed 2025 ACRE Committee Meeting Dates**
Recommendation as submitted by Christina Logan, Principal Internal Auditor: That the Committee review and approve the proposed 2025 ACRE Committee meeting dates.
(Memo dated February 26, 2025)
- B. **Internal Audit Proposed Fiscal Year 2025–2026 Budget Request**
Recommendation as submitted by Richard P. Bendall, Chief Audit Executive: That the Committee approve the Internal Audit Proposed Fiscal Year 2025-2026 Budget Request, and upon approval, direct staff to include it in LACERA's Administrative Budget for Board approval. (Memo dated February 27, 2025)

VII. NON-CONSENT ITEMS (Continued)

C. **Ethics and Compliance Program Fiscal Year 2025-2026 Budget Request**

Recommendation as submitted by Steven P. Rice, Chief Counsel: The Committee approve the Proposed Ethics and Compliance Program Fiscal Year 2025-2026 Budget Request, and upon approval, direct staff to include it in LACERA’s Administrative Budget for approval by the Board of Retirement and Board of Investments.

(Presentation) (Memo dated February 25, 2025)

D. **Deputy, Chief Ethics and Compliance Officer, LACERA Proposed Classification and Compensation**

1. Approve establishment of one (1) new non-represented classification and salary range applicable only to LACERA and two (2) ordinance / budgeted designated positions, and refer the classification and salary to the Joint Organizational Governance Committee (JOGC) for review and recommendation to the Board of Retirement and Board of Investments:

New Classification Title

Salary Schedule

Deputy, Chief Ethics and Compliance Officer,
LACERA

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2. Recommend to the JOGC and joint Boards that they direct staff, upon approval by the JOGC and the joint Boards, to submit to the Board of Supervisors the required ordinance language to implement the new LACERA classification and pay range by amending the Los Angeles County Salary Code Sections 6.28.050, 6.127.010, and 6.127.030.

(Memo dated February 20, 2025)

VIII. REPORTS

A. **ACRE Orientation Introduction**

Richard P. Bendall, Chief Audit Executive

(Presentation) (Memo dated February 25, 2025)

VIII. REPORTS (Continued)

- B. **ACRE and Internal Audit Roles, Responsibilities, and Processes**
Leisha E. Collins, Principal Internal Auditor
(Presentation) (Memo dated February 27, 2025)
- C. **Ethics and Compliance – ACRE Roles and Responsibilities**
Allison Barrett, Senior Staff Counsel
(Presentation) (Memo dated February 25, 2025)
- D. **The Role of Culture and Values in the Work of the ACRE Committee**
Steven P. Rice, Chief Counsel
(Presentation) (Memo dated February 25, 2025)
- E. **LACERA Risk Management and Internal Audit Risk Assessment**
Richard P. Bendall, Chief Audit Executive
(Presentation) (Memo dated February 25, 2025)
- F. **Overview of External Financial Audit and Reports and Overview of Actuarial Audit**
Richard P. Bendall, Chief Audit Executive
(Presentation) (Memo dated February 24, 2025)

IX. CONSULTANT COMMENTS

Larry Jensen, Audit, Compliance, Risk, and Ethics Committee Consultant
(Verbal Presentation)

X. 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.)

XI. 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.)

XII. GOOD OF THE ORDER

(For Information Purposes Only)

XIII. 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, COMPLIANCE, RISK,
AND ETHICS (ACRE) 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, DECEMBER 12, 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 (f).

COMMITTEE TRUSTEES:

PRESENT: Debbie Martin (BOI), Chair
Wayne Moore (BOR), Vice Chair
Vivian Gray (BOR), Secretary, (Joined the meeting at 9:25 a.m.)
Nancy Durazo (BOR), Trustee (Joined the meeting at 9:02 a.m. and left the meeting at 11:13 a.m.)
Jason Green (BOI), Trustee
Nicole Mi (BOI), Trustee
Elizabeth Ginsberg, Ex-Officio

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 AND PARTICIPANTS (Continued)

Steven P. Rice, Chief Counsel

Allison Barrett, Senior Staff Counsel

Carly Ntoya, Human Resources Director

Richard P. Bendall, Chief Audit Executive

Leisha E. Collins, Principal Internal Auditor

Christina Logan, Principal Internal Auditor

Nathan K. Amick, Senior Internal Auditor

Kristina Sun, 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 Chair Martin at 9:00 a.m. in the Board Room of Gateway Plaza.

II. PLEDGE OF ALLEGIANCE

Trustee Green 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)

(Trustee Durazo joined the meeting at 9:02 a.m.)

- 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).

IV. APPROVAL OF THE MINUTES

- A. Approval of the Minutes of the Regular Meeting of September 19, 2024

Trustee Green made a motion, Trustee Moore seconded, to approve the Minutes of the Regular meeting of September 19, 2024. The motion passed by the following roll call vote:

Yes: Martin, Moore, Durazo, Ginsberg, Green, Mi

Absent: Gray

V. PUBLIC COMMENT

There were no requests from the public to speak.

VI. NON-CONSENT ITEMS

- A. **Fiscal Year Ending 2025 Audit Plan Amendments and Status Update**

Recommendation as submitted by Christina Logan, Principal Internal Auditor, and Nathan Amick, Senior Internal Auditor: The ACRE Committee review and approve amendments to Internal Audit's Fiscal Year Ending (FYE) 2025 Audit Plan.

(Presentation) (Memo dated November 15, 2024)

Messrs. Bendall and Amick provided a presentation and answered questions from the Committee.

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

Yes: Martin, Moore, Durazo, Ginsberg, Green, Mi

Absent: Gray

VI. NON-CONSENT ITEMS (Continued)

B. **ACRE Committee's Annual Report to Boards**

Recommendation as submitted by Debbie Martin, Audit, Compliance, Risk, and Ethics (ACRE) Committee Chair and Richard P. Bendall, Chief Audit Executive: The Audit, Compliance, Risk, and Ethics (ACRE) Committee provide suggested revisions and/or approve the issuance of the Audit, Compliance, Risk, and Ethics (ACRE) Committee Annual Report to the Boards and direct staff to issue the report to the Boards at their respective January 2025 meetings.
(Memo dated November 14, 2024)

(Trustee Gray joined the meeting at 9:25 a.m.)

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

Trustee Moore made a motion, Trustee Ginsberg seconded, to approve staff's recommendation. The motion passed by the following roll call vote:

Yes: Martin, Moore, Durazo, Ginsberg, Gray, Green, Mi

C. **Request for Proposal for Auditing Services Pool**

Recommendation as submitted by Leisha E. Collins, Principal Internal Auditor: The ACRE Committee authorize staff to release a Request for Proposal (RFP) for Internal Audit's pre-qualified Audit Services Pool for a maximum five-year term.
(Presentation) (Memo dated November 8, 2024)

(Trustee Durazo left the meeting at 9:39 a.m.)

Ms. Collins provided a brief presentation. Mr. Bendall was present to answer questions from the Committee.

Trustee Gray made a motion, Trustee Ginsberg seconded, to approve staff's recommendation. The motion passed by the following roll call vote:

Yes: Martin, Moore, Ginsberg, Gray, Green, Mi

Absent: Durazo

VI. NON-CONSENT ITEMS (Continued)

D. Los Angeles County's Compliance with Requirements for Rehired Retirees – FYE June 30, 2024

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

(Trustee Durazo joined the meeting at 9:49 a.m.)

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 November 15, 2024)

Messrs. Bendall, Tafoya and Rice. were present to answer questions from the Committee.

Trustee Ginsberg made a motion, Trustee Gray seconded, to accept and file the report, direct staff to send it to the BOR as a presentation; and continue the efforts to work with the County; and report back to the Committee in six months. The motion passed by the following roll call vote:

Yes: Martin, Moore, Durazo, Ginsberg, Gray, Green, Mi

E. Chief Ethics and Compliance Officer, LACERA Proposed Classification and Compensation

Recommendation as submitted by Carly Ntoya, Director of Human Resources: The ACRE Committee take the following actions:

1. Approve establishment of one (1) new non-represented classification and salary range for a designated position applicable only to LACERA and refer the classification and salary to the Joint Organizational Governance Committee (JOGC) for review and recommendation to the Board of Retirement and Board of Investments:

VI. NON-CONSENT ITEMS (Continued)

New Classification Title

Salary Schedule

Chief Ethics and Compliance Officer, LACERA

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2. Recommend to the JOGC and joint Boards that they direct staff, upon approval by the JOGC and the joint Boards, to submit to the Board of Supervisors the required ordinance language to implement the new LACERA classification and pay range by amending the Los Angeles County Salary Code Sections 6.28.050, 6.127.010, and 6.127.030.

(Memo dated November 20, 2024)

Ms. Ntoya, Messrs. Rice and Lugo were present to answer questions from the Committee.

Trustee Moore made a motion, Trustee Gray seconded, to approve staff's recommendation. The motion passed by the following roll call vote:

Yes: Martin, Moore, Durazo, Ginsberg, Gray, Green, Mi

VII. REPORTS

A. **Plante Moran Financial Audit Reports**

Christina Logan, Principal Internal Auditor

Nathan K. Amick, Senior Internal Auditor

(Presentation) (Memo dated November 14, 2024)

Ms. Hunt and Ms. Cronk provided a brief presentation. Messrs. Amick, Bendall and Granger were present to answer questions from the Committee.

This item was received and filed.

VII. REPORTS (Continued)

B. **Updating LACERA's Code of Ethical Conduct**

Steven P. Rice, Chief Counsel

Jessica Rivas, Staff Counsel

(Presentation) (Memo dated November 15, 2024)

(Trustee Durazo left the meeting at 11:13 a.m.)

Ms. Rivas provided a brief presentation and answered questions from the Committee.

This item was received and filed.

C. **Ethics and Compliance Program Foundational Work Plan Status**

Steven P. Rice, Chief Counsel

Allison Barrett, Senior Staff Counsel

(Presentation) (Memo dated November 19, 2024)

Ms. Barrett provided a brief presentation and answered questions from the Committee.

This item was received and filed.

D. **February 2025 ACRE Orientation and Key Topic Discussions**

Christina Logan, Principal Internal Auditor

(Memo dated November 15, 2024)

Ms. Logan was present to answer questions from the Committee.

This item was received and filed.

E. **Policy Management**

Steven P. Rice, Chief Counsel

Allison Barrett, Senior Staff Counsel

(For Information Only) (Memo dated November 18, 2024)

This item was received and filed.

VII. REPORTS (Continued)

F. **ACRE Requested Update on Recommendations of the Audit of Termination of User Access Process**

Leisha Collins, Principal Internal Auditor

Gabriel Tafoya, Senior Internal Auditor

(For Information Only) (Memo dated November 8, 2024)

Ms. Collins was present to answer questions from the Committee.

This item was received and filed.

G. **ACRE Requested Follow-Up on LACERA Bonus Program Continuous Auditing Program (CAP) Audit Memorandum**

Richard P. Bendall, Chief Audit Executive

(For Information Only) (Memo dated November 17, 2024)

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

This item was received and filed.

H. **Recommendation Follow-Up Report**

Gabriel Tafoya, Senior Internal Auditor

(For Information Only) (Memo dated November 15, 2024)

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

This item was received and filed.

I. **Recommendation Follow-Up for Sensitive Information Technology Areas**

Gabriel Tafoya, Senior Internal Auditor

(For Information Only) (Memo dated November 8, 2024)

This item was received and filed.

J. **Ethics Hotline Status Report**

Leisha E. Collins, Principal Internal Auditor

(For Information Only) (Memo dated November 14, 2024)

This item was received and filed.

VII. REPORTS (Continued)

K. **Internal Audit Staffing Activity Report Update**

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

This item was received and filed.

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

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

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

VIII. CONSULTANT COMMENTS

Larry Jensen, Audit Committee Consultant
(Verbal Presentation)

There was nothing to report.

IX. ITEMS FOR STAFF REVIEW

Trustee Green requested a copy of the Bonus Policy for reference.

X. ITEMS FOR FUTURE AGENDAS

There was nothing to report.

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

There was nothing to report.

XII. EXECUTIVE SESSION

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

XII. EXECUTIVE SESSION (Continued)

Consultation with Cindy Gross, Director and Priya V. Kumar, Senior Manager from Moss Adams, Richard P. Bendall, Chief Audit Executive, Santos H. Kreimann, Chief Executive Officer, Luis Lugo, Deputy Chief Executive Officer, Kathy Delino, Chief Information Technology Officer, Chaitanya Errande, Information Security Officer and other LACERA Staff.

There was nothing to report.

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

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

There was nothing to report.

C. Performance Evaluation – Chief Audit Executive Goals Report
(Pursuant to Government Code Section 54957(b)(1))
(FOR AUDIT COMMITTEE ONLY PER COUNTY SALARY
ORDINANCE 6.127.040.S.1)

Title: Chief Audit Executive

The Committee met in Executive Session with staff with regards to the Chief Audit Executive's performance evaluation and goals report.

There was nothing to report.

XIII. ADJOURNMENT

There being no further business to come before the Committee, the meeting was adjourned at 12:53 p.m.



February 26, 2025

TO: 2025 Audit, Compliance, Risk, and Ethics (ACRE) Committee
Debbie Martin (BOI), Trustee
Alma K. Martinez (BOI), Trustee
Nicole Mi (BOI), Trustee
Nancy Durazo (BOR), Trustee
Jason Green (BOR), Trustee
Wayne Moore (BOR), Trustee
Elizabeth Ginsberg, Ex-Officio

Audit Committee Consultant
Larry Jensen

FROM: Christina Logan 
Principal Internal Auditor

FOR: March 13, 2025 Audit, Compliance, Risk, and Ethics (ACRE) Committee Meeting

SUBJECT: **Proposed 2025 ACRE Committee Meeting Dates**

RECOMMENDATION

Audit, Compliance, Risk, and Ethics (ACRE) Committee review and approve the proposed 2025 ACRE Committee meeting dates.

PROPOSED ACRE COMMITTEE DATES:

The current Audit, Compliance, Risk, and Ethics (ACRE) Committee Meeting Charter (Attachment A) states that the ACRE Committee “conducts regular meetings with the time frame between meetings not to exceed four months.”

Staff reviewed the Board Calendar (Attachment B) to ensure the proposed meeting dates do not currently conflict with any other board scheduled events. Internal Audit and Ethics & Compliance are proposing the Committee meet approximately once a quarter on the following days at 9am.

Day	Date
Thursday	April 24, 2025
Thursday	June 26, 2025
Thursday	August 21, 2025
Thursday	November 20, 2025

Attachments

- A: October 2024 Audit, Compliance, Risk, and Ethics (ACRE) Committee Charter
- B: Board Calendar

ATTACHMENT A



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

A large, 3D geometric graphic at the bottom of the page. It consists of several overlapping, semi-transparent rectangular blocks in shades of blue and grey, creating a sense of depth and modern design. The blocks are arranged in a way that they appear to be part of a larger, abstract structure.

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 October 9, 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 GAE 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 September 19, 2024, and approved by the Board of Retirement on October 2, 2024, and the Board of Investments on October 9, 2024. This Charter is thereby effective October 9, 2024, and is hereby signed by the following persons who have authority and responsibilities under this Charter.

Debbie Martin
Debbie Martin (Nov 12, 2024 19:43 PST)

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

11/12/2024
Date

Patrick L. Jones
Patrick L. Jones (Nov 20, 2024 14:57 EST)

Patrick L. Jones
Chair, Board of Investments

11/20/2024
Date

Shk
Shawn R. Kehoe (Nov 20, 2024 15:53 PST)

Shawn R. Kehoe
Chair, Board of Retirement

11/20/2024
Date

April 2025

Sun	Mon	Tue	Wed	Thu	Fri	Sat
		1	BOR 2	3	4	5
6	7	8	BOI 9	10	11	12
13	14	15	16	17	18	19
CRCEA Spring Conference – Ventura, CA						
	Investment Strategies & Portfolio Management – Wharton School, PA					
20	21	22	23	ACRE MEETING 24	25	26
27	28	29	30	1		
	IFEBP Health Care Management Conference – Fort Myers, FL		IFEBP Investment Institute – Fort Myers, FL			

June 2025

Sun	Mon	Tue	Wed	Thu	Fri	Sat
1	2	3	4 BOR	5	6	7
	NASP Annual Financial Services Conference – Columbus, OH					
8	9	10	11 BOI	12	13	14
15	16	17	18	19 Juneteenth Day	20	21
	IFEBP Public Employee Benefits Institute – Seattle, WA					
	SuperReturn Emerging Markets/Private Equity – Amsterdam					
		AHIP 2025 Conference – Seattle, WA				
22	23	24	25	26 ACRE MEETING	27	28
29	30					

August 2025

Sun	Mon	Tue	Wed	Thu	Fri	Sat
					1	2
3	4	5	BOR	6	7	8
10	11	12	BOI	13	14	15
17	18	19	20	ACRE MEETING	21	22
24	25	26	27	28	29	30
31						

November 2025

Sun	Mon	Tue	Wed	Thu	Fri	Sat
						1
2	3	4	5	6	7	8
		BOR				
		ILPA General Partner Summit – New York, NY				
9	10	11	12	13	14	15
		Veteran's Day	BOI			
IFEBP Conference – Honolulu, HI						
16	17	18	19	20	21	22
				ACRE MEETING		
23	24	25	26	27	28	29
				Thanksgiving Day	Thanksgiving Holiday	



February 27, 2025

TO: 2025 Audit, Compliance, Risk, and Ethics (ACRE) Committee
Debbie Martin (BOI), Trustee
Alma K. Martinez (BOI), Trustee
Nicole Mi (BOI), Trustee
Nancy Durazo (BOR), Trustee
Jason Green (BOR), Trustee
Wayne Moore (BOR), Trustee
Elizabeth Ginsberg, Ex-Officio

Audit Committee Consultant
Larry Jensen

FROM: Richard P. Bendall 
Chief Audit Executive

FOR: March 13, 2025 Audit, Compliance, Risk, and Ethics (ACRE) Committee

SUBJECT: **Internal Audit Proposed Fiscal Year 2025-2026 Budget Request**

RECOMMENDATION

The ACRE Committee approve the Internal Audit Proposed Fiscal Year 2025-2026 Budget Request, and upon approval, direct staff to include it in LACERA's Administrative Budget for Board approval.

BACKGROUND

According to the Institute of Internal Auditor's (IIA's) Global Internal Audit Standards (Standards), Standard 9.4 states "The Chief Audit Executive (CAE) must discuss the internal audit plan, including significant interim changes, with senior management and the ACRE Committee. The plan and significant changes to the plan must be approved by the ACRE Committee." Further standard 9.4 requires that the plan must, "Identify the necessary human, financial and technological resources necessary to complete the plan."

Standard 10.1 states, "The Chief Audit Executive must seek budget approval from the ACRE Committee"

The full set of Standards which should be considered by the CAE, senior management and the ACRE Committee in the approval of Internal Audit's budget and annual Audit Plan, are included in **Attachment A**. With the exception of abbreviating chief audit executive to "CAE" and replacing the word board with "ACRE Committee," as I did above, they provide the full text of each applicable standard.

Due to the timing of the organization's budget cycle which begins in December, and Internal Audit's timeline for completing the Risk Assessment and Audit Planning process, which is completed by June, we take an iterative approach to our annual resource planning, risk assessment and audit plan development.

1. To ensure that the ACRE Committee, as per the ACRE Committee Charter and the Standards, have input to and approve the Internal Audit budget request, staff prepared the attached documents for Committee review:
 - **Attachment B** - Proposed Internal Audit Fiscal Year (FY) 2025-2026 Budget Request (Budget) and,
 - **Attachment C** - Draft Fiscal Year 2025-2026 Internal Audit Plan

Upon Committee approval, the Internal Audit Budget will be included in LACERA 's Administrative Budget for JOGC and Board approval.

2. At our April meeting, staff will kick-off our annual risk assessment with an overview to the Committee on the process and engage the Committee in a discussion about risk to get any input from the Committee on areas of concern to be considered.
3. The last step in the process will be for staff to complete the risk assessment process and bring a complete final draft Audit Plan for Fiscal Year 2025-26 to the Committee for further discussion and approval.

BUDGET REQUEST HIGHLIGHTS

Salaries and Employee Benefits (S&EB)

The Budget Unit may make further adjustments to the S&EB numbers in our draft Budget Request. However, these adjustments would be non-discretionary increases such as cost of living adjustments and salary step increases. Internal Audit is not requesting any changes that would be subject to discretion by the ACRE Committee this year, such as requests for additional positions.

Services and Supplies (S&S)

Our Services and Supplies (S&S) budget request for Fiscal Year 2025-2026 remains materially unchanged from the current year's budget. The only exception is an increase of \$15,000 in our registration budget for staff training due to the recent rise in registration costs and our hiring of two new Senior Internal Auditors and in anticipation of filling the vacant Internal Auditor position before the start of the new Fiscal Year.

The most significant portion of the S&S budget is for external audit services, \$650,000. Of this, \$150,000 to \$200,000 is anticipated to be used for the external financial audit. The remaining \$400,000 will be used to perform external operational audits including IT audits, investment audits, and other advisory and consulting engagements. We plan to continue leveraging the use of our ACRE Committee approved pool of external audit firms to assist us in completing our risk-based Audit Plan.

DRAFT FISCAL YEAR 2025-2026 INTERNAL AUDIT PLAN

As indicated above, we are presenting a draft of the Internal Audit Plan (Plan) to the Committee for purposes of budget approval at this time. The draft only includes the annual continuous projects that we know will be included on the Plan. Specific projects to complete the Plan will be added at the conclusion of our risk assessment process and brought to the Committee for approval at your June meeting. (**Attachment C**).

We anticipate continuing to have two subsections to the Internal Audit Plan (Plan):

A. Enterprise Risk Management (ERM) Development Section

We will dedicate approximately twenty percent of our staffing resources to continuing our efforts at developing a formal ERM Program at LACERA. This is in relation to one of the key strategic goals that resulted from the recent Strategic Planning effort. Whereas the Legal Office is heading up the implementation of a formal Compliance program, Internal Audit is championing the development of a formal ERM program.

B. Traditional Audit Plan Section

This section includes work on assurance, advisory, other value-added projects, as well as Internal Audit's administrative projects planned for the upcoming Fiscal Year. We have populated the plan at this point with those projects that reoccur annually, or that we know are due to be performed, such as the financial audit and actuarial audit oversight projects. Additional projects will be added upon completion of our risk assessment/audit planning process.

Again, staff will complete the annual risk assessment process and provide the final Internal Audit Plan to the Committee for approval at the June 2025 meeting. In alignment with the Standards, we have considered our human resource, financial and technological needs in developing our budget request for Committee approval.

We do not anticipate that the finalization of the Plan will affect our resource needs. However, should that be necessary, we would prepare a budget adjustment request to accompany the Internal Audit Plan for the ACRE Committee approval for inclusion in the organization's mid-year budget request process.

CONCLUSION

The ACRE Committee approve the Proposed Internal Audit Fiscal Year 2025-2026 Budget Request, and upon approval, direct staff to include it in LACERA's Administrative Budget for Board approval.

Attachments:

- A. Applicable IIA Global Standards
- B. Proposed FY 2025-2026 Internal Audit Budget Request
- C. Draft FY 2025-2026 Internal Audit Plan

ATTACHMENT A

Institute of Internal Auditors (IIA) Global Internal Audit Standards related to internal audit resource planning, human, financial and technological:

Standard 8.2 Resources

The CAE must evaluate whether internal audit resources are sufficient to fulfill the internal audit mandate and achieve the internal audit plan. If not, the CAE must develop a strategy to obtain sufficient resources and inform the board about the impact of insufficient resources and how resource shortfalls will be addressed.

The related “Essential Conditions” for the ACRE Committee require that the Committee:

- Collaborate with senior management to provide the internal audit function with **sufficient resources** to fulfill the internal audit mandate and achieve the internal audit plan.
- **Discuss with the CAE**, at least annually, the sufficiency, both in numbers and capabilities, of internal audit resources to fulfill the internal audit mandate and achieve the internal audit plan.
- Consider the **impact of insufficient resources** on the internal audit mandate and plan.
- **Engage with senior management and the CAE** on remedying the situation if the resources are determined to be insufficient.

The related “Essential Conditions” for senior management require that senior management:

- Engage with the ACRE Committee to provide the internal audit function with **sufficient resources** to fulfill the internal audit mandate and achieve the internal audit plan.
- Engage with the ACRE Committee and the CAE on any issues of **insufficient resources** and how to remedy the situation.

Standard 9.4 Internal Audit Plan

The **CAE must** create an internal audit plan that supports the achievement of the organization’s objectives.

The **CAE must** base the internal audit plan on a documented assessment of the organization’s strategies, objectives and risks. This assessment must be informed by input from the ACRE Committee and senior management as the CAE’s understanding of the organization’s governance, risk management, and control processes. This assessment must be performed at least annually.

The **internal audit plan must:**

- Consider the internal audit mandate and the full range of agreed-to internal audit services.
- Specify internal audit services that support the evaluation and improvement of the organization’s compliance and ethics programs, and other high-risk areas.
- Identify the necessary human, financial, and technological resources necessary to complete the plan.
- Be dynamic and updated timely in response to changes in the organization’s business, risk operations, programs, systems, controls, and organizational culture.

Standard 10.1 Financial Resource Management

The **CAE must** manage the internal audit function's financial resources.

The **CAE must** develop a budget that enables the successful implementation of the internal audit strategy (3-Year Roadmap) and achievement of the plan. The budget includes the resources necessary for the function's operation, including training and acquisition of technology and tools. The CAE must manage the day-to-day activities of the internal audit function effectively and efficiently, in alignment with the budget.

The **CAE must** seek budget approval from the ACRE Committee. The CAE must communicate promptly the impact of insufficient financial resources to the ACRE Committee and senior management.

Standard 10.2 Human Resources Management

The **CAE must** establish an approach to recruit, develop, and retain internal auditors who are qualified to successfully implement the internal audit strategy and achieve the internal audit plan.

The **CAE must** strive to ensure that human resources are appropriate, sufficient, and effectively deployed to achieve the approved internal audit plan. Appropriate refers to the mix of knowledge, skills, and abilities; sufficient refers to the quality of resources; and effective deployment refers to assigning resources in a way that optimizes the achievement of the internal audit plan.

The **CAE must** communicate with the ACRE Committee and senior management regarding the appropriateness and sufficiency of the internal audit function's human resources. If the function lacks appropriate and sufficient human resources to achieve the internal audit plan, the CAE must determine how to obtain the resources or communicate timely to the ACRE Committee and senior management the impact of the limitations. (See also Standard 8.2, Resources, above).

The **CAE must** evaluate the competencies of individual internal auditors within the internal audit function and encourage professional development. The CAE must collaborate with internal auditors to help them develop their individual competencies through training, supervisory feedback, and/or mentoring.

Standard 10.3 Technological Resources

The **CAE must** strive to ensure that the internal audit function has technology to support the internal audit process. The CAE must regularly evaluate the technology used by the internal audit function and pursue opportunities to improve effectiveness and efficiency.

When implementing new technology, the **CAE must** implement appropriate training for internal auditors in the effective use of technological resources. The CAE must collaborate with the organization's information technology and information security functions to implement technological resources properly.

The **CAE must** communicate the impact of technological limitations on the effectiveness or efficiency of the internal audit function to the ACRE Committee and senior management.

FISCAL YEAR 2025-2026

ATTACHMENT B

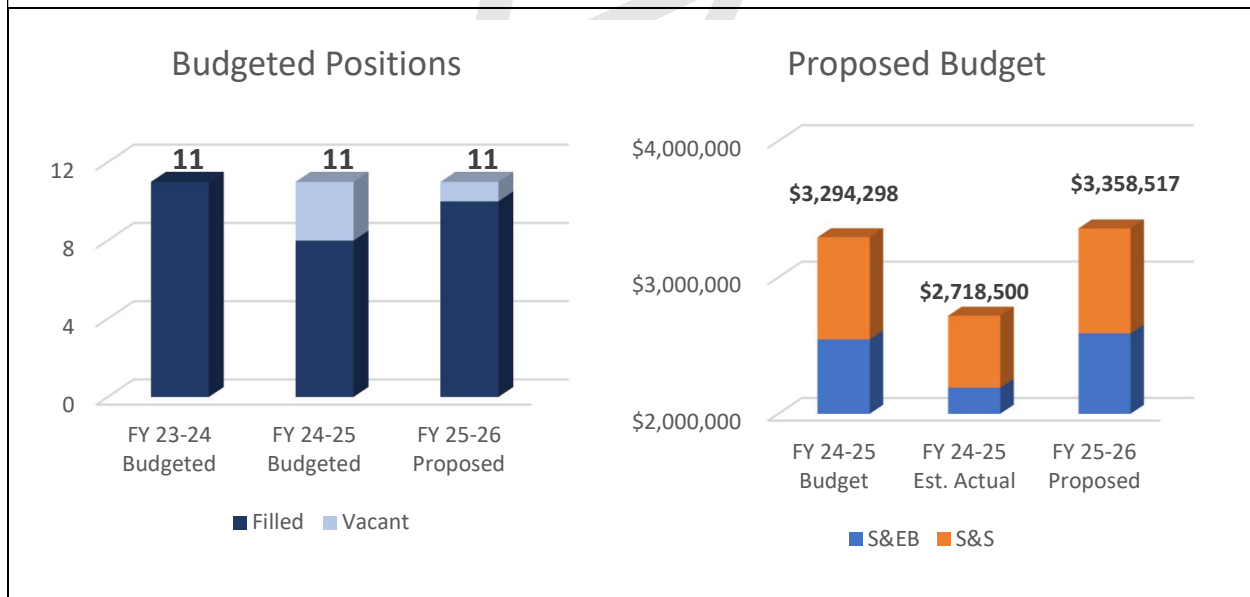


INTERNAL AUDIT BUDGET

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



Summary of Significant Changes

<u>Description</u>	<u>Position Changes</u>	<u>Amount</u>
• Registration Fees		\$15,000

STATUS OF FY 2024-25 PROJECTS AND INITIATIVES

The FY 2024-25 Audit Plan is in progress and covers risk areas across the organization, including the following significant engagements:

- Technical Audit of Granicus/One Meeting Application
- LA County Payroll – LACERA Controls
- Recruitment and Hiring Process Advisory Review
- Vendor Security Assessment
- IT Risk Assessment
- Investment Strategic Asset Allocation Audit
- Retiree Healthcare Provider Payment Calculation Audit
- Moss Adams SOC 1 Type II of OPEB Program
- Investment Accounting Middle/Back – Office Audit

FY 2025-26 STRATEGIC GOALS AND OBJECTIVES

- 1. Follow Internal Audit's Road Map to:**
 - a. Further align and enhance audit activities and processes with the Strategic Plan.**
 - b. Further develop Enterprise Risk Management (ERM) framework and practices.**
- 2. Complete the FY 2025-26 Audit Plan**, which will align with LACERA's overall strategic plan.
- 3. Complete Training and Development requirements**, aligned with the Investing in People strategic priority, which is budgeted against our Educational Expenses. Internal Audit requires each staff member to obtain 40 continuing education hours per fiscal year. Internal Audit will use the Institute of Internal Auditor's (IIA's) Competency Framework to assess each staff member's competencies and divisional competencies, which will determine specific training during the year.
- 4. Complete Internal Assessment**, which will align Internal Audit operations with new IIA standards and best practices.

SUMMARY OF PROPOSED BUDGETARY CHANGES: SALARIES & EMPLOYEE BENEFITS (S&EB)

Non-Discretionary Salary Adjustments

The budget reflects the final six months of negotiated cost-of-living adjustments (COLAs) included in the current Memorandum of Understanding (MOU) covering the period through December 31, 2025, and approved by the Board of Retirement and Board of Investments for all LACERA employees, as well as salary-step progression and merit pay increases for qualified and/or eligible employees and assumed

commensurate increases to employee benefits. The budget does not include any changes to salaries or benefits that may be negotiated during FY 2025-26.

Adjustments to Permanent Staffing

There are currently eleven budgeted full-time positions in Internal Audit. No additional staff positions are requested currently.

Temporary Staffing

Internal Audit plans to fill all open budget positions prior to the end of FY 2024-25, so we do not anticipate the need to budget for temporary staffing for FY 2025-26.

Overtime Needs

Internal Audit requests 40 hours each of overtime for the Senior Administrative Assistant and Internal Auditor positions. The overtime is necessary for the timely completion of Audit Committee meeting materials.

Interns

Internal Audit does not anticipate any use of interns in FY 2025-26, as we will be focused on onboarding new staff.

Rehired Retirees

Internal Audit does not anticipate any use of rehired retirees in FY 2025-26.

If unanticipated vacancies occur, Internal Audit will consider this option.

SUMMARY OF PROPOSED BUDGETARY CHANGES: SERVICES & SUPPLIES (S&S)

Removal of One-Time Expenditures

Internal Audit does not have any removal of one-time expenditures for FY 2025-26.

Services and Supplies Adjustments

Registration Fees

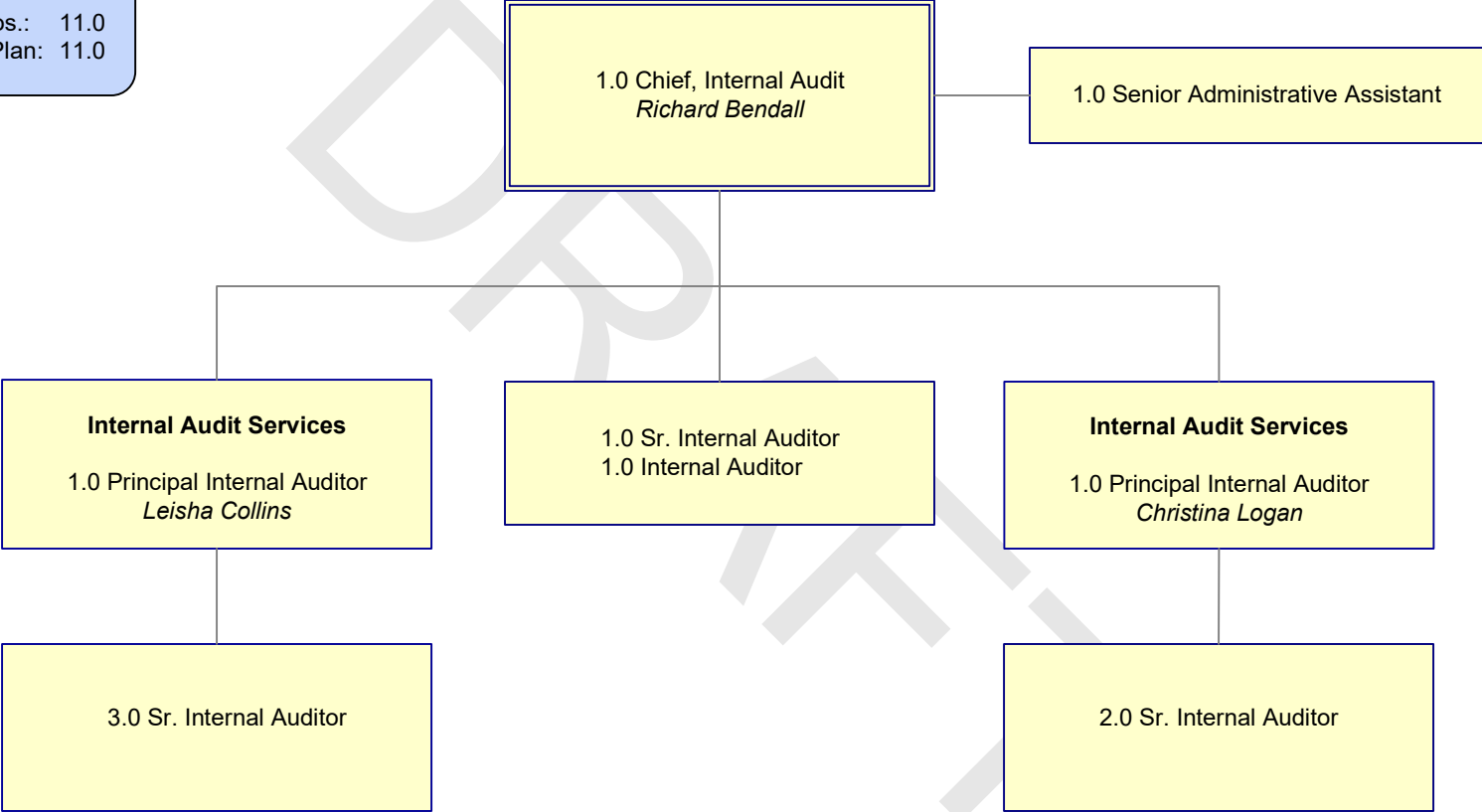
We are requesting an increase of \$15,000 to Registration Fees from \$20,000 to \$35,000 due to the anticipated hiring of three new staff members in FY 2024-25 and current expenditure trends.

INTERNAL AUDIT

FISCAL YEAR 2025-2026

2024-2025 Bud. Pos.: 11.0
2024-2025 Hiring Plan: 11.0

2025-2026 Bud. Pos.: 11.0
2025-2026 Hiring Plan: 11.0

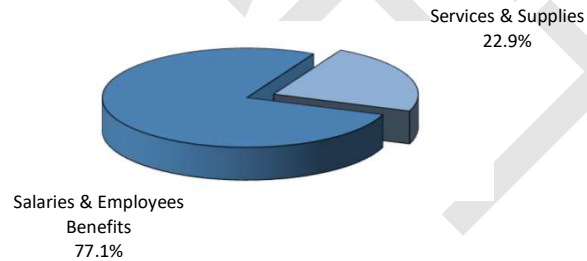


LACERA
FISCAL YEAR 2025-2026
BUDGET SUMMARY

INTERNAL AUDIT

	CURRENT YEAR 2024-2025			COMPARISON OF CURRENT YEAR BUDGET TO PROJECTION		COMPARISON OF PROPOSED BUDGET TO 2024-2025 BUDGET		
	PROPOSED BUDGET 2025- 2026	YTD		OVER/(UNDER)		\$ CHANGE	% CHANGE	
		BUDGET	(01-31-25)	PROJECTION	BUDGET			% CHANGE
Salaries & Employees Benefits	\$2,589,317	\$2,545,098	\$1,069,036	\$2,191,000	(\$354,098)	-13.9%	\$44,219	1.7%
Services & Supplies	769,200	749,200	203,626	527,500	(\$221,700)	-29.6%	20,000	2.7%
OPERATING BUDGET	\$3,358,517	\$3,294,298	\$1,272,662	\$2,718,500	(\$575,798)	-17.5%	\$64,219	1.9%

2025 - 2026 PROPOSED BUDGET



*All amounts rounded to the nearest dollar.

LACERA

FISCAL YEAR 2025-2026

SALARIES AND EMPLOYEE BENEFITS SUMMARY

INTERNAL AUDIT

	PROPOSED BUDGET 2025- 2026	CURRENT YEAR 2024-2025			COMPARISON OF CURRENT YEAR BUDGET TO PROJECTION		COMPARISON OF PROPOSED BUDGET TO 2024-2025 BUDGET	
		YTD			OVER/(UNDER)		\$ CHANGE	% CHANGE
		BUDGET	(01-31-25)	PROJECTION	BUDGET	% CHANGE		
Total LACERA Salaries	\$1,594,981	\$1,557,081	\$635,407	\$1,348,600	(\$208,481)	-13.4%	\$37,900	2.4%
Total Agency Temp Salaries	0	0	0	0	0	0.0%	0	0.0%
Employee Benefits (Variable)	807,100	824,465	357,324	682,400	(142,065)	-17.2%	(17,365)	-2.1%
Employee Benefits (Other)	109,116	94,884	43,598	93,000	(1,884)	-2.0%	14,232	15.0%
OPEB Contribution	70,919	61,669	32,513	65,000	3,331	5.4%	9,250	15.0%
Stipends	0	0	0	0	0	0.0%	0	0.0%
Overtime	5,700	5,500	194	2,000	(3,500)	-63.6%	200	3.6%
Bilingual Bonus	0	0	0	0	0	0.0%	0	0.0%
Sick Leave Buyback	0	0	0	0	0	0.0%	0	0.0%
Rideshare Allowance	1,500	1,500	0	0	(1,500)	-100.0%	0	0.0%
Transportation Allowance	0	0	0	0	0	0.0%	0	0.0%
ADJUSTED GROSS S&EB	\$2,589,317	\$2,545,098	\$1,069,036	\$2,191,000	(\$354,098)	-13.9%	\$44,219	1.7%
Salary Differential	-	-	-	-	-	-	-	-
TOTAL S&EB	\$2,589,317	\$2,545,098	\$1,069,036	\$2,191,000	(\$354,098)	-13.9%	\$44,219	1.7%

*All amounts rounded to the nearest dollar.

Note: All YTD Salaries and Employee Benefits totals are as of 01/15/25, with the exception of Agency Temp Salaries, which are as of 01/31/25.

LACERA
 FISCAL YEAR 2025-2026
 BUDGETED POSITIONS

INTERNAL AUDIT

FILLED POSITIONS

Budget Classification Number	Budget Classification Title	# of Budget Positions	Budget Salary Schedule
0774	CHIEF, INTERNAL AUDIT, LACERA	1	LS12
0762	PRINCIPAL INTERNAL AUDITOR, LACERA	2	119K
0763	SENIOR INTERNAL AUDITOR, LACERA	6	113G
0439	SENIOR ADMINISTRATIVE ASSISTANT, LACERA	1	95C
Total Filled Positions =		10	

VACANT POSITIONS

Budget Classification Number	Budget Classification Title	# of Budget Positions	Budget Salary Schedule
0764	INTERNAL AUDITOR, LACERA	1	107D
Total Vacant Positions =		1	
TOTAL POSITIONS =		11	

Non-Represented positions shown in black.
 Represented positions shown in blue.
 Salary schedule as of 01/01/2025.

LACERA

FISCAL YEAR 2025-2026

SERVICES & SUPPLIES ACCOUNT SUMMARY

INTERNAL AUDIT

ACCOUNT CLASSIFICATION	PROPOSED BUDGET 2025- 2026	CURRENT YEAR 2024-2025			COMPARISON OF CURRENT YEAR BUDGET TO PROJECTION		COMPARISON OF PROPOSED BUDGET TO 2024-2025 BUDGET	
		YTD			OVER/(UNDER)		\$ CHANGE	% CHANGE
		BUDGET	(01-31-25)	PROJECTION	BUDGET	% CHANGE		
TRANSPORTATION & TRAVEL	\$17,000	\$17,000	\$7,962	\$17,000	\$0	0.0%	\$0	0.0%
OFFICE SUPPLIES & EQUIPMENT	1,200	1,200	82	500	(700)	-58.3%	0	0.0%
PROFESSIONAL & SPEC. SRVCS.	700,000	700,000	177,611	478,000	(222,000)	-31.7%	0	0.0%
EDUCATIONAL EXPENSES	50,500	30,500	17,725	31,500	1,000	3.3%	20,000	65.6%
MISCELLANEOUS	500	500	246	500	0	0.0%	0	0.0%
TOTAL	\$769,200	\$749,200	\$203,626	\$527,500	(\$221,700)	-29.6%	\$20,000	2.7%

*All amounts rounded to the nearest dollar.

FYE 2026 INTERNAL AUDIT PLAN				
ENTERPRISE RISK MANAGEMENT (ERM) PLAN				10 - 20 Percent
ERM TASKS				SOURCE/STATUS
ERM Program Plan				
1	IA	TBD	TBD	TBD
2	IA	TBD	TBD	TBD
3	IA	TBD	TBD	TBD
AUDIT PLAN				80 - 90 Percent
DIVISION	AUDIT / PROJECT NAME		PROJECT TYPE	SOURCE/STATUS
EXECUTIVE/LEGAL/ORGANIZATIONAL				
4	Exec Office	TBD	TBD	TBD
5	Exec Office	TBD	TBD	TBD
6	Exec Office	TBD	TBD	FY 2024 Carryover
7	Organizational	Continuous Audit Processing (CAP)	Assurance/Audit	TBD
8	Organizational	Recommendation Follow-Up	Other Projects	Annual/Continuous
9	Organizational	Risk Assessment	Other Projects	Annual/Continuous
10	Organizational	TBD	TBD	TBD
11	Legal Office	Ethics and Compliance (Hotline)	Value-Added	Risk Based
ADMINISTRATION - Admin Serv, HR, Systems, Info Sec				
12	Admin Serv	TBD	TBD	TBD
13	HR	TBD	TBD	TBD
13	HR	TBD	TBD	TBD
14	Systems	TBD	TBD	TBD
15	Systems	Oversight of SOC Audits FY 25 & 26	Oversight	Annual/Continuous
16	Info Sec	TBD	TBD	TBD
INVESTMENTS & FASD				
17	FASD	TBD	TBD	TBD
18	FASD	CEO Credit Card	Assurance/Audit	Annual Compliance
19	FASD	Oversight of Financial Audit FY 25 & 26	Oversight	Annual/Continuous
20	FASD/Inv	TBD	TBD	TBD
21	FASD/Inv	Oversight of Actuarial Audit FY 25 & 26	Oversight	Annual/Continuous
22	Investments	TBD	TBD	TBD
23	Investments	THC Financial Audits/Tax - FY 25 & 26	Assurance/Audit	Risk Based
24	Investments	THC Financial Audits/Tax - FY 25 & 26	TBD	TBD
OPERATIONS - Benefits, DRS, RHC, Member Services				
25	Benefits	TBD	TBD	TBD
26	Benefits	TBD	TBD	TBD
27	Benefits	TBD	TBD	TBD
28	Benefits	TBD	TBD	TBD
29	RHC	TBD	TBD	TBD
30	Mbr Serv	TBD	TBD	TBD
INTERNAL AUDIT OPERATIONS				
31	IA	Quality Assurance Improvement Program	Other Projects	Annual/Continuous
32	IA	Audit Committee Support	Other Projects	Annual/Continuous
33	IA	Manage 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	IA Staff Training Plan	Strategic/IA Goal	Annual/Continuous
36	IA	RFP to Expand Audit Pool	Strategic/IA Goal	Annual/Continuous
37	IA	Manage Continuous Audit Process (CAP)	Strategic/IA Goal	Annual/Continuous



February 25, 2025

TO: 2025 Audit, Compliance, Risk, and Ethics Committee
Nancy Durazo (BOR), Trustee
Jason Green (BOR), Trustee
Wayne Moore (BOR), Trustee
Debbie Martin (BOI), Trustee
Alma Martinez (BOI), Trustee
Nicole Mi (BOI), Trustee
Elizabeth Ginsberg (BOR/BOI), Trustee

ACRE Committee Consultant
Larry Jensen

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

FOR: March 13, 2025 Audit, Compliance, Risk, and Ethics Committee Meeting

SUBJECT: Ethics and Compliance Program Fiscal Year 2025-2026 Budget Request

RECOMMENDATION

The Audit, Risk, Compliance, and Ethics (ACRE) Committee approve the Proposed Ethics and Compliance Program Fiscal Year 2025-2026 Budget Request, and upon approval, direct staff to include it in LACERA's Administrative Budget for approval by the Board of Retirement and Board of Investments.

BACKGROUND

The United States Sentencing Guidelines provide that those with "day-to-day operational responsibility" for an ethics and compliance program shall have "adequate resources." (U.S.S.G. § 8B2.1(b)(2)(C).) This expectation is repeated in the U.S. Department of Justice's "Evaluation of Corporate Compliance Program" (September 2024) (ECCP), which describes the elements of successful best-practice compliance programs under the Sentencing Guidelines.

Consistent with the Sentencing Guidelines and the ECCP, the ACRE Committee Charter provides that the Committee shall, "[r]eview 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." (ACRE Charter, Section VII.B.2.c.) The Charter also provides for the Chief Executive Officer (CEO) and Chief Counsel to prepare a foundational work plan for the Program pending the hiring of the Chief Ethics and Compliance Officer. (ACRE Charter, Section VIII.B.13.)

In compliance with the above standards and ACRE Committee Charter, staff provides the attached documents for Committee review in approving the Ethics and Compliance Program's budget request for Fiscal Year 2025-2026.

- **Attachment A** – Proposed Ethics and Compliance Program Fiscal Year 2025-2026 Budget Request (Budget), and
- **Attachment B** – Foundational Work Plan Status Report, presented at the Committee's December 2024 meeting.

Upon Committee approval, the Ethics and Compliance Program Budget will be included in LACERA 's Administrative Budget for joint Board approval.

BUDGET REQUEST HIGHLIGHTS

Salaries and Employee Benefits (S&EB)

The staffing of the Ethics and Program Office is currently planned to consist of the Chief Ethics and Compliance Officer (CECO), two Deputy Chief Ethics and Compliance Officers (DCECOs), and one Senior Administrative Assistant. The CECO job description and salary has been approved by the ACRE Committee; the DCECO job description and salary will be presented for approval at the March 2025 meeting; and then both job descriptions will go to the Joint Organizational Governance Committee and the joint Boards, with final approval expected by the end of the 2024-2025 Fiscal Year. The positions will then need to be approved by the Board of Supervisors (BOS). The Senior Administrative Assistant is an existing classification.

Given the schedule outlined above, staffing of the office will begin in Fiscal Year 2025-2026. As a result, considering time for BOS approval and time for recruiting, the proposed Fiscal Year 2025-2026 budget includes funding for salaries and benefits as follows: nine months for the CECO; six months for the Senior Administrative Assistant; and three months for one DCECO. It is expected the second DCECO will be hired in Fiscal Year 2026-2027. If approval and recruiting for the positions happen more quickly than currently planned, staff will return to the Committee in advance of the Fiscal Year 2025-2026 mid-year budget adjustment, which will take place December 2025.

The organizational chart for the Ethics and Compliance Office included in this budget request, Attachment A, is different from the chart provided with the agenda item requesting approval of the DCECO classification and salary. The chart in the classification memo projects the anticipated long term future state for the Office where there is a subject matter division of responsibility between the two DCECOs and also includes two analysts under each DCECO. Only one DCECO is budgeted for Fiscal Year 2025-2026, and the analysts are not being classified at this point and are not part of the budget request. The organizational chart in the classification memo is for information only. The chart in Attachment A to this memo is limited to the positions for which budget authority is requested for Fiscal Year 2025-2026, which are the CECO, one DCECO, and one Senior Administrative Assistant.

Services and Supplies (S&S)

The Services and Supplies (S&S) budget request for Fiscal Year 2025-2026 remains

similar from the current year's budget, with the following additions and revisions:

- \$1,200 for Office Supplies, which was not budgeted in Fiscal Year 2024-2025, to reflect the needs of the office as it begins separate operation after the expected hiring of the CECO.
- \$35,000 in a new account for Professional and Specialized Services to better account for the cost of the Gartner consulting subscription, which was previously placed in Educational Materials in Fiscal Year 2024-2025.
- A \$7,000 increase, from \$20,000 to \$27,000, in Legal Fees & Services to bring this budget item into alignment with the expected use of outside Ethics and Compliance Counsel as the Program begins operation.
- A decrease of \$15,000, from \$60,500 to \$45,500, in Educational Expenses due to a decrease from reallocation of the Gartner subscription as stated above and a partially offsetting increase due to increased educational materials needed by the Ethics and Compliance Office as it hires its permanent staff. A reduction was also made due to the realization that the Practising Law Institute educational subscription was being used by the Legal Office and should, therefore, bear part of the cost.

FOUNDATIONAL WORK PLAN

Pending the hiring of the CECO, the CEO and Legal Office will continue the Foundational Work Plan approved by the ACRE Committee and joint Boards. These activities will position the CECO to quickly begin substantive work after their hiring.

The approved activities, which are described in detail in Attachment B, include:

- Education Plan.
- Policy Management.
- Baseline Ethics and Compliance Risk Assessment.
- Baseline Ethics and Compliance Culture Survey.
- CECO, DCECO, and Senior Administrative Assistant Classifications, Salary, and Recruiting Efforts.
- Code of Ethical Conduct Review.

Staff will continue to report the status of these activities to the ACRE Committee at its regular meetings.

///

CONCLUSION

Staff requests that the ACRE Committee approve the Proposed Ethics and Compliance Program Fiscal Year 2025-2026 Budget Request, and upon approval, direct staff to include it in LACERA's Administrative Budget for Board approval.

Attachments:

- A. Proposed FY 2025-2025 Ethics and Compliance Program Budget Request
 - B. Foundational Work Plan Status Report for the Ethics and Compliance Program
- c: Santos H. Kreimann
Luis A. Lugo
Jonathan Grabel
JJ Popowich
Laura Guglielmo
Ted Granger
Chaitanya Errande
Richard Bendall
Carly Ntoya, Ph.D.
Leisha Collins
Christina Logan
Allison Barrett

ATTACHMENT A

Proposed Ethics and Compliance Program
Fiscal Year (FY) 2025-2026 Budget Request

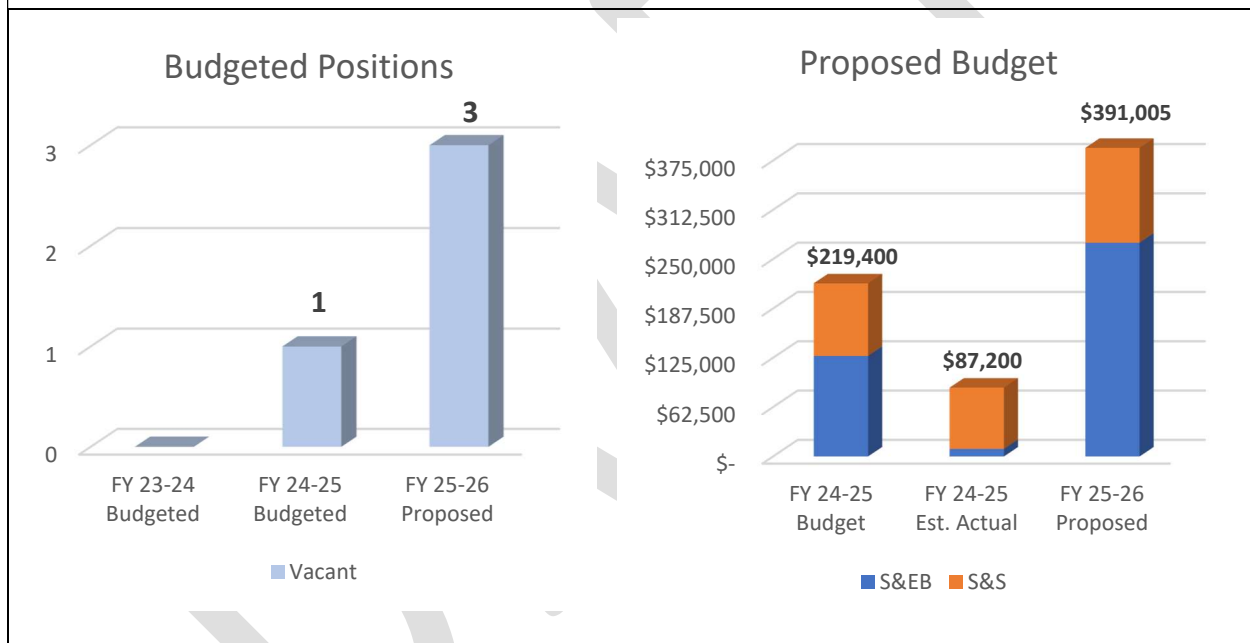
FISCAL YEAR 2025-2026

ETHICS & COMPLIANCE OFFICE
BUDGET

BUDGET NARRATIVE
FISCAL YEAR 2025-2026

ETHICS AND COMPLIANCE OFFICE

The Ethics and Compliance Office enhances LACERA's ethical culture and provides dedicated resources to foster compliance with laws, regulations, policies, and procedures, and provides assessment, monitoring, investigation, training, and other services to mitigate ethics and compliance risks throughout the organization. The Office will move from foundational planning to program implementation in FY 2025-26.



Summary of Significant Changes

<u>Description</u>	<u>Position Changes</u>	<u>Amount</u>
• Deputy Chief Ethics and Compliance Officer (DCECO)	1	\$XXXXXX
• Senior Administrative Assistant	1	\$XXXXXX
• Consulting		\$35,000
• Outside Legal Counsel		\$7,000
• Educational Materials		(\$15,000)

REPORTING STRUCTURE

Under the Board-approved Ethics and Compliance Program Charter, the Chief Ethics and Compliance Officer (CECO) will oversee the Ethics and Compliance Program and report functionally to the Audit, Compliance, Risk, and Ethics (ACRE) Committee and the CEO. The CECO will also provide reporting to the Board of Retirement and Board of Investments. The program supports and will further the fiduciary duty of the ACRE Committee, Boards, and the CEO to provide oversight of ethics and compliance risk management and respond to red flags in these areas.

In December 2024, the ACRE Committee approved and recommended the CECO class description and salary, which is subject to review by the Joint Organizational Governance Committee (JOGC) and approval by the Boards, followed by approval by the Board of Supervisors. A Deputy Chief Ethics and Compliance Officer (DCECO) will also be presented to the ACRE Committee, JOGC, and Boards to assist the CECO by providing subject-matter expertise in particular areas of LACERA's operations.

The proposed Ethics and Compliance Office initially will be administratively housed within the Legal Services Office. However, all staffing and expenses are being tracked and reported separately to ensure that the Ethics and Compliance Program is adequately resourced and is independent, consistent with best practices.

STATUS OF FY 2024-25 PROJECTS AND INITIATIVES

The Ethics and Compliance Program is a goal in the Board of Retirement's 2023-28 Strategic Plan, and substantial progress is being made to implement the program. An ethics and compliance counsel and additional consulting services from Gartner were engaged to provide professional expertise and have assisted throughout the year in finalizing the Program Charter and implementation of the program. The staff Ethics and Compliance Committee (ECC) has been provided with training and continues to function as a broad-based staff resource to support the program, particularly with regard to policy review, and to serve as ambassadors for the program in their individual divisions throughout LACERA. The Ethics and Compliance Program Charter was approved by the Audit Committee and Boards. The Audit Committee was renamed the ACRE Committee, and a new Committee Charter was approved to reflect its increased scope of risk oversight responsibilities. Pursuant to the new program and ACRE Committee Charters, a foundational work plan was approved and is underway, consisting of activities to enhance LACERA's readiness to implement the program upon arrival of the CECO. Based on the foundational work plan, staff is developing specific strategies to enhance LACERA's organizational culture based on LACERA's Values and thereby promote ethical and compliant behaviors throughout LACERA. The program is using the Values as a structure for revising and reorganizing LACERA's Code of Ethical Conduct based on open discussions with the ACRE Committee, the Boards, and staff. The program is collaborating with Internal Audit on ethics and compliance risk assessment, values, and behavior-based cultural measurement, training, and other related activities. Staff

implemented a new, internally developed policy management tool, Compass, which will serve as a policy repository and will also provide other policy management resources to assist with new policy creation, acknowledgment and training on new policies, and monitoring of scheduled review periods for existing policies. Education and training resources on ethics and compliance have been purchased and are already available to staff, including the Society of Corporate Compliance and Ethics and the Practising Law Institute. In addition, ethical culture was featured at the November 2024 Management Offsite, and additional efforts are in the planning stages to enhance organizational culture.

FY 2025-26 STRATEGIC GOALS AND OBJECTIVES

The first priority for the new fiscal year will be to hire the CECO, and then a DCECO and a Senior Administrative Assistant, to provide dedicated program leadership and support staff. In the interim, foundational steps will continue, including: baseline ethics and compliance risk assessment; baseline ethical culture assessment based on LACERA's Values and behaviors; evaluation of additional Governance, Risk, and Compliance (GRC) software for compliance, ethics, and privacy; development of processes to support LACERA's Values and organizational culture; training on ethics, compliance, and culture and revised LACERA Code of Ethical Conduct; and integration of the CECO, DCECO, and Senior Administrative Assistant.

SUMMARY OF PROPOSED BUDGETARY CHANGES: SALARIES & EMPLOYEE BENEFITS (S&EB)

Non-Discretionary Salary Adjustments

The budget reflects the final six months of negotiated cost-of-living adjustments (COLAs) included in the current Memorandum of Understanding (MOU) covering the period through December 31, 2025, and approved by the Board of Retirement and Board of Investments for all LACERA employees, as well as salary-step progression and merit pay increases for qualified and/or eligible employees and assumed commensurate increases to employee benefits. The budget does not include any changes to salaries or benefits that may be negotiated during FY 2025-26.

Adjustments to Permanent Staffing

The Chief Ethics and Compliance Officer classification description and salary that were approved by the ACRE Committee in December 2024 and will be submitted to the Joint Organizational Governance Committee (JOGC) and the Boards for review and approval, and then to the Board of Supervisors for action. The Deputy Chief Ethics and Compliance Officer (DCECO) and Senior Administrative Assistant classifications and salary will also be submitted for approval to the ACRE Committee, JOGC, and Boards. These steps are

expected to be completed in FY 2024-25, which will enable recruitments to be conducted in FY 2025-26.

Funding totaling approximately \$270,800 is included to reflect nine months of funding for the CECO, six months of funding for the Senior Administrative Assistant, and three months of funding for the DCECO. However, this amount is subject to change based on the actual salary authorized and the date of onboarding.

Temporary Staffing

Temporary staffing is not anticipated for this program in FY 2025-26.

Overtime Needs

Overtime is not anticipated for this program in FY 2025-26

Interns

No interns are requested for this program in FY 2025-26.

Rehired Retirees

The Ethics and Compliance Office is not requesting any rehired retiree assistance in FY 2025-26.

SUMMARY OF PROPOSED BUDGETARY CHANGES – SERVICES & SUPPLIES (S&S)

Removal of One-Time Expenditures

The Ethics and Compliance Office does not have any removal of one-time expenditures for FY 2025-26.

Services and Supplies Adjustments

The following services and supplies are proposed in support of this program in FY 2025-26:

Auto Mileage/Transportation

Funding totaling \$3,500 is requested to support anticipated auto mileage associated with the Chief Ethics and Compliance Officer and Deputy Chief Ethics and Compliance Officer positions, and other staff involved in the program, for business meetings and attendance at training and other events.

Travel

Funding totaling \$8,000 is requested to ensure the Chief Ethics and Compliance Officer can participate in training and development opportunities.

Special Orders/Minor Equip

Funding totaling \$1,200 is requested for new and developing office special supplies.

Ethics and Compliance Consulting

Funding totaling \$35,000 is requested for additional consulting services previously allocated to Educational Materials to obtain input on best practices in Ethics and Compliance Program design and implementation.

Outside Legal Counsel

Funding totaling \$27,000 is requested for outside ethics and compliance counsel to support the development and implementation of LACERA's Ethics and Compliance Program.

Memberships

Funding totaling \$8,000 is requested for memberships to support the Chief Ethics and Compliance Officer's professional development and participation in ethics and compliance-related organizations.

Registration Fees

Funding totaling \$7,500 is requested to ensure the Chief Ethics and Compliance Officer can participate in training and development opportunities.

Educational Materials

Funding totaling \$30,000 is requested to ensure the program has the educational and professional materials and subscriptions needed to successfully implement LACERA's Ethics and Compliance Program.

ETHICS AND COMPLIANCE OFFICE

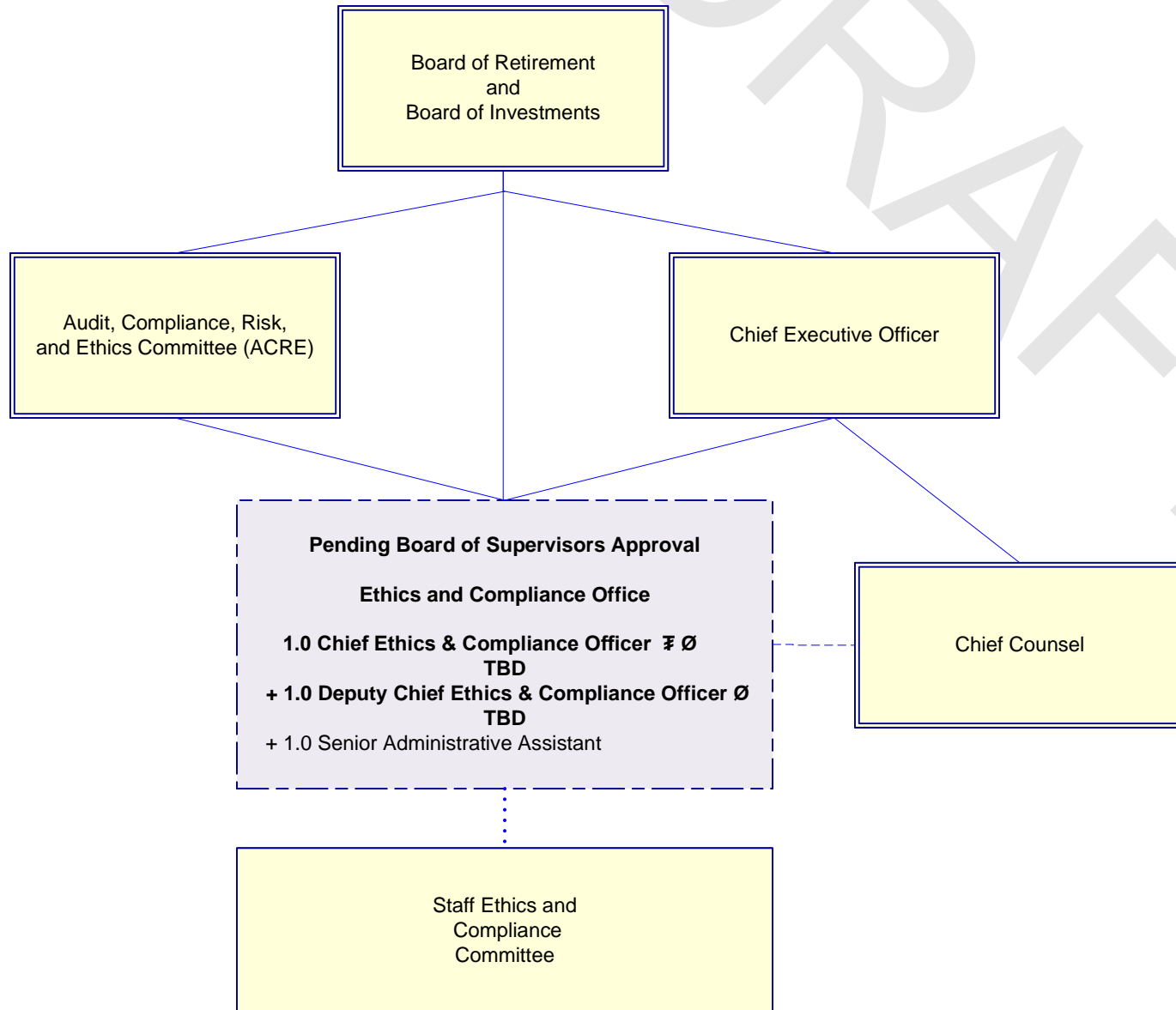
FISCAL YEAR 2025-2026

2024-2025 Bud. Pos.: 1.0

2024-2025 Hiring Plan: 1.0

2025-2026 Bud. Pos.: 3.0

2025-2026 Hiring Plan: 3.0



--- Administrative

— Functional

..... Advisory

+ Added position

€ Title changed from Ethics & Compliance Officer to Chief Ethics & Compliance Officer

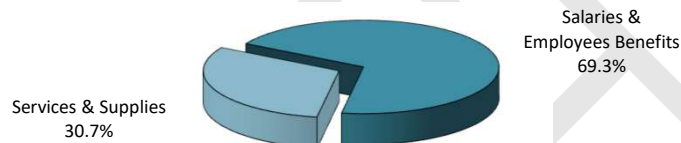
\emptyset Chief Ethics & Compliance Officer pending Board of Supervisors approval. Deputy Chief Ethics & Compliance Officer pending LACERA Boards and Board of Supervisors approval.

LACERA
FISCAL YEAR 2025-2026
BUDGET SUMMARY

ETHICS AND COMPLIANCE OFFICE

	CURRENT YEAR 2024-2025			COMPARISON OF CURRENT YEAR BUDGET TO PROJECTION		COMPARISON OF PROPOSED BUDGET TO 2024-2025 BUDGET		
	PROPOSED BUDGET 2025-2026	YTD		OVER/(UNDER)		\$ CHANGE	% CHANGE	
		BUDGET	(01-31-25)	PROJECTION	BUDGET			% CHANGE
Salaries & Employees Benefits	\$270,805	\$127,400	\$4,567	\$9,400	(\$118,000)	-92.6%	\$143,405	112.6%
Services & Supplies	120,200	92,000	59,291	77,800	(14,200)	-15.4%	28,200	30.7%
OPERATING BUDGET	\$391,005	\$219,400	\$63,857	\$87,200	(\$132,200)	-60.3%	\$171,605	78.2%

2025 - 2026 PROPOSED BUDGET



*All amounts rounded to the nearest dollar.

LACERA

FISCAL YEAR 2025-2026

SALARIES AND EMPLOYEE BENEFITS SUMMARY

ETHICS AND COMPLIANCE OFFICE

	PROPOSED BUDGET 2025-2026	CURRENT YEAR 2024-2025			COMPARISON OF CURRENT YEAR BUDGET TO PROJECTION		COMPARISON OF PROPOSED BUDGET TO 2024-2025 BUDGET	
		BUDGET	YTD		OVER/(UNDER)		\$ CHANGE	% CHANGE
			(01-31-25)	PROJECTION	BUDGET	% CHANGE		
Total LACERA Salaries	\$172,614	\$93,330	\$0	\$0	(\$93,330)	-100.0%	\$79,284	84.9%
Total Agency Temp Salaries	0	0	0	0	0	0.0%	0	0.0%
Employee Benefits (Variable)	87,400	24,686	4	100	(24,586)	-99.6%	62,714	254.0%
Employee Benefits (Other)	6,540	5,687	2,613	5,300	(387)	-6.8%	853	15.0%
OPEB Contribution	4,251	3,696	1,949	4,000	304	8.2%	555	15.0%
Stipends	0	0	0	0	0	0.0%	0	0.0%
Overtime	0	0	0	0	0	0.0%	0	0.0%
Bilingual Bonus	0	0	0	0	0	0.0%	0	0.0%
Sick Leave Buyback	0	0	0	0	0	0.0%	0	0.0%
Rideshare Allowance	0	0	0	0	0	0.0%	0	0.0%
Transportation Allowance	0	0	0	0	0	0.0%	0	0.0%
ADJUSTED GROSS S&EB	\$270,805	\$127,400	\$4,567	\$9,400	(\$118,000)	-92.6%	\$143,405	112.6%
Salary Differential	0	0	-	-	-	-	-	-
TOTAL S&EB	\$270,805	\$127,400	\$4,567	\$9,400	(\$118,000)	-92.6%	\$143,405	112.6%

*All amounts rounded to the nearest dollar.

Note: All YTD Salaries and Employee Benefits totals are as of 01/15/25, with the exception of Agency Temp Salaries, which are as of 01/31/25.

LACERA
 FISCAL YEAR 2025-2026
 BUDGETED POSITIONS

ETHICS AND COMPLIANCE OFFICE

FILLED POSITIONS

Budget Classification Number	Budget Classification Title	# of Budget Positions	Budget Salary Schedule
------------------------------	-----------------------------	-----------------------	------------------------

Total Filled Positions = 0

VACANT POSITIONS

Budget Classification Number	Budget Classification Title	# of Budget Positions	Budget Salary Schedule
------------------------------	-----------------------------	-----------------------	------------------------

9999	CHIEF, ETHICS & COMPLIANCE OFFICER	1	LS12
9999	DEPUTY CHIEF, ETHICS & COMPLIANCE OFFICER	1	118J
0493	SENIOR ADMINISTRATIVE ASSISTANT	1	95C

Total Vacant Positions = 3

TOTAL POSITIONS = 3

Non-Represented positions shown in black.
 Represented positions shown in blue.
 Salary schedule as of 01/01/2025.

LACERA

FISCAL YEAR 2025-2026

SERVICES & SUPPLIES ACCOUNT SUMMARY

ETHICS AND COMPLIANCE OFFICE

ACCOUNT CLASSIFICATION	PROPOSED BUDGET 2025-2026	CURRENT YEAR 2024-2025			COMPARISON OF CURRENT YEAR BUDGET TO PROJECTION		COMPARISON OF PROPOSED BUDGET TO 2024-2025 BUDGET	
		YTD			OVER/(UNDER)		\$ CHANGE	% CHANGE
		BUDGET	(01-31-25)	PROJECTION	BUDGET	% CHANGE		
TRANSPORTATION & TRAVEL	\$11,500	\$11,500	\$1,239	\$1,300	(\$10,200)	-88.7%	\$0	0.0%
OFFICE SUPPLIES & EQUIPMENT	1,200	0	0	0	0	0.0%	\$1,200	0.0%
PROFESSIONAL AND SPECIALIZED SERVICES	35,000	0	0	0	0	0.0%	\$35,000	0.0%
LEGAL FEES & SERVICES	27,000	20,000	44,650	55,000	35,000	175.0%	\$7,000	35.0%
EDUCATIONAL EXPENSES	45,500	60,500	13,402	21,500	(39,000)	-64.5%	(15,000)	-24.8%
MISCELLANEOUS	0	0	0	0	0	0.0%	0	0.0%
TOTAL	\$120,200	\$92,000	\$59,291	\$77,800	(\$14,200)	-15.4%	\$28,200	30.7%

*All amounts rounded to the nearest dollar.

ATTACHMENT B

Foundational Work Plan Status Report for
Ethics and Compliance Program (12/24)



November 19, 2024

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

ACRE Committee Consultant
Larry Jensen

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

Allison E. Barrett, *ABS*
Senior Staff Counsel

FOR: December 12, 2024, ACRE Committee Meeting

SUBJECT: **Ethics and Compliance Program Foundational Work Plan Status**

BACKGROUND AND LEGAL AUTHORITY

LACERA's Ethics and Compliance Program Charter is designed in accordance with the U.S. Sentencing Guidelines and the 2024 Department of Justice "Evaluation of Corporate Compliance Programs" (DOJ Evaluation) which establish the leading standards and authority to determine the effectiveness of Ethics and Compliance Programs. The DOJ asks three fundamental questions when evaluating Ethics and Compliance Programs:

1. Is the program well designed?
2. Is the program adequately resourced and empowered to function effectively?
3. Does the organization's compliance program work in practice?

These questions drive the ACRE Committee's oversight of the Ethics and Compliance Program (Program). Both the ACRE Committee and Ethics and Compliance Program Charters require staff to provide regular reporting to the Committee on Program activity (including its work plan) so the Committee may effectively exercise its oversight role.¹

Section VII.B.13 of the ACRE Charter specifies that Chief Counsel and the CEO will perform foundational work pending the hiring of the Chief Ethics and Compliance Officer

¹ *ACRE Committee Charter, section VII.B.2.b. Ethics and Compliance Program Charter section VIII.D;J;*

(CECO) and the establishment of the Ethics and Compliance Office. The Ethics and Compliance Foundational Work plan was approved by the ACRE Committee at its September meeting and subsequently by the Boards in October 2024. Work plan activities include: 1) an Education Plan; 2) Policy Management; 3) Baseline Ethics and Compliance Risk Assessments; 4) Baseline Ethics and Compliance Culture Survey; 5) Updating the Code of Ethical Conduct; and 6) Class Specifications for Ethics and Compliance Office personnel—Chief Ethics and Compliance Officer (CECO), Deputy Compliance Officers, and an Administrative Assistant-III (ASA-III). Each of the foundational elements in the work plan serve to build LACERA’s culture of ethics and compliance, manage ethics and compliance risk, and prepare the Program for a seamless transition with the arrival of a CECO.

The following chart summarizes the status of the Foundational Work Plan activities, with additional detail regarding each activity outlined below.

WORK PLAN STATUS

Program Activity	Target Date	Status
<i>Education Plan</i>	Ongoing	<p>Training and communications are continuous. Notable milestones: 1) began quarterly training for the Ethics and Compliance Committee (October 2024) and 2) began discussion with LACERA leaders at the management offsite (November 2024).</p> <p>ACRE Committee orientation (February 2025) will also include discussion of key topics (<i>Item VII.F on today’s agenda</i>).</p>
<i>Policy Management</i>	December 2024	<p>Phase 1 is complete—<i>Compass Policy Library</i> will be operational in December 2024 and presented under <i>Item VII.G on today’s agenda</i>. All policies procedures, charters, governance documents, et. al., have been transferred from LACERA Connect and LACERA.com into <i>Compass</i>. All-staff <i>Compass</i> training will begin January 2025.</p> <p>Phase 2 of Policy Management is ongoing—inventorying policies, procedures, and charters (not previously housed on LACERA Connect or LACERA.com) for inclusion in <i>Compass</i>.</p>

Baseline Ethics and Compliance Risk Assessment	January 2025	On target: Ethics and Compliance risk specific questionnaires/surveys and interviews (tailored to each division's particular risk profile) will be conducted alongside Internal Audit's annual risk assessment.
Baseline Ethics and Compliance Culture Survey	January 2025	On target: Legal, Internal Audit, and HR staff meet weekly and introduced an organizational culture project at the November 2024 management offsite, engaging in discussion with 70 plus LACERA leaders on organizational culture and its business value. LACERA-wide focus groups and written surveys will follow.
Chief Ethics and Compliance Officer (CECO) Deputy, and Administrative Assistant-III (ASA) Class Specifications	January 2025	On Target: HR, Chief Counsel, and Executive Office have drafted the CECO Class Specification for review by the ACRE Committee (<i>Item VI.D . on today's agenda</i>). Additional positions (Deputy CECO and administrative support positions) will be brought to the ACRE Committee next year.
Code of Ethical Conduct	March 2025	On Target: An Ethics and Compliance Committee subcommittee meets weekly to revamp LACERA's Code of Ethical Conduct. The Code's Table of Contents (demonstrating proposed restructuring and organization) is presented for Committee discussion in <i>Item VII.C on today's agenda</i> . A full proposed draft of the Code will follow at the Committee's March 2025 meeting.

EDUCATION PLAN

The ACRE Committee and Ethics and Compliance Program Charters provide for Committee oversight of communication and training plans, including quarterly reports from Program staff to the Committee.² Additionally, the ACRE Committee Charter requires the Committee undergo regular ethics and compliance training on LACERA's

² ACRE Charter, Section VII.B.7.a; Ethics and Compliance Program Charter Sections IV.G and VII.G.

governing laws, regulations, policies, procedures, Code of Ethical Conduct, and Conflict of Interest Code.³

According to the Sentencing Guidelines, effective ethics and compliance programs promote an organizational culture that encourages ethical conduct and a commitment to compliance with the law.⁴ Education is fundamental to meet that objective. Specifically, the guidelines state that to successfully foster a culture of ethics and compliance, the organization shall periodically communicate its standards, procedures, and other key elements of the program by conducting effective training programs and disseminating information customized to trustee, executive, management, supervisor, and front-line staffs' respective roles and responsibilities.⁵ The DOJ Evaluation (2024) reiterates that specifically tailored training and communications are a hallmark of a well-designed ethics and compliance program. Robust training ensures that ethics and compliance policies and procedures are integrated into the organization's day-to-day operations and that the Program and its objectives are understood and followed by all LACERA employees.

The Ethics and Compliance Program will be communicated to all staff through various channels, including an Ethics and Compliance intranet landing page, updates at LACERA's monthly brown bag meetings, and regular reporting from each member of the multi-divisional Ethics and Compliance Committee to their respective divisions.

Organization-wide comprehensive training will include separate orientations on the Program and its objectives according to individuals' roles and responsibilities. Following orientation, similarly tailored training programs will be required biennially, along with training on LACERA's Code of Ethical Conduct. Under the Ethics and Compliance Program Charter, training is one of several key performance criteria that is part of the Program's annual self-assessment. In considering whether training is effective, the DOJ considers whether the organization has evaluated employees' engagement with the training, whether employees have learned the material covered, and whether the organization has evaluated the extent to which training has a measurable impact on employees' behavior and the organization's operations.

In addition to all-staff training, Program staff (and ultimately the CECO, Deputies, et. al.) participate in continuing professional development and education. Various members of the ECC are members of the Society of Corporate Compliance and Ethics (SCCE) and have completed training programs, including SCCE's Compliance and Ethics Essentials Workshop (which provides the requisite Continuing Education Units to sit for SCCE Certified Compliance & Ethics Professional (CCEP) exam) as well as ethics and compliance courses provided by the Practising Law Institute (PLI).

³ *ACRE Charter, Section VII.B.7.b.*

⁴ *18 USCS Appx Sec. 8B2.1(a)(2).*

⁵ *18 USCS Appx Sec. 8B2.1(b)(4)(A).*

The Ethics and Compliance Committee has also scheduled quarterly training at its monthly meetings. The October 2024 training (facilitated by LACERA ethics and compliance counsel, Rebecca Walker, Esq.) covered policy governance--standards for meaningful policy drafting and review. At LACERA's 2024 management offsite, the Ethics and Compliance Program team presented a foundational education session, including an overview of the Program, status of the work plan, and a robust discussion on ethics and compliance risk and culture. Over 70 LACERA leaders attended the offsite, including the executive office, management, and supervisors from throughout the organization.

In February 2025, during a dedicated orientation for new ACRE Committee trustees, Internal Audit and the Ethics and Compliance Program team will continue its discussion of key topics (which began at the September 2024 Committee meeting). February 2025 topics will include an overview of Ethics and Compliance roles, responsibilities, and processes, in addition to Internal Audit roles and responsibilities, financial reporting, cybersecurity, and enterprise risk management. Additional topics may be added subject to request by ACRE Committee trustees. (*Item VII.F on today's agenda*).

Under the Program Charter, the Ethics and Compliance team will be working on communications and training in partnership with Human Resources, Communications, Legal, Internal Audit, the Executive Office, and other key divisions.

POLICY MANAGEMENT

The ACRE Committee and Ethics and Compliance Program Charters provide for the Committee and the Program's oversight of LACERA's policies and procedures with regular reporting by staff to the Committee and Boards regarding the organization's policy and procedure review and management.⁶

Policy management is a critical element of mitigating ethics and compliance risk and establishing expected ethical and operational norms. The DOJ Evaluation guidelines identify Policies and Procedures as an essential element to determine whether a Compliance Program is well-designed. The DOJ not only considers the comprehensiveness of an organization's policies to address the spectrum of risk specific to its operations, but whether those policies are easily accessible to all employees and relevant third parties. Policies and Procedures must be readily available, searchable, and understood to be effectively integrated into day-to-day operations in order to successfully manage risk.

⁶ *ACRE Committee Charter, Section VII.B.5; Ethics and Compliance Program Charter, Sections IV.D; VII.D, and VIII.H.*

To meet this objective, the Ethics and Compliance Committee established a subcommittee (Governance, Risk, and Compliance--GRC-360) to research various software solutions for Audit, Compliance, Policy, IT Security, and Enterprise Risk Management. Staff's extensive research resulted in internal development of LACERA's policy management solution—*Compass: LACERA's Policy Library* (Item VII.G on today's agenda).

BASELINE ETHICS AND COMPLIANCE RISK ASSESSMENT

An effective ethics and compliance program requires an organization to exercise due diligence to prevent and detect misconduct.⁷ In accordance with the US Sentencing Guidelines and DOJ Evaluation, LACERA will periodically assess the risk (likelihood and impact) of potential misconduct and respond by updating existing and implementing new controls as identified through periodic organization-wide risk assessments.⁸

Under LACERA's Program Charter, the Ethics and Compliance Office will conduct ethics and compliance risk assessments no less than every two years to review organization-wide operations and proactively identify ethics and compliance risks, control gaps, and key risk indicators; and report these findings to the ACRE Committee.⁹ Under the ACRE Committee Charter, the Committee reviews scheduled risk assessment findings along with recommendations to upgrade current or establish new controls to mitigate any identified risks.¹⁰ This assessment and review process is an ongoing and critical component of Program accountability and protecting LACERA's members and the fund.¹¹

The first steps of this process include conducting baseline ethics and compliance risk assessments throughout the organization to define LACERA's risk profile.¹² The ACRE Committee and the Boards approved initial risk assessments as part of the Program's Foundational Work Plan. Accordingly, the Ethics and Compliance team will conduct baseline interviews and query of division leaders regarding ethics and compliance risk profiles and operational gaps to determine what additional controls may be needed, such as divisional training, ethics and compliance action plans, and/or policies and procedures. Initial assessments will include ethics and compliance risk questionnaires 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 and what their roles and responsibilities are to carry out an effective program.

⁷ 18 USCS Appx 8B2.1 (a)(1).

⁸ 18 USCS Appx 8B2.1 (c).

⁹ *Ethics and Compliance Program Charter, section IV.B and VII.B.*

¹⁰ *ACRE Committee Charter section VII.B.3.a,b.*

¹¹ *Ethics and Compliance Program Charter, section VIII.F.*

¹² *US Department of Justice Evaluation of Corporate Compliance Programs (2024).*

Ethics and compliance risk specific assessments (tailored to each division's particular risk profile) will be conducted alongside Internal Audit's annual risk assessment. The ethics and compliance risk assessment process will be regularly reviewed and updated to evolve with internal, external, and emerging risks.

BASELINE ETHICS AND COMPLIANCE CULTURE SURVEY

An effective ethics and compliance program requires an organization to promote a culture that encourages ethical conduct and commitment to compliance with the law.¹³ An ethical and compliant culture is integrated into an organization's day-to-day operations through the other essential elements of an effective ethics and compliance program (e.g., policies and procedures, code of ethical conduct, risk assessments, training and communications).¹⁴ Leadership's commitment to ethics and compliance and measuring staff's perception of that commitment is paramount to an engaged culture and an ethics and compliance program's success. Under the Program Charter, the Ethics and Compliance Office will periodically conduct a survey of LACERA's culture of ethics and compliance to measure the effectiveness of organizational controls and promote the Program's objectives; with a written report of survey findings presented to the ACRE Committee.¹⁵

The baseline 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 baseline 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.

The Ethics and Compliance team, members of Internal Audit and HR meet weekly to discuss this project, which was introduced at the November 2024 management offsite of 70 plus LACERA leaders on organizational culture. Organization-wide focus groups and a survey will follow, with a report out to the ACRE Committee upon completion.

¹³ 18 USCS Appx 8B2.1(a)(2).

¹⁴ US Department of Justice Evaluation of Corporate Compliance Programs (2024).

¹⁵ Ethics and Compliance Program Charter, sections IV.J, VII.J., VIII.L. ACRE Committee Charter Section VII.B.11.

ETHICS AND COMPLIANCE PERSONNEL CLASS SPECIFICATIONS

The Chief Ethics and Compliance Officer proposed class specification and salary are presented under *item VI.D* on today's agenda. The Ethics and Compliance Office (to be located in the Legal Division) will also include two Deputies (class specifications to be submitted to the Committee in early 2025) and additional administrative support personnel. The CECO position, job description, and salary, and those for other positions as developed will then be submitted to the Board of Supervisors for addition to the County salary ordinance. Once the CECO is approved, recruited, and hired, they will oversee the recruitment process and hiring of additional Ethics and Compliance Office staff as needed.

CODE OF ETHICAL CONDUCT

The ACRE Committee and Ethics and Compliance Program Charters provide for Committee and Program oversight of LACERA's Code of Ethical Conduct.¹⁶ As noted above, under the Sentencing Guidelines, effective ethics and compliance programs shall promote an organizational culture that encourages ethical conduct and a commitment to compliance with the law. Commitment requires established standards of conduct and internal controls designed to reduce ethics and compliance risk.¹⁷ A code of ethical conduct is the foundational document that establishes those standards. The DOJ Evaluation advises that a threshold matter in determining a compliance program's effectiveness, is assessing whether an organization has a code of conduct that sets forth the organization's commitment to full compliance with the law.¹⁸

LACERA's Code of Ethical Conduct was last revised in November 2021. Review is timely as well as central to the implementation of LACERA's Ethics and Compliance Program (adopted under its Charter, October 2024). *The current update process for LACERA's Code of Ethical Conduct is presented for discussion and Committee input in item VII.C on today's agenda.*

CONCLUSION

Each of the foundational elements in the foundational work plan serve to build LACERA's culture of ethics and compliance, manage ethics and compliance risk, and prepare the Program for a seamless transition with the arrival of a CECO. The Ethics and Compliance Program team, along with members of the Legal Division, ECC, and several other LACERA Divisions (e.g., Human Resources, Communications, Internal Audit, and the

¹⁶ ACRE Committee Charter section VII. B.4, 5; Ethics and Compliance Program Charter section VII.D.2.

¹⁷ 18 USCS Appx section 8B2.1.

¹⁸ US Department of Justice Evaluation of Corporate Compliance Programs (2024).

Re: Foundational Work Plan Status
November 19, 2024
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Executive Office) will continue performing the work outlined in the plan and provide quarterly reports to the Committee as indicated.

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



Ethics and Compliance Program

Foundational Work Plan Status Update

PROGRAM AUTHORITY



1

Fiduciary Duty
(Cal. Const. Art. XVI, Sec. 17)

2

**The ACRE Committee and Ethics and
Compliance Program Charters**

3

**The United States Sentencing Guidelines and DOJ
Evaluation of Corporate Compliance Programs (2024)**



EFFECTIVE

Ethic & Compliance Programs

(DOJ Guidelines)

1

Is the Program well designed?

2

**Is the program adequately resourced
and empowered to function effectively?**

3

Does the Program work in practice?

EDUCATION PLAN



1. October 2024: Quarterly training for the Ethics and Compliance Committee (ECC) began—policy drafting and review.
2. November 2024: Leadership discussion about ethics and compliance began at the LACERA Management offsite.
3. February 2025: ACRE Committee ethics and compliance training will continue. (*Item VII.G*).

POLICY MANAGEMENT



1. At the beginning of 2024, an ECC subcommittee began researching various options for a policy management system.
2. After six months of research and demonstrations, the group determined the most effective response to immediately manage risk was to build an in-house policy management system.
3. *Compass Policy Library* will become operational in December 2024 (*Item VII.G*).
4. All-staff Compass training will begin in January 2025.

Baseline Ethics and Compliance Risk Assessment



1. Ethics and Compliance risk assessments will be conducted alongside Internal Audit's annual risk assessment.
 - A. Ethics and Compliance risk specific surveys.
 - B. Ethics and Compliance risk specific interviews.
2. Ethics and Compliance risk assessments will be tailored to each division's particular risk profile.

Ethics & Compliance

Baseline Ethics and Compliance Culture Survey



1. September 2024: Legal, Internal Audit, and HR began weekly meetings to build LACERA's organizational culture plan, including ethics and compliance.
2. October 2024: The team met with the Executive Office for feedback.
3. November 2024: Introduced project at the management offsite, through discussion among the 70 leaders in attendance regarding organizational culture.
4. January 2025: The team will begin conducting LACERA-wide focus groups, followed by written surveys.

Ethics & Compliance

CLASS SPECIFICATIONS



1. The CECO Class Specification is presented for review by the ACRE Committee today (*Item VI.D*)
2. The Deputy Ethics and Compliance Officer Class Specification will be submitted for review within the coming fiscal year.
3. The Ethics & Compliance Office will also have other administrative support positions as needed and approved by the Committee and Boards.
4. Once the CECO is hired, they will fill the remaining positions and determine whether to recommend further class specifications.

CODE OF ETHICAL CONDUCT



1. An Ethics & Compliance subcommittee has been meeting weekly since September 2024.
2. A Table of Contents demonstrating proposed restructuring and organization is presented on today's agenda (*Item VII. C*).
2. A full proposed draft will follow at the ACRE Committee's March 2025 meeting.

Ethics & Compliance



THANK YOU!

Legal Division
Ethics and Compliance



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QUESTIONS?



February 20, 2025

TO: 2025 Audit, Compliance, Risk, and Ethics (ACRE) Committee
Nicole Mi (BOI), Trustee
Debbie Martin (BOI), Trustee
Alma Martinez (BOI), Trustee
Nancy Durazo (BOR), Trustee
Jason Green (BOR), Trustee
Wayne Moore (BOR), Trustee
Elizabeth Ginsberg, Ex-Officio Trustee

FROM: Carly Ntoya, Ph.D. 
Director, Human Resources

FOR: March 13, 2025, Audit, Compliance, Risk, and Ethics (ACRE) Committee

SUBJECT: **Deputy, Chief Ethics and Compliance Officer, LACERA Proposed Classification and Compensation**

RECOMMENDATION

That the ACRE Committee:

1. Approve establishment of one (1) new non-represented classification and salary range applicable only to LACERA and two (2) ordinance / budgeted designated positions, and refer the classification and salary to the Joint Organizational Governance Committee (JOGC) for review and recommendation to the Board of Retirement and Board of Investments:

<u>New Classification Title</u>	<u>Salary Schedule</u>
Deputy, Chief Ethics and Compliance Officer, LACERA	118J

2. Recommend to the JOGC and joint Boards that they direct staff, upon approval by the JOGC and the joint Boards, to submit to the Board of Supervisors the required ordinance language to implement the new LACERA classification and pay range by amending the Los Angeles County Salary Code Sections 6.28.050, 6.127.010, and 6.127.030.

LEGAL AUTHORITY

The authority to implement the proposed new classification, additional budgeted position, and salary for the above classification rests jointly with the Board of Retirement and Board of

Investments. Such authority is provided in the California Government Code Sections 31522.1, 31522.2, and 31522.4, and will require the Board of Supervisors to amend the Ordinance. The Boards' authority for LACERA classifications and salaries is also found in Article XVI, Section 17 of the California Constitution, which provides that they have "plenary authority and fiduciary responsibility for investment of moneys and administration of the system, and in Article XVI, Section 17(a), which provides that the Boards have "exclusive fiduciary responsibility over the assets of the public pension or retirement system and shall also have sole and exclusive responsibility to administer the system in a manner that will assure prompt delivery of benefits and related services to the participants and their beneficiaries."

Specific authority to create the Deputy, Chief Ethics and Compliance Officer, LACERA (DCECO) position and salary, and the process to be followed, is found in LACERA's governing board documents.

The ACRE Committee Charter, approved by the Committee and the joint Boards in September and October 2024, grants the Committee oversight responsibility for LACERA's Ethics and Compliance Program (EC Program), including oversight of the Chief Ethics and Compliance Officer, LACERA (CECO), in conjunction with the Chief Executive Officer, LACERA (CEO) and joint Boards¹. The Ethics and Compliance Program Charter (EC Charter), approved by the Committee and joint Boards on the same dates stated above, calls for a CECO to lead the EC Program, lead the Ethics and Compliance Office, and report functionally to the ACRE Committee, the Boards, and the CEO². The creation of the CECO classification was approved at the December 2024 ACRE Committee meeting.

The first step in development of the Program is the hiring of the CECO. The CECO will then, based on the CECO's expertise and experience and in conjunction with the ACRE Committee, the Boards, and CEO, develop other Ethics and Compliance Office staff, which is expected to include two (2) Deputy Chief Ethics and Compliance Officers (DCECO) (each expected to focus on ethics and compliance issues in specialized areas of LACERA's operations and related laws, regulations, policies, and procedures so as to enable the development of specific expertise in the Ethics and Compliance Office) and subordinate analyst-level and administrative support staff.

To implement the actions of the ACRE Committee and Boards and in preparation for the development of the Ethics and Compliance Office, creation of the DCECO classification and salary is, therefore, necessary. The EC Charter is attached as **Attachment A**.

Upon action by the ACRE Committee, the DCECO classification and salary should be referred to the JOGC, along with the CECO classification and salary previously acted upon by the ACRE Committee, for a final recommendation to the Boards. The JOGC Charter provides that the Committee has the responsibility to "Review and make recommendations on staff requests to create all new Staff Member classifications [and] ... initial compensation levels and ranges applicable to new positions to be added to the County Code."

¹ ACRE Committee Charter, Section VIII(B)(1).

² Ethics and Compliance Program Charter, Section III.

BACKGROUND ON THE EC PROGRAM AND DCECO POSITION

Creation of an EC Program is a goal of the Board of Retirement's 2023-2028 Strategic Plan, approved in July 2023. (See Strategic Plan, Priority 4, Objective 4.1.) The purpose of this Goal is to further performance of LACERA's Mission to produce, protect, and provide the promised benefits to members; its Vision to empower our members to enjoy a healthy and secure retirement; and its Core Values of integrity, innovation, inclusivity, accountability, collaboration, and transparency by facilitating "management's efforts in regard to compliance and risk management. These efforts are continuous because risks constantly change." (Plan, page 19.) (See JOGC Charter, Section 7.1.) This Goal seeks to enhance the performance of LACERA's fiduciary duty to members and beneficiaries and develop a "Fully implemented integrated, structured, and mature organizational compliance and risk programs." (Plan, page 20.)

After approval of the Plan, staff developed and presented to the ACRE Committee and Boards an EC Charter to guide the EC Program. The EC Program is built to assist the Committee, Boards, and CEO "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 EC 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 EC Program promotes continuous improvement of LACERA's ethics and compliance controls." (EC Charter, Section I.)

Research supports that strong ethics and compliance programs will achieve the desired results of the Strategic Goal. A strong program is shown to result in an improved staff experience because an ethical culture fosters feelings of trust, purpose, and teamwork, enhanced staff morale and engagement, and will aid in staff retention, loyalty, and recruitment. An ethical and compliance culture also empirically leads to improved organizational performance, including improved productivity and efficiency, increased member service and satisfaction, more innovation and adaptability to changed circumstances and new business initiatives, and reputational gains with stakeholders. The research shows that improved performance from a strong ethical and compliant culture is not only at the individual level but to an even greater extent in teams, where there is a multiplier effect as to the impact of a well-designed and implemented Program. Research shows that a strong, well-built, and maintained Program will result in reduced misconduct and claims, and increased internal reporting, without a fear of retaliation, and therefore reduction in the organizational costs that flow from misconduct. Most importantly, a strong Program will set strong behaviors and tone at the top and assist the ACRE Committee, the Boards, and the CEO and other management in performing their fiduciary duty to oversee and respond to compliance and ethics issues. The role of leadership in the Program is especially important in that research shows that the behaviors and processes actually observed by staff, more than written standards alone, are the largest single factor in explaining variations in ethical and compliant cultures.

As described in the EC Charter, the EC Program is to be "led by the Chief Ethics and Compliance Officer (CECO), who will have the authority and responsibility to independently implement the

Program.” Part of implementing the Program includes development and recruitment of a highly specialized ethics and compliance team, starting with the DCECOs.

Positions allocable to this classification will report to the CECO and will assist in overseeing and directing the ethics and compliance program. The DCECOs will carry out the implementation of LACERA’s ethics and compliance program based on their knowledge and experience in relation to the risks related to ethical standards and compliance with laws, regulations, policies, and procedures applicable to aspects of LACERA’s governance and operations, which may include pension administration, benefits, healthcare, finance and investments.

The EC Program activities over which the DCECOs will assist the CECO include: the Ethics and Compliance Program Framework, including resourcing and staffing; Ethics and Compliance Risk Assessment; Monitoring, as to the ethics and compliance of LACERA’s operations, business practices, and key risk indicators; Review of Policies and Procedures, including the ethics and compliance aspects of all LACERA policies, identification of gaps in LACERA’s policy and process control environment, and periodic policy review; Vendor/Third-Party Ethics and Compliance Risk Management; Privacy; Training, Communications, and Incentives, focusing on ethics and compliance risk related education; Channels for Staff to Report Ethics and Compliance Concerns, including but not limited to the Ethics Hotline; Investigation, Response, and Commitment to Non-Retaliation, regarding ethics and compliance concerns; Measure Organizational Culture of Ethics and Compliance; Reporting, to the ACRE Committee, the Boards, and the CEO, regarding the Program’s activities and status; and Self-Assessment and Review of the Program. The CECO, subject to reporting to the ACRE Committee, Boards, and the CEO will determine and oversee the areas of responsibility of the DCECOs.³ Accordingly, while the CECO will be recruited shortly after final approval of the CECO classification and salary, the DCECOs will be recruited later by the CECO as part of the CECO’s development of the Program in consultation with the ACRE Committee, Boards, and the CEO, as well as other relevant staff leader.

The Ethics and Compliance Program is designed as a best practice program, including the responsibilities of the DCECOs, in accordance with The Institute of Internal Auditors’ “Three Lines Model” (2020), the United State Sentencing Commission’s *Sentencing Guidelines for Organizations* (2023), and the U.S. Department of Justice “Evaluation of Corporate Compliance Programs” (2024).

A proposed Organizational Chart for the Ethics and Compliance Office is shown as **Attachment B**. This Organizational Chart has been shared with the ACRE Committee and Boards in memos and presentations leading to the approval of the Ethics and Compliance Program Charter.

PROPOSED NEW CLASSIFICATION

Deputy Chief Ethics and Compliance Officer, LACERA Classification

³ EC Charter, Section VIII(A).

Civil Service Rule 5.01 Standards for the Classification of Positions, C. states that a new class shall be established when it has been determined that the duties and responsibilities of a position or positions, assigned by competent authority, are unique in terms of character, difficulty, and responsibility and do not meet the specifications for an existing class.

To implement the ACRE Committee and Boards' action in creating the EC Program as governed by the EC Charter, staff proposes creation of the new DCECO classification with the knowledge and experience to act as a dedicated position to assist the CECO and the ethics and compliance efforts of the ACRE Committee, Boards, and management as described above.

The EC Program is led by the CECO, who has the authority and responsibility to independently implement it, reporting directly to the ACRE Committee, the Boards, and the CEO.

To support and assist the CECO, the DCECO position will further enable LACERA to implement a compliance structure in line with the Institute of Internal Auditor's "Three Lines" Model of compliance, 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).

The Deputy Chief Ethics and Compliance Officer, LACERA fits within the second line, which currently does not have dedicated staff at LACERA. The Program and DCECO position and responsibilities are also in line with the best practices set forth in the U.S. Sentencing Guidelines for Organizations and U.S. Department of Justice guidance, both as referenced above. The DCECOs will enhance the ability of the Ethics and Compliance Office to address LACERA's ethics and compliance needs by allowing development of specialized expertise in specific areas of operations and relevant laws, regulations, policies, and procedures.

LACERA has an operational need for two full-time budgeted positions with primary responsibility for assisting the CECO with the development, direction, and management of LACERA's Ethics and Compliance Office and Ethics and Compliance Program, including conflicts of interest, and operational ethics and compliance throughout the entire organization.

HR reviewed LACERA's existing classifications and found that LACERA does not have any classifications with a specialization in the second line management of risk related to operational ethics and compliance at the level of a Deputy, Chief Ethics and Compliance Officer position, which requires knowledge and experience in compliance and ethics principles and practices to perform the many specialized program activities described above. Knowledge and abilities are also necessary in the areas of California Government Code provisions, including: the County Employees Retirement Law of 1937 (CERL); the Public Employees' Pension Reform Act of 2013 (PEPRA); the Ralph M. Brown Act; the Public Records Act; the Political Reform Act (and related Fair Political Practices Commission regulations); other laws and regulations relating to public pension governance, conflicts of interest and ethics; securities laws and regulations; and privacy law and practices, including California law, the Health Insurance Portability and Accountability Act (HIPAA), and related regulations.

Some ethics and compliance functions are currently distributed throughout the Legal Office and other parts of the organization. The intent of the Deputy, Chief Ethics and Compliance Officer is

to go beyond consolidating existing compliance functions under one position. Reporting to the CECO, the expectation is that the DCECOs will serve as an ethics and compliance subject matter experts in relation to the risks related to ethical standards and compliance with laws, regulations, policies, and procedures applicable to aspects of LACERA's governance and operations, which may include pension administration, benefits, healthcare, finance, and investments as determined by the CECO in consultation with the ACRE Committee, Boards, and CEO as stated in the EC Charter.

The incumbents of the DCECO positions must have the ability to assist the CECO in influencing and acting as a change agent, designing ethics and compliance strategy in specific areas, delivering results, and create metrics and accountability for the new EC Program. As the Program evolves and grows, the Ethics and Compliance Office expects to request additional positions, the proposed DCECO class specification will be updated in the future for consistency as subordinate positions are developed.

The proposed class specification for Deputy, Chief Ethics and Compliance Officer, LACERA is shown as **Attachment C**. It lists examples of job duties based on the Ethics and Compliance Program Charter and references the minimum requirements: A bachelor's degree in accounting, business administration, finance, legal studies, public administration, or a related field from an accredited college or university **-AND-** Three (3) years of responsible experience designing, developing, and implementing ethics and compliance programs or auditing and investigating ethics and compliance risks and concerns in specialized areas for a large public pension system, or multi-service public or private sector organization.

The proposed Deputy, Chief Ethics and Compliance Officer, LACERA classification qualifies for exemption under the Fair Labor Standards Act (FLSA) based on the Department of Labor administrative exemption test.

Compensation Recommendation

LACERA typically recommends aligning the compensation for the studied positions to market rates while taking into consideration internal equity and sufficient salary differentials between positions. However, Human Resources canvassed CERL, local regional agencies, and utilized private salary survey data for comparable classifications and market data and found that comparable specialized positions in the public sector are limited due to the specific needs of LACERA and because a stand-alone ethics and compliance office is relatively new in the public sector and within pension systems. Based on the information reviewed, HR proposes setting the salary range for the DCECO based on internal equity.

Internal Equity

Due to the lack of strong market compensation benchmarks, LACERA recommends aligning the compensation for the Deputy, Chief, Ethics and Compliance Officer, LACERA with the Principal, Internal Audit, LACERA based on internal equity. The Deputy, Ethics and Compliance Officer, LACERA will serve a similar role within the second line Ethics and Compliance Program as the Principal Internal Auditor, LACERA serves within the third line Internal Audit program. The Ethics

and Compliance Program and Internal Audit are two lines of the three-line model described in the Ethics and Compliance Program Charter approved by the LACERA Boards on October 2, 2024, and October 9, 2024. The third line is Management.

LACERA recommends setting the compensation for the Deputy, Chief, Ethics and Compliance Officer, LACERA at 118J to align with the Principal Internal Audit, LACERA with a monthly maximum salary of \$13,744.82 per month (\$164,937.84 annual).

Ethics and Compliance Program Charter "three lines" model

Item	Classification Title	Sal Sch	Sal Max*
0771	Assistant Division Manager	LS10	\$15,255.51
0799	Assistant Chief Financial Officer	LS10	\$15,255.51
0772	Section Head, LACERA (PMG Supervisor)	LS 9	\$14,191.17
0762	Principal Internal Auditor, LACERA (Supervisor)	118J	\$13,744.82
NEW	Deputy Chief Compliance and Ethics Officer	118J	\$13,744.82

*Note: LACERA Compensation effective 1/1/2024. A 3% increase effective 10/1/2024 and 1/1/2025 approved by the LACERA Boards is pending implementation

Comparison with other LACERA Classifications

Item	Classification Title	Sal Sch	Sal Max*
2644	Retirement Systems Specialist	119L	\$14,192.36
0453	EDP Principal Programmer Analyst, LACERA	119J	\$14,123.10
0762	Principal Internal Auditor, LACERA	118J	\$13,744.82
NEW	Deputy Chief Compliance and Ethics Officer	118J	\$13,744.82
2600	Programming Systems Specialist, LACERA	117C	\$13,179.64
0795	Legislative Affairs Officer, LACERA	116J	\$13,018.28
0474	Investment Accounting Officer, LACERA	116B	\$12,793.63
0459	Data Systems Supervisor I, LACERA	114K	\$12,360.64
0469	Data Systems Coordinator, LACERA	114K	\$12,360.64
0470	Accounting Officer, LACERA	113A	\$11,765.88
0452	EDP Senior Programmer Analyst, LACERA	111H	\$11,651.46
0763	Senior Internal Auditor, LACERA	112F	\$11,594.18
0424	Supervising Administrative Assistant III, LACERA	112B	\$11,479.64
0761	Risk Management Specialist, LACERA	112B	\$11,479.64
0765	Internal Auditor, LACERA	111G	\$11,311.92

*Note: LACERA Compensation effective 1/1/2024. A 3% increase effective 10/1/2024 and 1/1/2025 approved by the LACERA Boards is pending implementation

Implementation and Budget Impact

Implementation of Deputy Chief, Ethics and Compliance Officer as recommended will result in an annual budget increase of \$511,307.30.

No. of Additional Budgeted/ Ordinance Pos. Requested	Position Title	SALARY (1/1/23)			TOTAL ANNUAL BUDGET IMPACT
		Sch	Max Salary	Annual	w/Benefits @ 55%
2 BUD/ 2 ORD	Deputy Chief Ethics and Compliance Officer, LACERA	118J	\$13,744.82	\$164,937.84	\$255,653.65
TOTAL (2 Positions)					\$511,307.30

PROCEDURE FOR ESTABLISHING CLASSIFICATIONS AND PAY RANGES

LACERA provides Local 721 notice and consultation regarding new classifications of which the primary duties are derived from represented classifications. The LACERA classification currently addressed is non-represented; therefore, union notification is not needed.

Establishment of new classification titles and salary require LACERA Boards and County BOS approval due to revision in LACERA ordinance. Upon approval from the Board of Retirement and Board of Investments, Human Resources (HR) will prepare a memorandum to the Los Angeles County's Chief Executive Office (LACCEO) which will include the class specification and salary schedule. The LACCEO Classification and Compensation staff will review the submitted documents to ensure all necessary information is provided in order to add the classification title and salary schedule in the County's Payroll System. HR staff, with the LACERA Legal Office's oversight, will prepare and submit an ordinance amending Sections 6.28.050 and 6.127.010 of LACERA's Salary Code to the Los Angeles County Counsel's Office and the BOS for adoption.

RECOMMENDATION

That the ACRE Committee recommend the proposed actions to the JOGC for recommendation to the Board of Retirement and Board of Investments:

1. Approve establishment of one (1) new non-represented classification and salary range applicable only to LACERA and two (2) ordinance / budgeted designated positions, and refer the classification and salary to the Joint Organizational Governance Committee (JOGC) for review and recommendation to the Board of Retirement and Board of Investments

<u>ORD/BUD</u>	<u>New Classification Title</u>	<u>Salary Schedule</u>
2 / 2	Deputy, Chief Ethics and Compliance Officer, LACERA	118J

2. Recommend to the JOGC and joint Boards that they direct staff, upon approval by the JOGC and the joint Boards, to submit to the Board of Supervisors the required ordinance language to implement the new LACERA classification and pay range by amending the Los Angeles County Salary Code Sections 6.28.050, 6.127.010, and 6.127.030.

Reviewed and Approved:

Santos H. Kreimann

cc: Steven P. Rice
Luis Lugo
Laura Guglielmo
JJ Popowich

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.

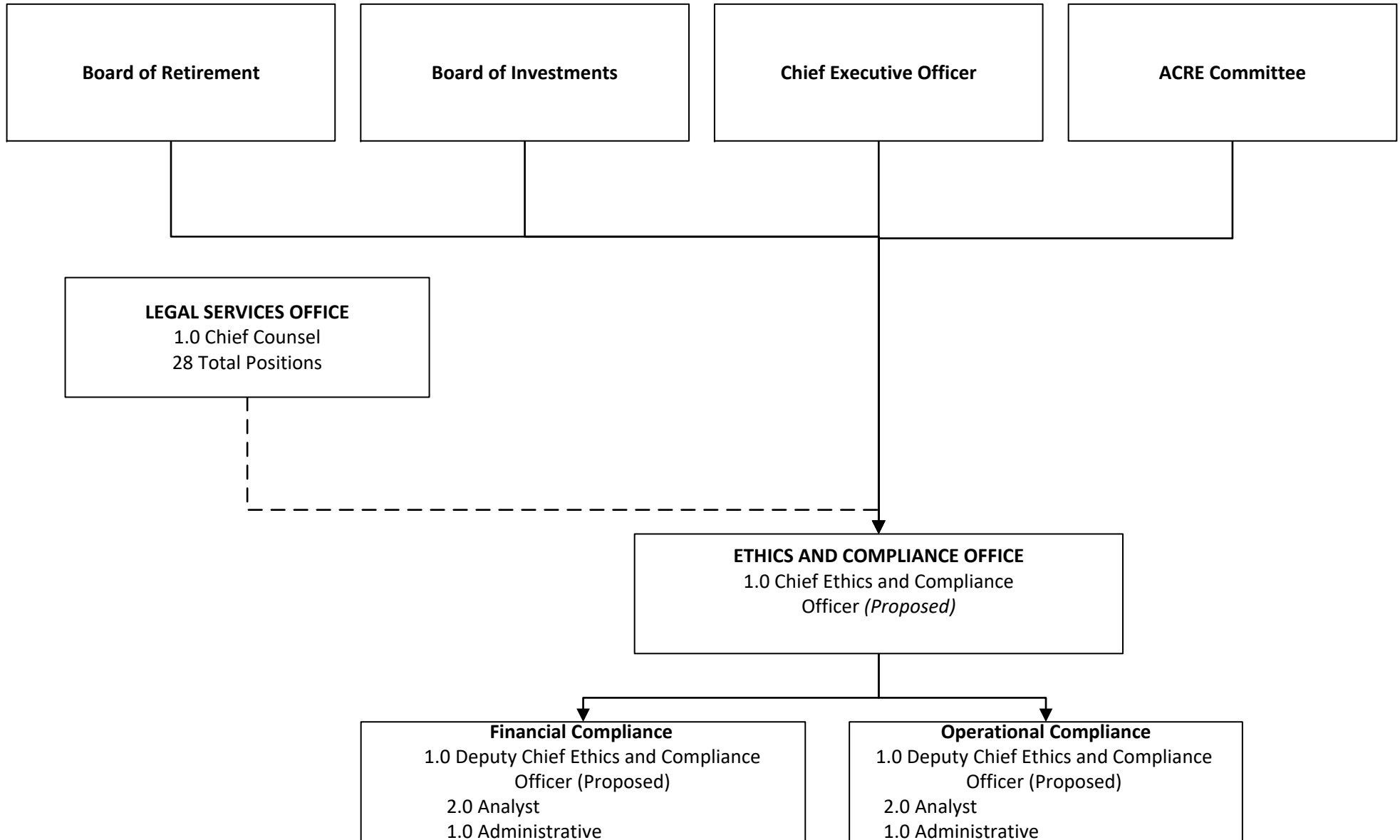
Audit, Compliance, Risk, and Ethics Committee
Approved September 19, 2024

Board of Retirement
Approved October 2, 2024

Board of Investment
Approved October 9, 2024

Proposed Organizational Structure
COMPLIANCE AND ETHICS OFFICE

ATTACHMENT B



Legend

Solid Line – Functional Reporting Relationship

Dotted Line – Administrative Reporting Relationship

CLASS TITLE: DEPUTY, CHIEF ETHICS AND COMPLIANCE OFFICER, LACERA

ITEM NUMBER: TBD

APPROVAL DATE: TBD

DEFINITION:

Assists the Chief Ethics and Compliance Officer, LACERA, in overseeing and directing the ethics and compliance program for the Los Angeles County Employees Retirement Association (LACERA).

STANDARDS:

The two (2) positions allocable to this class will report to the Chief Ethics and Compliance Officer, LACERA, and will assist in the implementation of LACERA's ethics and compliance program in relation to the risks related to ethical standards and compliance with laws, regulations, policies, and procedures applicable to specific aspects of LACERA's governance and operations, which may include defined benefit plan structures, designs, and administration, healthcare, finance, and principles and practices of investment management compliance and monitoring.

Incumbents must possess a thorough knowledge of ethics and compliance and ethics principles and practices, and sufficient experience in ethics and compliance-related risk and promote organizational integrity through the operation of effective ethics and compliance programs in specialized areas. Incumbents must have knowledge of and the ability to analyze and apply relevant law to specific areas, including California Government Code provisions, including the County Employees Retirement Law of 1937, the Public Employees' Pension Reform Act of 2013 (PEPRA), the Ralph M. Brown Act, and the Public Records Act; the Political Reform Act (and related Fair Political Practices Commission regulations), Generally Accepted Accounting Principles (GAAP); Governmental Accounting Standards Board (GASB) principles and standards; audit standards, methods, and techniques; Securities and Exchange Commission (SEC) requirements; Internal Revenue Code and other tax policies and regulatory compliance pertaining to retirement plan and pension benefits administration; Los Angeles County Code; and other laws and regulations relating to public pension governance, conflicts of interest and ethics, and privacy; and privacy law and practices, including California law, the Health Insurance Portability and Accountability Act (HIPAA) and related regulations, and other applicable privacy standards and systems to keep abreast of changes and advise on issues concerning ethics and compliance matters, including recommending and developing continuous improvements and controls designed to ensure an effective ethics and compliance program.

In addition, incumbents must have refined written and oral communication skills to develop policies and procedures; conduct investigations and formulate recommendations; effectively present and convey ethics and compliance activities and

concerns to the Chief Ethics and Compliance Officer, Chief Executive Officer, the ACRE Committee, the Board of Retirement and the Board of Investments, and other LACERA staff; and the ability to establish and maintain effective and collaborative working relationships with executive management, departmental managers, staff members, and other governmental agencies; and facilitate training.

This class is distinguished from the Chief Ethics and Compliance Officer in that the latter has full oversight and responsibility for all compliance programs of the Ethics and Compliance Office, including supervision of subordinate Staff Members.

This class is distinguished from the Internal Auditor series in that the latter provides independent and objective appraisals of the organization and assurance that internal controls over operations are adequate to safeguard assets and comply with applicable laws, policies, procedures, and professional standards.

EXAMPLES OF ESSENTIAL JOB FUNCTIONS:

The following examples are intended to describe the general nature and level of work performed by persons assigned to each classification. Depending on the assignment, duties may include, but are not limited to the following in specialized areas of LACERA's operations and related laws, regulations, policies, and procedures:

Assists the Chief Ethics and Compliance Officer, LACERA in overseeing the enterprise-wide ethics and compliance program.

Prepares reports to the Chief Executive Officer, Boards, and ACRE Committee as to the activities of the ethics and compliance program and assists in Board and committee education on ethics and compliance.

Assesses, evaluates, monitors, investigates, and prepares recommendations on ethics and compliance risks and culture.

Plans, organizes, directs, and evaluates the work of subordinate Ethics and Compliance Office staff, including evaluating employee performance, collaborating with staff to establish professional and personal development goals, and addressing performance deficiencies, as applicable.

Performs periodic ethics and compliance risk assessments, to identify, evaluate, and monitor risks, controls, key risk indicators, and metrics.

Monitors LACERA's governance and operational activities for ethics and compliance risks.

Coordinates the ethics and compliance review of LACERA's policies, procedures, and systems for policy development, review, maintenance, and compliance.

Reviews and monitors third-party vendors for ethics and compliance risks.

Ensures the monitoring of controls to protect the privacy of member information and the confidentiality of information created, received, or shared by LACERA.

Provides ethics and compliance training and communication on risk awareness, ethical standards, governing laws, regulations, and policies, and procedures.

Reviews, monitors, and maintains channels for reporting of suspected misconduct and other ethics and compliance concerns, with a commitment to non-retaliation, and positive incentives for ethical and compliant behavior.

Performs investigations, and assist in enforcement, remediation proposals, and follow up in response to ethics and compliance concerns.

Conducts periodic measurements of organizational culture of ethics and compliance.

Ensures the Ethics and Compliance Office's work and recommendations are well documented and working papers are complete and properly maintained.

Advises and consult with LACERA executive management, division managers, supervisors, and other staff members, including the staff Ethics and Compliance Committee, regarding ethical standards and governing laws, regulations, policies, and procedures, ethics and compliance risks, concerns, and controls.

May perform in the absence of the Chief Ethics and Compliance Officer, LACERA.

Performs other related duties as assigned.

MINIMUM REQUIREMENTS:

TRAINING AND EXPERIENCE:

A bachelor's degree in accounting, business administration, finance, legal studies, public administration, or a related field from an accredited college or university **-AND-** Three (3) years of responsible experience designing, developing, and implementing ethics and compliance programs or auditing and investigating ethics and compliance risks and concerns in specialized areas for a large public pension system, or multi-service public or private sector organization.

PHYSICAL CLASS:


2 – Light



February 25, 2025

TO: 2025 Audit, Compliance, Risk, and Ethics (ACRE) Committee
Debbie Martin (BOI), Trustee
Alma K. Martinez (BOI), Trustee
Nicole Mi (BOI), Trustee
Nancy Durazo (BOR), Trustee
Jason Green (BOR), Trustee
Wayne Moore (BOR), Trustee
Elizabeth Ginsberg, Ex-Officio

Audit Committee Consultant
Larry Jensen

FROM: Richard P. Bendall 
Chief Audit Executive

FOR: March 13, 2025 Audit, Compliance, Risk, and Ethics (ACRE) Committee

SUBJECT: **ACRE Orientation Introduction**

BACKGROUND

For the past few years, Internal Audit provided each newly-formed Audit Compliance Risk and Ethics (ACRE) Committee with a short orientation at its first meeting of the year. However, due to the Committee's expanded responsibilities into compliance, risk, and ethics and a request received from members on the 2024 Committee, staff thought it would be beneficial to have a more in-depth orientation and discussions on key topics. With input from the Committee at the December meeting we developed training around the following topics for today's orientation:

AGENDA

1. Introduction
2. ACRE and Internal Audit's Roles, Responsibilities & Processes
3. ACRE and Ethics and Compliance's Roles, Responsibilities & Processes
4. Values and Culture
5. LACERA Risk Management and Internal Audit Risk Assessments
6. Overview of External Financial Audit Process and Reports & Overview of Actuarial Audit Process

Attachments

A: ACRE Orientation Introduction Presentation

RPB:rb



ACRE COMMITTEE ORIENTATION INTRODUCTION

Presented by

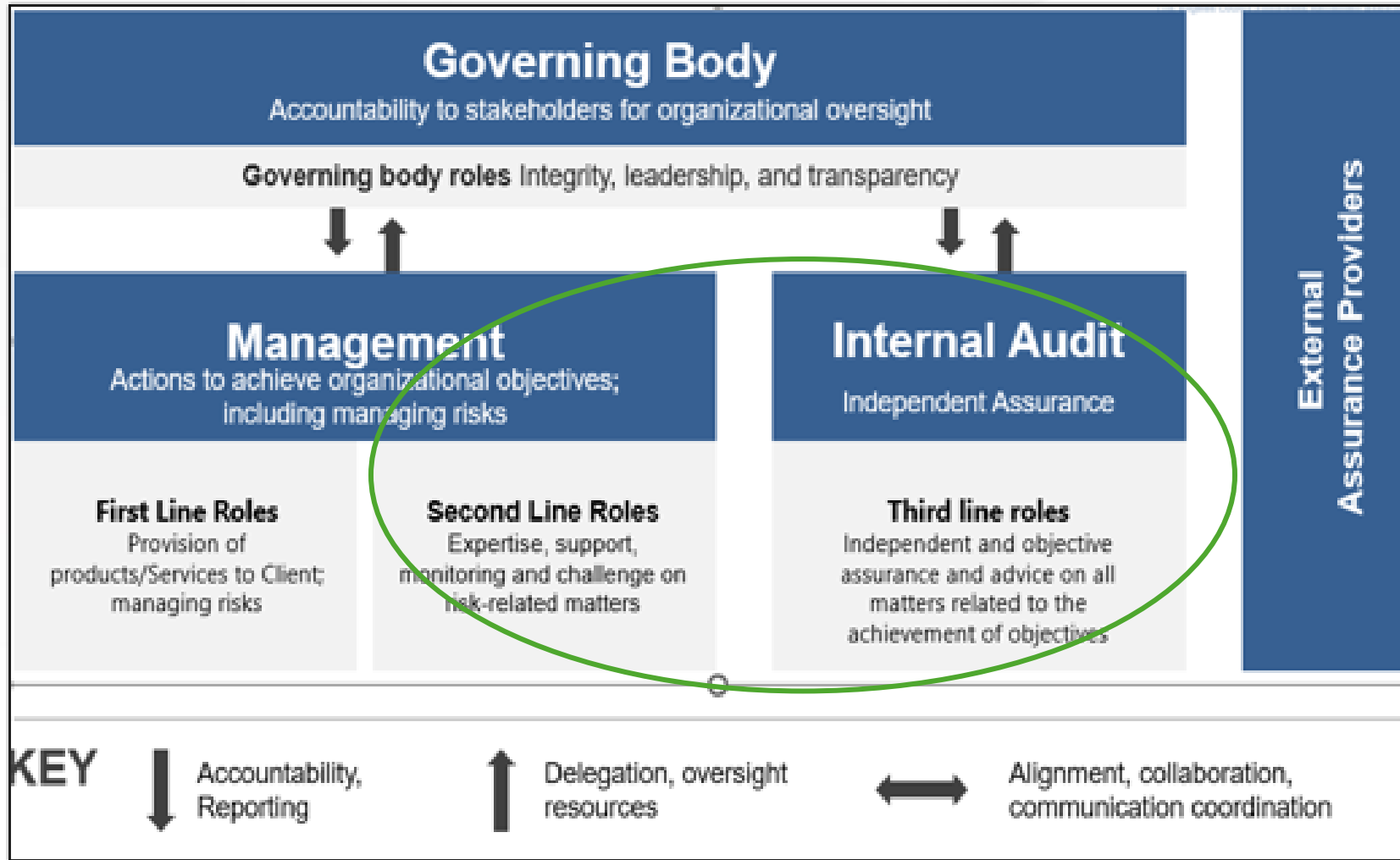
Richard P. Bendall, Chief Audit Executive

ACRE Orientation Agenda

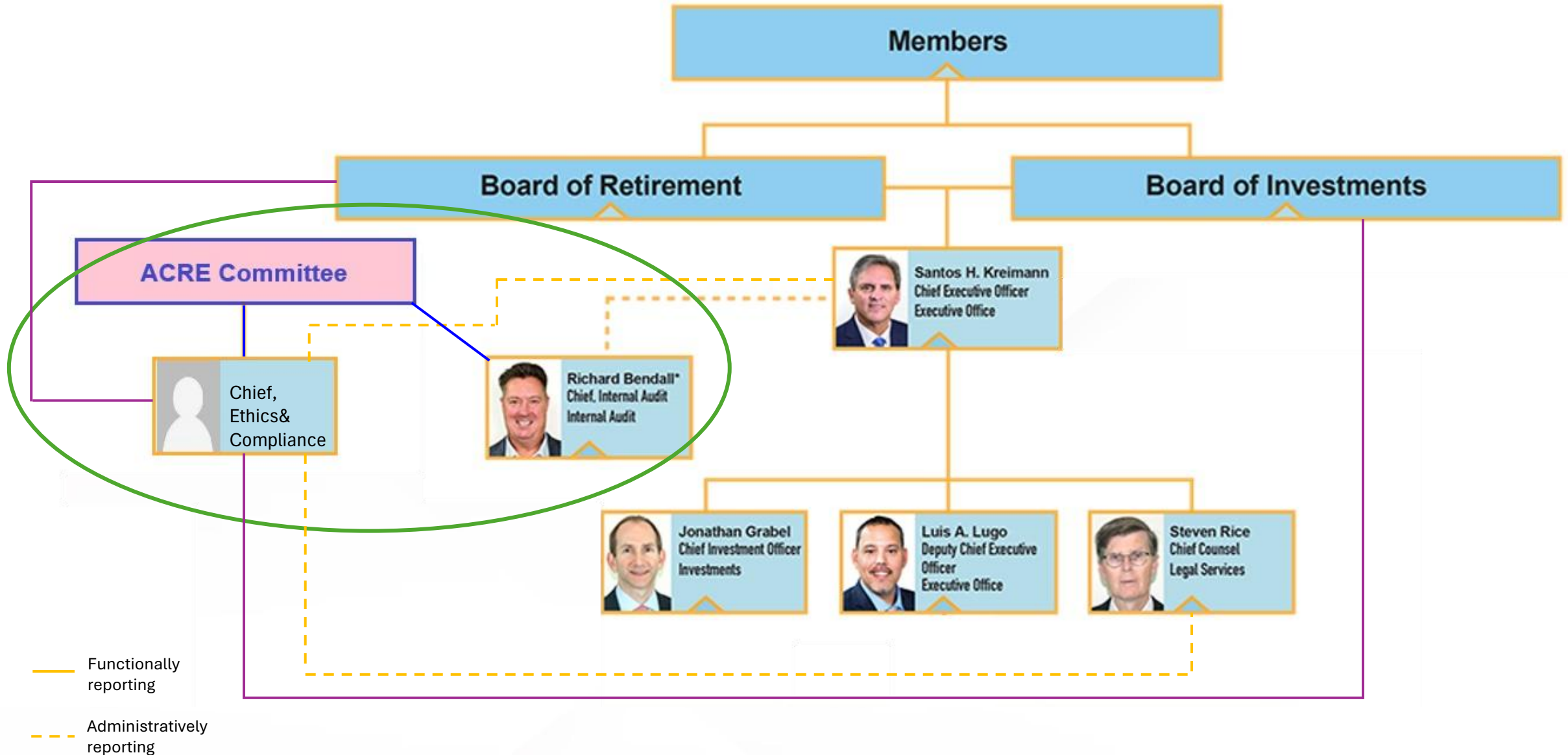


1. Introduction
2. ACRE & Internal Audit Roles, Responsibilities & Processes
3. ACRE & Ethics and Compliance Roles, Responsibilities & Processes
4. Values & Culture
5. LACERA Risk Management & Internal Audit Risk Assessments
6. Overview of External Financial Audit Process and Reports & Overview of Actuarial Audit Process

IIA Three Lines Model



ACRE Committee Position - Independence



ACRE Committee Purpose



“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.”

(From the 2024 ACRE Committee Charter)

Sources of Assurance



- Internal Audit Assurance
- External Audit Assurance
- Third Party Assurance
- Regulatory Assurance
- Management Assurance (Includes assurance provided by second line functions, Ethics and Compliance & Enterprise Risk Management (ERM)).





February 27, 2025

TO: 2025 Audit, Compliance, Risk, and Ethics (ACRE) Committee
Debbie Martin (BOI), Trustee
Alma K. Martinez (BOI), Trustee
Nicole Mi (BOI), Trustee
Nancy Durazo (BOR), Trustee
Jason Green (BOR), Trustee
Wayne Moore (BOR), Trustee
Elizabeth Ginsberg, Ex-Officio

Audit Committee Consultant
Larry Jensen

FROM: Leisha E. Collins 
Principal Internal Auditor

FOR: March 13, 2025 Audit, Compliance, Risk, and Ethics (ACRE) Committee

SUBJECT: **ACRE and Internal Audit Roles, Responsibilities, and Processes**

BACKGROUND

In recent years, Internal Audit has delivered a brief orientation at the first ACRE Committee meeting. However, with the Committee's expanded responsibilities encompassing compliance, risk, and ethics, and at the request of 2024 ACRE Committee members, a more comprehensive orientation and discussion on key topics will be provided at the March 2025 meeting. The attached presentation aims to enhance the understanding of internal audit functions and practices that support the ACRE Committee in fulfilling their duties and responsibilities.

Attachments

- A: Presentation
- B: ACRE Charter
- C: FYE 2025 Audit Plan
- D: FYE 2025 ACRE Calendar

ACRE - Internal Audit Roles and Responsibilities

Presented by

Leisha Collins, Principal Internal Auditor



TOPICS FOR DISCUSSION:

- ACRE Roles and Responsibilities
- Oversight, Internal Audit Functions and Activities
 - Audit Resources and Planning
 - Audits/Projects Engagements
 - ACRE Reporting
 - ACRE Calendar of Activities



Internal Audit Activities

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.

Professional Service Provider Activity

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.

Financial Reporting Process

Oversee 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.



ACRE Charter VII.A.1

The ACRE Committee oversees and monitors Internal Audit's conformance with the Institute of Internal Auditor's (IIA) Global Internal Audit Standards, particularly the described "essential conditions" which establish the foundation for an effective internal audit function as listed:

- Ensure Audit is independent of Management; reports functionally to ACRE and administratively to CEO
- Ensure the CAE has unrestricted access to and communicates directly with the ACRE Committee
- Discuss, review, and approve Internal Audit's Charter, at least every three years
- Review and approve Internal Audit's Three-Year Roadmap to continue to mature
- Ensure Quality Assurance and Improvement Program (QAIP) is established and results reviewed annually
- 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
- Approve Internal Audit's risk-based Audit Plan, including the budget for resources and funding, to ensure scope of governance, risk and control processes are adequately evaluated
- Monitor Internal Audit's activity relative to its Plan. Approve all major changes to the Audit Plan
- Review, accept, and/or provide Internal Audit with further direction on Internal Audit's engagement reports
- Monitor Internal Audit's recommendations to ensure Management adequately addressed risks identified
- Make recommendations to Boards regarding appointment, discipline, dismissal, and/or removal of CAE
- Oversee the CAE's performance management, perform the CAE's annual performance assessment with qualitative input from the CAE and CEO

Authority and Oversight of Internal Audit



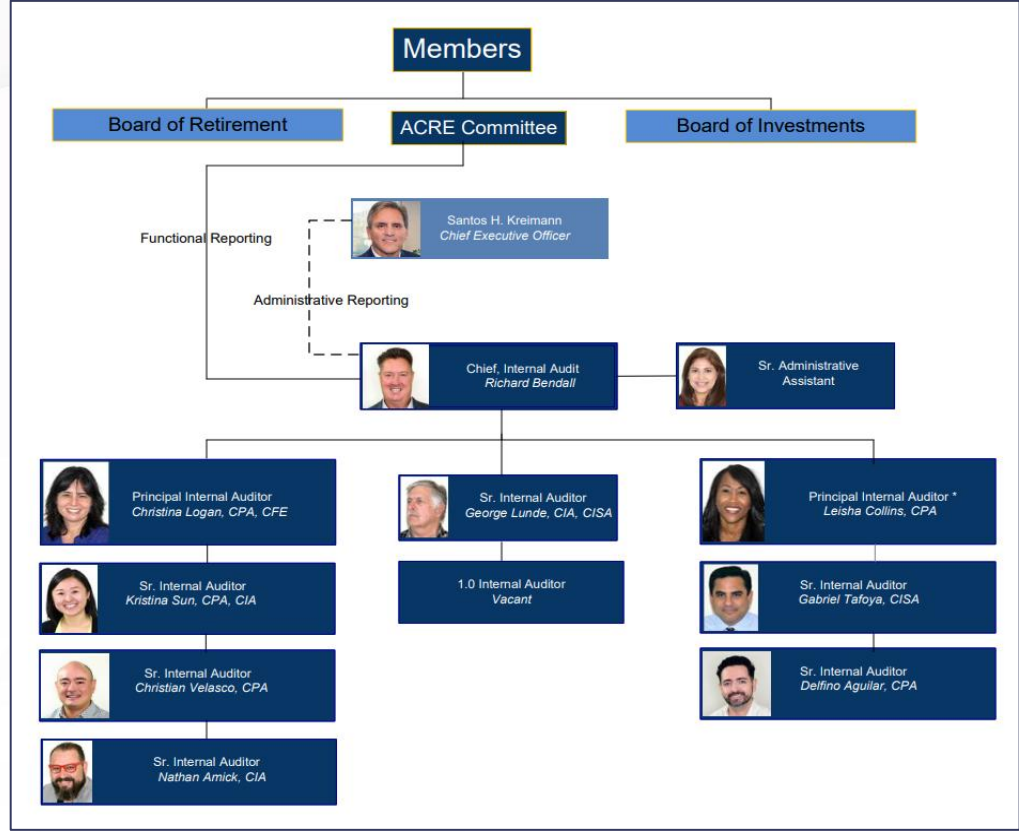
ACRE Charter: The ACRE Committee ensures that the Internal Audit Activity is independent of Management and reports functionally to the ACRE Committee and administratively to the CEO.

Oversight in Practice: The CAE is positioned to report functionally to ACRE and administratively to CEO.

ACRE Charter: The ACRE Committee oversees and monitors conformance with the Institute of Internal Auditor's (IIA's) Standards.

Oversight in Practice:

- Internal Audit activities are based on IIA Standards and updated to ACRE annually.
- CAE ensures the internal audit function collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the Standards.
- The IA Team consists of:
 - Diverse audit experience ranging from a minimum 8 yrs and maximum of 41 yrs,
 - All IA Team have Professional Certifications: 6 CPA, 3 CIA, 2 CISA, 1 CFE
 - Professional Affiliations include IIA, APPFA, AICPA, SACRS
 - IA Team completes 40 hours of CPE Annually

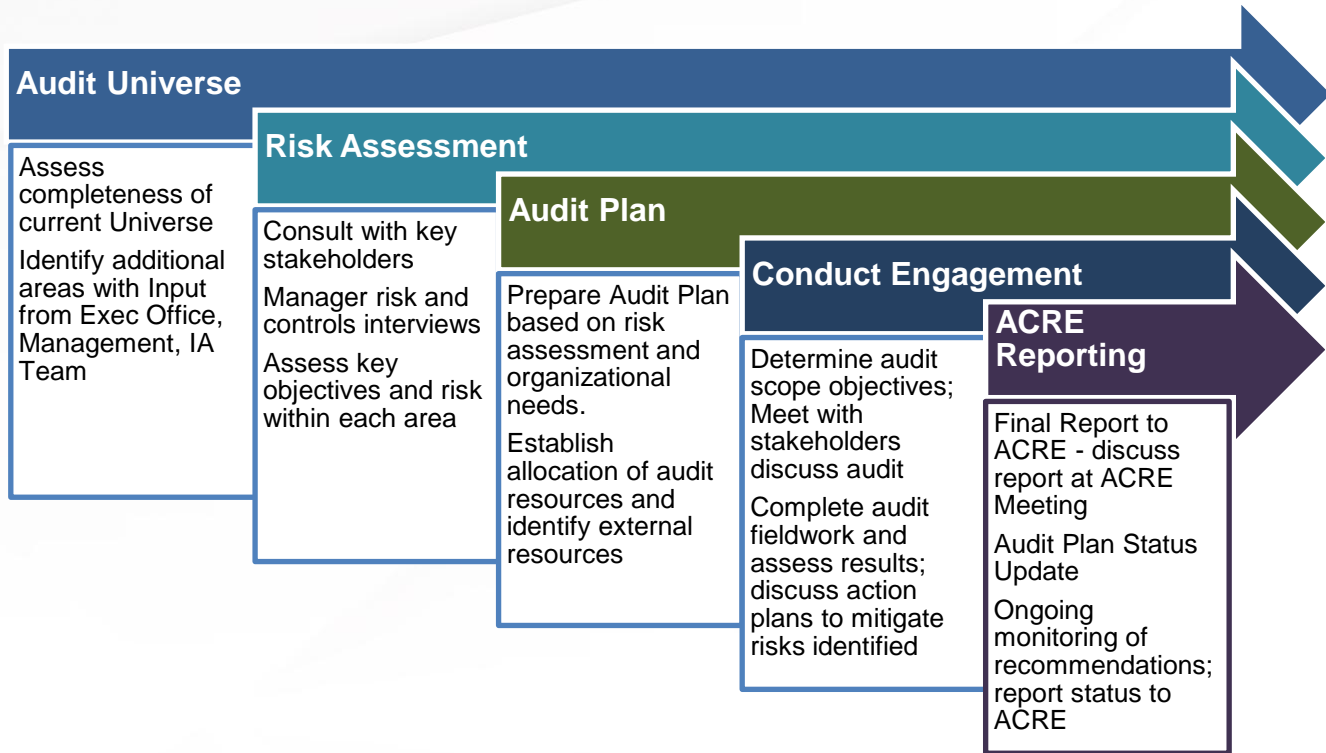


Approval of Risk Based Audit Plan



ACRE Charter: 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.

Oversight In Practice: On a fiscal year basis, Internal Audit prepares a risk-based Audit Plan that is based on the Risk Assessment, which includes input from ACRE, Executive and Division Management. The Audit Plan is a key component of an effective and efficient Audit Cycle.





ACRE Monitors Audit Plan Activities

ACRE Charter: Monitor Internal Audit's activity relative to its Plan. Approve all major changes to the Audit Plan.

Oversight in Practice: A fiscal year Audit Plan is provided to ACRE for approval; progress on completion of the Audit Plan is provided at each ACRE Meeting. When needed, an Audit Plan Amendment is provided to ACRE for approval.

FYE 2025 INTERNAL AUDIT PLAN				
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
EXECUTIVE - LEGAL- ORGANIZATIONAL				
1	Exec Office	LA County Rehired Retiree FY 2024	Assurance/Audit	Complete
2	Exec Office	Business Continuity Plan	Assurance/Audit	No Started
3	Exec Office	One Meeting Application Follow-Up Review	Assurance/Audit	Complete
4	Organizational	Continuous Audit Processing (CAP)	Assurance/Audit	Ongoing
5	Organizational	Recommendation Follow-Up	Other Projects	Ongoing
6	Organizational	Risk Assessment	Other Projects	Ongoing
7	Organizational	Organizational Culture	Value-Added	Ongoing
8	Legal Office	Ethics and Compliance (Hotline)	Value-Added	Ongoing
ADMINISTRATION - Admin Serv, HR, Systems, Info Sec				
9	Admin Serv	Inventory Asset Management	Value-Added	Ongoing
10	HR	HR Operations Review	Advisory	In Progress
11	HR	Follow-up Assessment of Recruitment & Hiring	Assurance/Audit	In Progress
12	Systems	IT Risk Assessment	Assurance/Audit	In Progress
13	Systems	Oversight of SOC Audits FY 24 & 25	Oversight	Ongoing
14	Info Sec	Cyber Security NIST Review	Assurance/Audit	Not Started
INVESTMENTS - FASD				
15	FASD	Financial Controls Review - Phase 2	Advisory	Not Started
16	FASD	CEO Credit Card	Assurance/Audit	Complete
17	FASD	Oversight of Financial Audit FY 24 & 25	Oversight	Ongoing
18	FASD/Inv	Investment Accounting Middle/Back-Office	Advisory	In Progress
19	FASD/Inv	Oversight of Actuarial Audit FY 24 & 25	Oversight	Ongoing
20	Investments	Strategic Asset Allocation	Assurance/Audit	
21	Investments	Securities Lending Review	Assurance/Audit	
22	Investments	THC Financial Audits/Tax - FY 24 & 25	Oversight	Ongoing
OPERATIONS - Benefits, DRS, RHC, Member Services				
23	Benefits	Accounts Settlement Collections	Value-Added	In Progress
24	Benefits	LA County Payroll (LACERA Controls)	Assurance/Audit	In Progress
25	Benefits	Death Claims Process	Assurance/Audit	
26	Benefits	GRC Review - Benefits Protection Unit (BPU)	Advisory	
27	RHC	Provider Premium Calculations & Payments	Assurance/Audit	
28	Mbr Serv	TBD - Project aligned with Strategic Priority 1	Advisory	
INTERNAL AUDIT OPERATIONS				
29	IA	Quality Assurance Improvement Program	Other Projects	Ongoing
30	IA	Audit Committee Support	Other Projects	Ongoing

Types of Engagements and Audit Activities



Assurance

• Assurance Engagements provide an objective examination of evidence for the purpose of providing an independent assessment to Management and ACRE on governance, risk management, and control processes for LACERA. Also, included in this category is Internal Audit work relating to our risk assessment, and tracking, and follow-up on outstanding recommendations.

Examples of Assurance Engagements:

- Credit Card
- Procurement of Services
- Termination of User Access Rights
- Bank Wire Transfers Audit

Advisory

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

Examples of Advisory Engagements:

- Human Resource Operations Review
- Oversight of externally performed audit engagements audit.
- Participation on the Policy Committee
- Participation on sub-committees to define Risk and Compliance
- CAE is member of LIRT

Value Added

• Value Added Projects are when Internal Audit 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 Value Added:

- Reviews and assessments of Organization Culture
- Oversight of Ethics and Compliance hotline and investigations when necessary
- Participation in meetings relating to Account Settlement Process
- Participation in Ongoing meetings to reengineer Inventory Asset Management

Internal Audit Operations

• 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.

Examples of Internal Audit

- Updates of Operation Manual
- Development and implementation of KPIs
- Enhancement to Audit Processes
- Internal Assessments to identify and enhance Internal Operations.
- Development of 3-Year Road Map



Report Example

ACRE Charter: Review, accept, and/or provide Internal Audit with further direction on Internal Audit's engagement reports.

Oversight in Practice: Results of audits are reported to ACRE to:

- 1) Accept and file, Direct staff to forward report to Boards or Committees
- 2) Make recommendations to the Boards or
- 3) Committees regarding actions required based on audit findings,
- 4) or provide further instruction to staff.

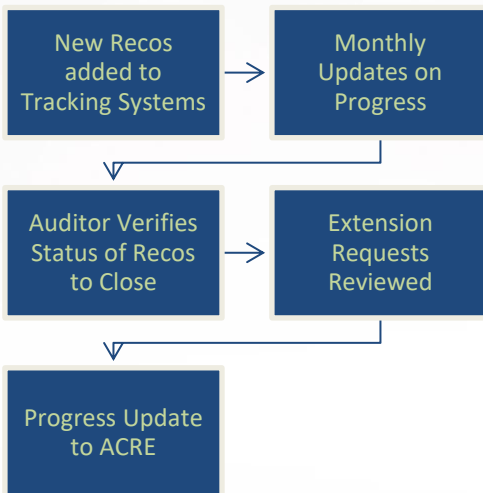
Report Name: Procurement Audit		Audit Type: Assurance
Audit Rating: Opportunities for Improvement		Responsible Division: Administrative Services
Background and Scope:		
<p>Background We reviewed LACERA's Procurement of Goods as part of the Fiscal Year 2023-2024 Audit Plan. LACERA maintains a Procurement Unit within the Administrative Division to facilitate the Procurement of Goods as described and permitted within its Policy for Purchasing Goods and Services (Policy).</p> <p>Objectives The audit objectives were to assess program compliance with LACERA's Policy. Procurements are compliant with the Policy; purchases are made from authorized vendors at the appropriate prices or terms; individuals ordering and receiving goods/supplies are authorized to do so; purchase orders are complete and accurate and properly reviewed and approved prior to being processed.</p> <p>Scope The engagement scope included a review of procurement transactions occurring between July 1, 2022 - June 30, 2023.</p> <p>Summary Findings: The scorecard below summarizes audit results findings and ratings, and recommendations and action plans for implementation</p>		
Title of Finding	Rating	Recommendation
The Procurement Policy and Manual are outdated.	Medium	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. Provide training.
Inefficiencies and discrepancies noted on the Forms Inventory	Low	Management from Administrative Services, Communications Division and other key stakeholders involved in the process of ordering forms should discuss and collaborate on additional controls to incorporate into the updated process for purchasing and inventory of forms.
Management Response: Management agrees with the items outlined in the report and will take corrective action to address identified issues by December 31, 2024.		

Recommendation Follow Up Tracking and Reporting



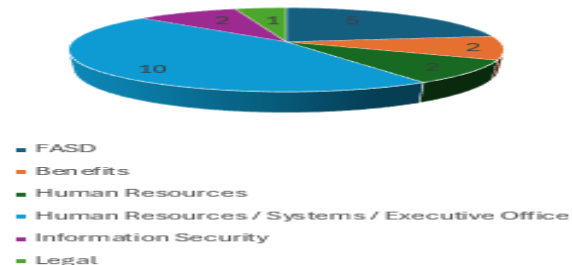
ACRE Charter: Monitor Internal Audit's recommendations to ensure Management adequately and timely addresses the risk(s) identified.

Oversight in Practice: Internal Audit tracks recommendations (recos) and follows up on implementation. Recos are closed upon auditor verification:

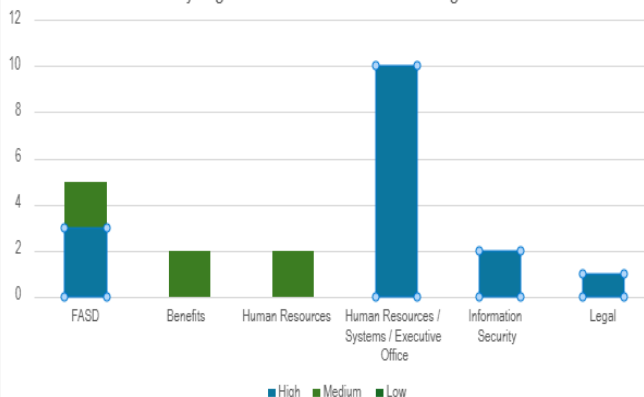


Recos 11/1/2024	21
New Recos	1
Recos Closed	0
Open Recos 2/1/25	22

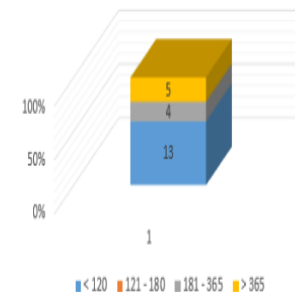
Total 22 Recos By Division



Recos by High Medium and Low Risk Rating



Aging of 22 Recos by Aging Category





Professional Service Provider Activities

Charter	ACRE Responsibilities
VII.2.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
VII.2.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
VII.2.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
VII.2.d	Review the Professional Service Providers, including the Financial Auditor's, results of the work performed
VII.2.e	Resolve any significant disagreements regarding risks, findings and/or compensation between Management and Professional Service Providers



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

Oversight in Practice: Internal Audit issued an RFP for the hiring of the Financial Auditor. ACRE interviewed and selected the Financial Auditor.

Financial Auditor

- Plante Moran
- Financial Auditor for past 9 years; current contract ends with the FYE 2025 Financial Statements

Statement of Work

- Perform an audit and express an opinion on the fair presentation of LACERA's annual financial statements, which includes the Pension Trust, OPEB Trust and OPEB Custodial Fund
- Prepare a report on LACERA's internal control over financial reporting
- Perform an audit and express an opinion on the fair presentation of LACERA's GASB 68 schedule
- Perform an audit and express an opinion on the fair presentation of the schedule of changes in fiduciary net position by employer for Los Angeles County's portion of the OPEB Trust

Reports Provided to ACRE

- Independent Auditor's Report - GASB 68
- Independent Auditor's Report - Fair presentation of the Schedule of changes in fiduciary net position by employer for LA County Portion of the OPEB Trust
- Independent Auditor's Report on Financial Statements
- Report on Internal Control and Compliance
- Required Communication to the Audit Committee Report
- Report to Management



ACRE Charter:
 Approve appointments of Professional Service Providers selected for inclusion in Internal Audit's Audit Pool to perform non-financial statement audits, reviews, or consulting, subject to limitations that are 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 the Purchasing of Goods and Services Policy.

Oversight in Practice: Internal Audit issued an RFP for selection of the Internal Audit and Consulting Pool which ACRE approved. Internal Audit is in the process of expanding the Audit Pool.

Audit Firm	Service Area		
	Investments	IT	Organizational
Crowe LLP	X	X	X
Eide Bailey LLP			X
KPMG LLP	X	X	X
Moss Adams LLP	X	X	X
Net Force		X	
Vasquez & Co LLP			X
Weaver and Tidwell LLP	X	X	X

Audit Engagements Performed by Audit Pool: Since its inception Internal Audit has used the audit pool for engagements in key risk areas of IT, organizational governance and human resources.



Financial Reporting Process

Charter	ACRE Responsibilities
VII.2.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
VII.2.b	Review with Management and the Financial Auditors the results of the audit, including any difficulties encountered
VII.2.c	Review the annual financial statements and consider whether they are complete, consistent with information known to Committee members, and reflect appropriate accounting principles
VII.2.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
VII.2.e	Review with Management and the Financial Auditors all matters required to be communicated to the Committee under <i>Generally Accepted Auditing Standards</i>



The ACRE agenda will typically include discussion around:



- Internal Audit – Non Consent Items
- Compliance Ethics – Non Consent Items
- Risk Management
- Audit Reports
- Audit Plan Updates
- Recommendation Updates

The table below depicts the areas specific to internal audit update, see Appendix D for ACRE Calendar of activities.



Internal Audit



Discussion/Approval Audit Engagement Reports

FYE Audit Plan & Status Updates

Budget, Staffing and Resources, Including Any Resource Constraints

Annual Risk Assessment

Recommendation Status Updates

Internal Audit Charter Review

Annual Performance Report – Goals Update

Quality Assessment Improvement Program Review

CAE Performance Evaluation

External Financial Audit Report

2025				
March	April	June	Aug	Dec
✓	✓	✓	✓	✓
✓	✓	✓	✓	✓
		✓		
	✓	✓	✓	✓
	✓			
				✓
				✓
		✓		✓
				✓







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 LACERAAudit Committee.

In October 9, 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 GAE 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 September 19, 2024, and approved by the Board of Retirement on October 2, 2024, and the Board of Investments on October 9, 2024. This Charter is thereby effective October 9, 2024, and is hereby signed by the following persons who have authority and responsibilities under this Charter.

Debbie Martin
Debbie Martin (Nov 12, 2024 19:43 PST)

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

11/12/2024
Date

Patrick L. Jones
Patrick L. Jones (Nov 20, 2024 14:57 EST)

Patrick L. Jones
Chair, Board of Investments

11/20/2024
Date

Shawn R. Kehoe
Shawn R. Kehoe (Nov 20, 2024 15:53 PST)

Shawn R. Kehoe
Chair, Board of Retirement

11/20/2024
Date

FYE 2025 INTERNAL AUDIT PLAN				
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
EXECUTIVE - LEGAL- ORGANIZATIONAL				
1	Exec Office	LA County Rehired Retiree FY 2024	Assurance/Audit	Complete
2	Exec Office	Business Continuity Plan	Assurance/Audit	In Progress
3	Exec Office	One Meeting Application Follow-Up Review	Assurance/Audit	Complete
4	Organizational	Continuous Audit Processing (CAP)	Assurance/Audit	Ongoing
5	Organizational	Recommendation Follow-Up	Other Projects	Ongoing
6	Organizational	Risk Assessment	Other Projects	Ongoing
7	Organizational	Organizational Culture	Value-Added	Ongoing
8	Legal Office	Ethics and Compliance (Hotline)	Value-Added	Ongoing
ADMINISTRATION - Admin Serv, HR, Systems, Info Sec				
9	Admin Serv	Inventory Asset Management	Value-Added	Ongoing
10	HR	HR Operations Review	Advisory	In Progress
11	HR	Follow-up Assessment of Recruitment & Hiring	Assurance/Audit	In Progress
12	Systems	IT Risk Assessment	Assurance/Audit	In Progress
13	Systems	Oversight of SOC Audits FY 24 & 25	Oversight	Ongoing
14	Info Sec	Cyber Security NIST Review	Assurance/Audit	
INVESTMENTS - FASD				
15	FASD	Financial Controls Review - Phase 2	Advisory	
16	FASD	CEO Credit Card	Assurance/Audit	Complete
17	FASD	Oversight of Financial Audit FY 24 & 25	Oversight	Ongoing
18	FASD/Inv	Investment Accounting Middle/Back-Office	Advisory	In Progress
19	FASD/Inv	Oversight of Actuarial Audit FY 24 & 25	Oversight	Ongoing
20	Investments	Strategic Asset Allocation	Assurance/Audit	
21	Investments	Securities Lending Review	Assurance/Audit	
22	Investments	THC Financial Audits/Tax - FY 24 & 25	Oversight	Ongoing
OPERATIONS - Benefits, DRS, RHC, Member Services				
23	Benefits	Accounts Settlement Collections	Value-Added	In Progress
24	Benefits	LA County Payroll (LACERA Controls)	Assurance/Audit	In Progress
25	Benefits	Death Claims Process	Assurance/Audit	
26	Benefits	GRC Review - Benefits Protection Unit (BPU)	Advisory	
27	RHC	Provider Premium Calculations & Payments	Assurance/Audit	
28	Mbr Serv	TBD - Project aligned with Strategic Priority 1 -	Advisory	
INTERNAL AUDIT OPERATIONS				
29	IA	Quality Assurance Improvement Program	Other Projects	Ongoing
30	IA	Audit Committee Support	Other Projects	Ongoing
31	IA	Develop Internal Audit 3-Year Roadmap	Strategic/IA Goal	In Progress
32	IA	Provide training to MAC and Audit Committee	Strategic/IA Goal	Ongoing
33	IA	Develop IA Staff Training Plan	Strategic/IA Goal	Complete
34	IA	RFP to Expand Audit Pool	Strategic/IA Goal	In Progress
35	IA	Develop formal Continuous Audit Process (CAP)	Strategic/IA Goal	In Progress

FYE 2025 ACRE Committee Charter Responsibilities

Documentation	ACRE Charter	Frequency
Audit Engagement Reports	VII.A.1.h.	Every Meeting
Audit Plan Status Update	VII.A.1.	Every Meeting
Summary of Hotline Investigations	VII.B.8 & VII,B,9.a &b	Every Meeting
Recommendation Follow-Up Reports	VII.A.1.i.	Every Meeting
Proposed Audit Plan and Budget	VII.A.1.f.	Annually
Annual Risk Assessment	VII.A.1.f.	Annually
Annual Audit Plan	VII.A.1.f.	Annually
Presentation / memo by Financial Auditor detailing proposed scope of work and timing.	VII.2.a.	Annually
Internal Audit Charter	VII.A.1.c.	Annually
Internal Audit Annual Performance Report	VII.A.1	Annually
CAE Performance Evaluation	VII.A.1.k.	Annually
Organizational Governance Review	II	Annually
Compliance Memo from Executive Management and Legal Office	II	Annually
Financial Statements, Correspondence, & Presentation	VII.2.d.	Annually
Audit Committee Annual Performance Report	VII E.1.	Annually
ACRE Committee Charter	VII.E.4.	Every 3rd year
Approve the appointment and compensation of the External Financial Auditor	VII.2.a.	Every 5th year**
Ensure IA has an external quality assessment performed every five years.	VII.A.3.d.	Every 5th year
Provide an open avenue of communication between IA, all Professional Service Providers, Management, and the Boards.	VII.2.e.	Continuous
Approve the appointment & compensation of other Professional Service Providers, hired to perform non-financial statement audits, reviews or consulting, subject to limitations	VII.2.c.	As needed
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.2.d., VII.3.a.-e.	As needed
Advise the Boards about any recommendations for the continuous improvement of the internal audit activity stemming from the annual Quality Assurance Improvement Program (QAIP).	VII.A.1.e.	Annually
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.1.j.	As needed
Perform other activities related to this Charter as requested by the Boards.	VII.E.3.	As needed



February 25, 2025

TO: 2025 Audit, Compliance, Risk, and Ethics Committee
Debbie Martin (BOI), Trustee
Alma K. Martinez (BOI), Trustee
Nicole Mi (BOI), Trustee
Nancy Durazo (BOR), Trustee
Jason Green (BOR), Trustee
Wayne Moore (BOR), Trustee
Elizabeth Ginsberg, Ex-Officio

Audit Committee Consultant
Larry Jensen

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

Allison E. Barrett *ASB*
Senior Staff Counsel

FOR: March 13, 2025, ACRE Committee Meeting

SUBJECT: **Ethics and Compliance – ACRE Role and Responsibilities**

INTRODUCTION

LACERA's 2023–2028 Strategic Plan includes the development of a centralized Ethics and Compliance Program (Program) to advance the organization's maturity in *monitoring*, *detecting*, and *preventing* operational risk. In October 2024, the Ethics and Compliance Program Charter (defining the Program's scope, objectives, reporting structure, roles and responsibilities) was adopted by the Boards (*Attachment A*). Additionally, the Audit Committee was renamed and its Charter updated to include enterprise risk management and ethics and compliance (in addition to internal audit), becoming Audit, Compliance, Risk, and Ethics (ACRE). The ACRE Committee Charter defines the Committee's oversight role and the responsibilities of LACERA's ethics and compliance function (as also stated in the Ethics and Compliance Program Charter).¹ Today's orientation focuses on the ACRE Committee's oversight duty articulated in the ACRE Committee Charter (*Attachment B*).

¹ ACRE Committee Charter, section VII.B; Ethics and Compliance Program Charter Sec. III, VII, VIII.

AUTHORITY

LACERA trustees are bound by a constitutionally mandated fiduciary duty to administer the system with care, skill, prudence, and diligence to ensure the prompt delivery of benefits and related services to members and their beneficiaries.² This fiduciary duty is inherently aligned with LACERA's Mission, Vision, and Values,³ as well as with the commitment of trustees and staff to perform their respective roles in accordance with the highest ethical standards and in compliance with laws, regulations, policies and procedures. In other words, there is synergy amongst LACERA's fiduciary duty, Mission, and Ethics and Compliance Program.

The Ethics and Compliance Program and ACRE Committee Charters were drafted under the umbrella of LACERA's fiduciary duty *and* in accordance with the United States Sentencing Guidelines (USSG) and the 2024 Department of Justice "Evaluation of Corporate Compliance Programs" (ECCP) which establish the leading standards and articulate best practices for Ethics and Compliance Programs. These are the standards used by the federal government to assess compliance programs in the context of investigations and enforcement actions. Accordingly, these are the high standards to which the ACRE Committee will hold LACERA's Ethics and Compliance Program accountable.

According to the USSG and ECCP, a fundamental component of Program effectiveness is ACRE Committee and Board oversight (which is incorporated into both Charters). Specifically, the USSG mandates:

The organization's governing authority **shall be knowledgeable** about the content and operation of the compliance and ethics program and **shall exercise reasonable oversight** with respect to the **implementation and effectiveness** of the compliance and ethics program.⁴

The ECCP elaborates that effective oversight requires that the compliance and control functions have direct access to the Boards and the Committee for regular reporting about Program activities, ethics and compliance risk, and controls to mitigate such risk. Accordingly, the Ethics and Compliance Program Charter provides for an *independent* reporting relationship between the Ethics and Compliance Office and the ACRE Committee.⁵

REPORTING STRUCTURE

The Ethics and Compliance Program is operated by a separate Ethics and Compliance Office in the Legal Division, led by the Chief Ethics and Compliance Officer (CECO).⁶ While the CECO reports *administratively* to LACERA's Chief Counsel, they are *independent* and

² Cal. Const. Art. XIV. Sec. 17.

³ LACERA Vision (2023): Empowering our members to enjoy a healthy and secure retirement. LACERA Values (2023): Inclusivity, Innovation, Integrity, Accountability, Collaboration, and Transparency (I ACT).

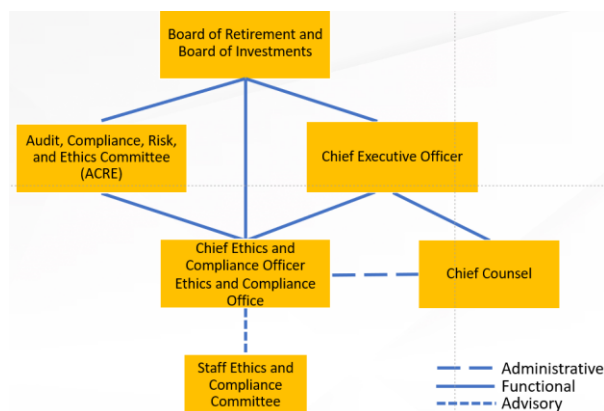
⁴ 18 USC Appx sec. 8B2.1(b)(2)(A) (emphasis added).

⁵ Ethics and Compliance Program Charter section III.

⁶ The Office will also include two Deputy Ethics and Compliance Officers (DECO) and an Administrative Assistant.

report *functionally* to the ACRE Committee, both Boards, and the CEO regarding ethics and compliance activities and issues (e.g., risk assessments, investigations, policies and procedures, training and communications, Program evaluation, LACERA’s culture of ethics and compliance), as well as the annual budget and work plan.⁷ The CECO’s independence provides them with direct access to the ACRE Committee and Boards to deliver periodic reports about Program implementation, in addition to timely reporting of mission-critical risks, misconduct, or legal violations.

Ethics and Compliance Organization Chart



In addition to the CECO’s independent reporting, the Program Charter provides for the Program framework to include the multi-divisional staff Ethics and Compliance Committee (ECC) to assist the CECO in Program implementation.⁸ The ECC members serve a key role in communicating the value of ethics and compliance, modeling an ethical and compliant culture, and monitoring various control functions within their individual operations.

ACRE COMMITTEE OVERSIGHT FUNCTION

Under the law, the Committee and the Boards have a fiduciary duty and responsibility to establish and oversee a well-designed, adequately resourced, and fully functioning compliance Program. The Committee and Boards are accountable if there is a sustained or systematic failure to exercise reasonable oversight and sufficiently remediate any known or foreseeable legal violations.⁹ Accordingly, Committee oversight is a critical component to establish and maintain Program effectiveness.

Under the ACRE Committee Charter, the Committee oversees Management’s ethics and compliance controls to maintain the highest ethical standards and monitor compliance with the laws, regulations, policies, and procedures.¹⁰ Oversight requires knowledge of the Program’s operation and therefore, for Ethics and Compliance Office staff to regularly update the Committee and Boards on Program activities.

7 Ethics and Compliance Program Charter section III. ACRE Committee Charter Section VII.B.

8 The ECC meets monthly to discuss ethics and compliance functions, review policies and procedures, maintain a list of ethics and compliance training opportunities, and discuss Program implementation issues. *Ethics and Compliance Program Charter*, sections VII.A, D; section VIII.B.

9 *In re Caremark* 698 A.2d 959, 968.

10 ACRE Committee Charter, Section B.

The Committee's oversight is guided by the three fundamental questions the DOJ asks¹¹ in the event of an investigation to determine program effectiveness:

1. *Is the organization's compliance program **well designed**?*
 - a. Was the Program framework structured in response to risks specific to LACERA?
 - b. Does the Program adequately assess and control for risks specific to LACERA?
 - c. Does LACERA have adequate policies, procedures, training, and other controls to detect, prevent, and mitigate those risks?
 - d. Are training and communication efforts tailored to LACERA's unique risk profile?
2. *Is the program being applied **earnestly and in good faith**? In other words, is the program **adequately resourced and empowered to function effectively**?*
 - a. Are senior leaders clearly articulating, modeling, and adhering to LACERA's ethical standards throughout the organization?
 - b. Are supervisors reinforcing and encouraging staff adherence to ethical standards and compliance with the law, regulations, policies and procedures?
 - c. Is staff participating and engaged in training on LACERA's Ethics and Compliance Program (including its value to LACERA's Mission).
3. *Does the organization's compliance program **work in practice**?*
 - a. Is the Program operational--being monitored and implemented--or is it simply a "paper program?"
 - b. When misconduct occurs, does the Program conduct an adequate root-cause analysis to determine what contributed to the misconduct and the remediation required to prevent similar events in the future? Does the Program adjust controls and/or Program framework accordingly?
 - c. Has the Program evolved over time to address existing and changing compliance risks specific to LACERA and in the public pension arena? Is there continuous process improvement?

As stated in the ACRE Charter, the Committee has the responsibility to oversee and hold the Program accountable regarding the following Ethics and Compliance Program functions:

1. *Ethics and Compliance Personnel:* Provide input to the CEO on the CECO's appointment, termination, discipline, and annual performance evaluation. Make recommendations to the Boards for additional Ethics and Compliance Office staff requested by the CECO and CEO.
2. *Ethics and Compliance Roadmap of Work Priorities, Work Plan, and Budget:* Review and approve the Program's annual work plan (with quarterly reports on progress), annual budget (incorporated into LACERA's annual administrative budget), and three-year roadmap of priorities.
3. *Ethics and Compliance Risk Assessment:* Review 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 (KRIs).

¹¹ US DOJ, Criminal Division, Evaluation of Corporate Compliance Programs (2024), pp. 1-2

4. *Monitoring and Evaluating Ethical Conduct and Compliance:* Review quarterly Program evaluation reports and recommendations regarding LACERA operations and KRIs.
5. *Policies and Procedures:* Review quarterly reports regarding ethics and compliance policies and procedures and any new or updated policies and procedures within Committee purview, such as the 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 risk and organizational response.
7. *Training and Communications:* Review quarterly reports on LACERA's process for communicating governing laws, regulations, policies, procedures, LACERA's Code of Ethical Conduct, and Conflict of Interest Code throughout the organization.
8. *Reporting Channels:* Review quarterly reports on reported ethics and compliance issues or violations reported through LACERA's internal and external reporting channels. Monitor the organization's response to reports and ensure the organization's commitment to nonretaliation.
9. *Investigations, Recommendations for Mitigation:* Review written reports regarding ethics and compliance risks or violations and recommendations for mitigation. Review includes quarterly summaries of Ethics Hotline reports.
10. *Privacy:* Review the annual report on LACERA's efforts to protect the privacy of LACERA member and other confidential 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:* Review annual report on the status and effectiveness of the Program, Management's Program-related controls, and the Program's annual self-assessment.¹²

CONCLUSION

The ACRE Committee's oversight of LACERA's Ethics and Compliance Program is a paramount component of each trustee's fiduciary duty and LACERA's Mission to produce, protect, and provide the promised benefit. Trustee oversight ensures systems of control exist and are being implemented. Oversight helps ensure that every LACERA employee is exercising sound judgment and complying with laws, regulations, policies and procedures in the performance of day-to-day operations.

¹² ACRE Committee Charter, section VII. B.1-12.

LACERA's ACRE Committee and Ethics and Compliance Program Charters are aligned with the U.S. Sentencing Guidelines and the DOJ Evaluation of Corporate Compliance Programs. The Charters have been drafted in accordance with these guidelines to hold the Program accountable, i.e., to ensure that the Program is well designed, adequately resourced, and effectively functioning.

Attachments

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

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.

Audit, Compliance, Risk, and Ethics Committee
Approved September 19, 2024

Board of Retirement
Approved October 2, 2024

Board of Investment
Approved October 9, 2024



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

A large, 3D geometric graphic composed of several overlapping, semi-transparent rectangular blocks in shades of blue and grey, creating a sense of depth and modern design. It occupies the bottom half of the page.

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 LACERAAudit Committee.

In October 9, 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 GAE 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 September 19, 2024, and approved by the Board of Retirement on October 2, 2024, and the Board of Investments on October 9, 2024. This Charter is thereby effective October 9, 2024, and is hereby signed by the following persons who have authority and responsibilities under this Charter.

Debbie Martin
Debbie Martin (Nov 12, 2024 19:43 PST)

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

11/12/2024
Date

Patrick L. Jones
Patrick L. Jones (Nov 20, 2024 14:57 EST)

Patrick L. Jones
Chair, Board of Investments

11/20/2024
Date

Shawn R. Kehoe
Shawn R. Kehoe (Nov 20, 2024 15:53 PST)

Shawn R. Kehoe
Chair, Board of Retirement

11/20/2024
Date



2025 ACRE ORIENTATION

ACRE Committee Ethics & Compliance Roles and Responsibilities



Introduction:

- **2023-2028 Strategic Plan Objective 4.1:** Centralized Ethics & Compliance Program to advance organizational maturity in monitoring, detecting, and preventing operational risk.
- **October 2024 Ethics and Compliance Program and ACRE Committee Charters** detail the Committee's oversight responsibilities for LACERA's system of Ethics and Compliance.

Agenda:

- **Review the ACRE Committee's Oversight Duty as Articulated in the ACRE Charter**
 - Program Authority
 - Program Reporting Structure
 - ACRE Oversight Function

What is Ethics & Compliance?

Ethics

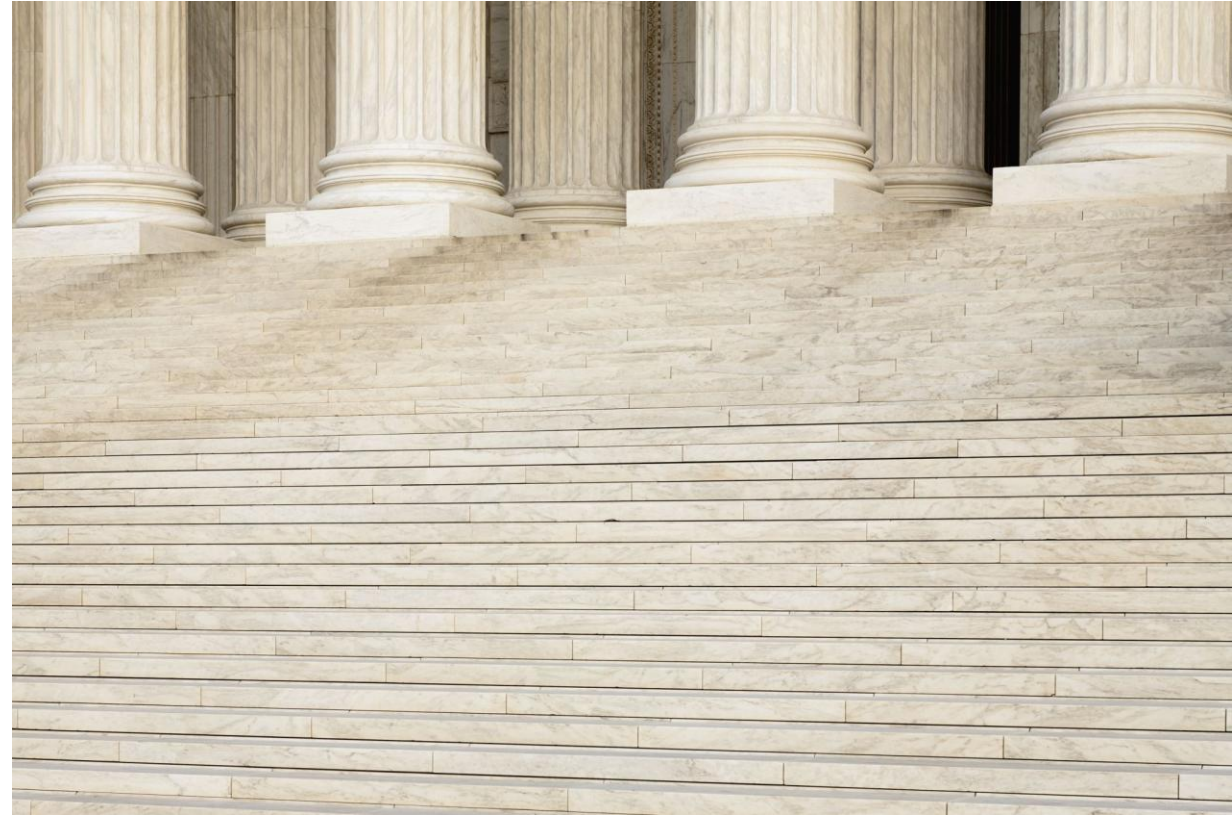
The application of *sound judgment* and the *diligent practice* of LACERA's VALUES to *always do the right thing*, even when hard or inconvenient, in furtherance of LACERA's mission.

Compliance

Adhering to laws, regulations, policies, and procedures.

Ethics & Compliance Program

LACERA's *governance and management system* that monitors, detects, prevents, and responds to violations of law and policy; and upholds the highest ethical standards.





1

**Fiduciary Duty
(Cal. Const. Art. XVI, Sec. 17)**

2

**The United States Sentencing Guidelines and DOJ
Evaluation of Corporate Compliance Programs (2024)**

3

**The ACRE Committee and Ethics and
Compliance Program Charters**



Oversight

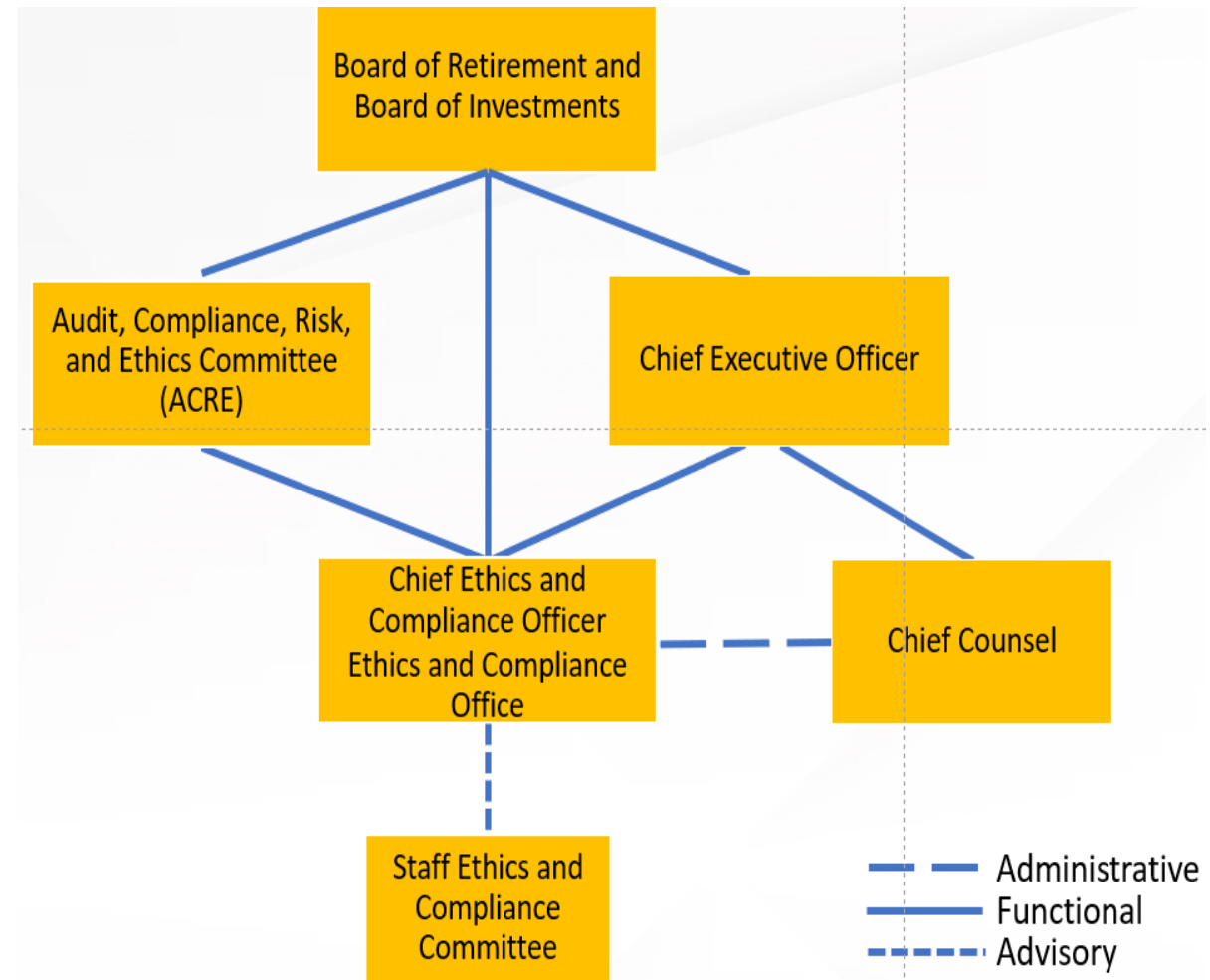
Ensuring Systems of Control Exist and are Being Implemented

- U.S. Sentencing Guidelines: The organization's governing authority **shall be knowledgeable** about the content and operation of the compliance and ethics program and **shall exercise reasonable oversight** with respect to the implementation and effectiveness of the compliance and ethics program.
- DOJ Evaluation of Corporate Compliance Programs (2024): **Effective oversight** requires that the compliance and control functions have **direct access** to the Boards and Committee for **regular reporting about Program activities**, ethics and compliance risk, and controls to mitigate such risk.

Program Reporting Structure

- The Program will be operated by an **Ethics and Compliance Office** in the Legal Division, led by the Chief Ethics & Compliance Officer (CECO).
- The CECO will report *administratively* to Chief Counsel and *functionally* to the ACRE Committee, Boards, and CEO. The CECO's **independence** provides them with **direct** access to the ACRE Committee and Boards to deliver periodic updates about Program implementation, in addition to timely reporting of mission-critical risks, misconduct, or legal violations.
- The CECO will be supported by the multi-divisional Ethics and Compliance Committee (ECC) which serves as an advisory body and supports Program implementation.

Ethics & Compliance Organizational Chart



ACRE Committee Oversight Function



- The Committee and Boards have a fiduciary duty and responsibility to establish and oversee a ***well-designed, adequately resourced, and fully functioning (i.e., effective)*** ethics and compliance Program.
 - *The Committee/Boards are accountable if there is a sustained or systematic failure to exercise reasonable oversight and sufficiently remediate any known or foreseeable legal violations. (In Re Caremark, 1996).*
 - *At a minimum, the Committee must have oversight of mission-critical risk areas. (In Re Boeing, 2021).*
- When “things go wrong,” the question becomes did the Boards and Committee *know or should they have known about the potential risk for misconduct or legal violation? Was there a failure of oversight?*
- Committee oversight is a critical component to establish and maintain program effectiveness.

Oversight Under the ACRE Charter



- The ACRE Committee and Boards **oversee** LACERA's Ethics and Compliance Program **to ensure** the organization is operating in accordance with the highest ethical standards and in compliance with all applicable laws, regulations, policies, and procedures.
- Oversight requires Committee and Board **knowledge** of the Program's operation. Accordingly, the Ethics and Compliance Office provides **quarterly reports** to the Committee and Boards on Program activities.



Committee Oversight is Guided by Three Fundamental Questions to Determine Program Effectiveness



1

Is the Program well designed?

2

Is the Program applied earnestly and in good faith?

3

Does the Program work in practice?

Is the Program Well Designed?



1. Was the Program framework structured in response to risks specific to LACERA?
2. Does the Program adequately assess and control for risks specific to LACERA?
3. Does LACERA have adequate, policies, procedures, training, and other controls to prevent, detect, and mitigate those risks?
4. Are training and communication efforts tailored to LACERA's unique risk profile?

Ethics & Compliance

Is the Program Being Applied Earnestly and in Good Faith?



1. Is the Program *adequately resourced* and *empowered* to function effectively?
2. Are senior leaders clearly articulating, modeling, and adhering to LACERA's ethical standards throughout the organization?
3. Are supervisors reinforcing and encouraging staff adherence to ethical standards and compliance with the law, regulations, policies and procedures?
4. Is staff participating and engaged in training on LACERA's Ethics and Compliance Program (including its value to LACERA's mission)?

Does LACERA's Program Work in Practice?



1. Is the Program operational--*being monitored and implemented*--or is it simply a “paper program?”
2. When misconduct occurs, does the Program conduct an adequate root-cause analysis to determine what contributed to the misconduct *and* the remediation required to prevent similar events in the future? Does the Program adjust controls and/or Program framework accordingly?
3. Has the Program evolved over time to address existing and changing ethics and compliance risks specific to LACERA and in the public pension arena? Is there continuous process improvement?

Ethics & Compliance

ACRE Committee Oversight of Program Activity (The ACRE Charter)



1. Ethics & Compliance Personnel
2. Ethics & Compliance Roadmap of Priorities, Work Plan, Budget, and Expenses
3. Ethics & Compliance Risk Assessments
4. Monitoring and Evaluating Ethical Conduct and Compliance
5. Policies and Procedures
6. Vendor/Third-Party Ethics & Compliance Risk Management
7. Training and Communications
8. Reporting Channels and Commitment to Non-Retaliation
9. Investigations, Recommendations for Mitigation or Remediation
10. Privacy
11. Organizational Culture of Ethics and Compliance
12. Ethics and Compliance Program Assessment and Evaluation
13. Foundational Program Work Pending Hiring of CECO

Ethics & Compliance



- **ACRE Charter:**
 - Review 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 (KRIs).
- **Oversight in Practice:**
 - Recognize LACERA's highest risks and the controls in place to mitigate them.
 - Ensure that Ethics & Compliance risk assessments are adequately addressing risks specific to LACERA, each of its divisions and specific operations.
 - Oversee the collaboration between Ethics & Compliance and Internal Audit in the risk assessment process (aka "aligned assurance").



- **ACRE Charter:**
 - Review quarterly reports regarding ethics and compliance policies and procedures and any new or updated policies and procedures within Committee purview, such as the Code of Ethical Conduct and Conflict of Interest Code.
- **Oversight In Practice:**
 - Oversight of LACERA's policy governance; the Code of Ethical Conduct; policies controlling mission critical/high risk areas and policies applicable to Committee Trustees.
 - Ensure LACERA has adequate policies and procedures in place to address mission critical risks.

Oversight of Training and Communications



- **ACRE Charter:**
 - Review quarterly reports on LACERA's process for communicating governing laws, regulations, policies, procedures, LACERA's Code of Ethical Conduct, and Conflict of Interest Code throughout the organization.
- **Oversight in Practice:**
 - Receive reporting regarding training and communications plan.
 - Ensure training is proportionate to risk. The higher the risk, the more comprehensive the training (e.g., cybersecurity; privacy; fraud; payment of benefits; investment or financial statements).
 - Ensure training is specific to LACERA's operations and tailored to each division and level of staff throughout the organization.
 - Receive reports measuring the effectiveness of training (i.e., staff comprehension of training demonstrated by testing and operational improvement).



- **ACRE Charter:**
 - Review reports of the periodic survey of LACERA's culture of ethics and compliance.
- **Oversight in Practice:**
 - Review surveys and controls developed in response to findings.
 - Ensure senior leaders are clearly articulating and modeling LACERA's ethical standards throughout the organization.
 - Does LACERA have a strong "*Speak Up*" culture?
 - Does LACERA practice "*Organizational Justice*," i.e., are incentives for compliance or discipline for misconduct applied fairly, equitably, and consistently regardless of an employees' title or position?
 - Does LACERA value "Ethics and Compliance" over internal pressures such as arbitrary deadlines, quotas, or unattainable business goals?
 - Does LACERA staff perceive leadership as committed to Ethics & Compliance (aka "*Tone-at-the-Top*")?



Legal Division
Ethics and Compliance



abarrett@lacera.com



626-685-4688



QUESTIONS?



February 25, 2025

TO: 2025 Audit, Compliance, Risk, and Ethics Committee
Nancy Durazo (BOR), Trustee
Jason Green (BOR), Trustee
Wayne Moore (BOR), Trustee
Debbie Martin (BOI), Trustee
Alma Martinez (BOI), Trustee
Nicole Mi (BOI), Trustee
Elizabeth Ginsberg (BOR/BOI), Trustee

ACRE Committee Consultant
Larry Jensen

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

FOR: March 13, 2025 Audit, Compliance, Risk, and Ethics Committee Meeting

SUBJECT: The Role of Culture and Values in the Work of the ACRE Committee

The most important factor influencing the effectiveness of LACERA's controls – including policies, procedures, the Code of Ethical Conduct, and other documents and processes – is the organization's Culture. LACERA's goal is that Culture is defined by ethics and the organization's Values of Integrity, Inclusivity, Innovation, Accountability, Collaboration, and Transparency (I ACT). But ethics and Values are just words if behavior (of trustees, management, and staff) is not ethical and does not align with the Values.

This presentation has two sections:

First, the presentation will review the importance of Culture and Values to LACERA. Research shows that Culture is determined by behavior. Research also shows that ethical and Values-based organizations experience better compliance, have less risk of non-compliance, and are more successful in meeting their Mission. On the other hand, organizations with weak Culture, as evidenced by behavior, are less successful in reaching their goals and incur significant risk resulting from noncompliance with their controls.

Second, because the ACRE Committee's mandate is providing oversight of control effectiveness and because Culture and Values are major factor in determining effectiveness, the ACRE Committee should consider whether Culture, Values, and ethics plays a role in the findings, reports, investigations, and other matter presented for consideration and action. In other words, the Committee should consider not just whether there is or is not compliance with a control, but should attempt to determine the cause of noncompliance, including whether Culture, Values, and ethics are part of the explanation. One of the most common reasons that misconduct occurs is the work environment, i.e., poor Culture inconsistent with ethics and Values. This presentation will provide a practical framework within which the Committee can fulfill their responsibility to oversee and

The Role of Culture and Values in the Work of the ACRE Committee
February 25, 2025
Page 2

evaluate ethical Culture and Values. Culture and Values are not abstract terms; they are visible in behavior, and therefore they can be measured.

The presentation slides are attached.

Attachment: Presentation Slides

c: Santos H. Kreimann
Luis A. Lugo
Jonathan Gabel
JJ Popowich
Laura Guglielmo
Ted Granger
Chaitanya Errande
Richard Bendall
Carly Ntoya, Ph.D.
Leisha Collins
Christina Logan
Allison Barrett

The Role and Importance of Culture and Values in the Work of the ACRE Committee

**ACRE Committee Meeting
March 13, 2025**



“Ethical Culture is a foundational internal control without which all other controls can be rendered ineffective.”

--Eric R. Feldman, Affiliated Monitors
Former Office of Inspector General, DOD, DIA, CIA, NRO
Currently Independent Monitor on
government contractor suspensions/debarments
and DOJ deferred and non-prosecution agreements

Weak Culture and Values Create Risk – Wells Fargo



Good
Announced
Culture

Wells Fargo had a reputation for sound Board and CEO leadership, with seemingly solid governance structures. The company had a vision to “satisfy our customer’s needs.” The company stated that its vision “had nothing to do with transactions or getting bigger for the sake of bigness This is more than just doing the right thing. We also have to do it the right way.”

What went wrong given this positive cultural statement?

Behavior
at all
Levels
Reflected a
Different
Culture,
and No
One was
Watching

1. **Performance, Incentives, and Pressure.** Incentives were established for sales goals, and individual performance scorecards were published. This caused “pressure on employees to sell unwanted or unneeded products to customers and, in some cases, to open unauthorized accounts.” Thus, in reality, there was a very strong staff “sales” culture.
2. **Management.** Management created a decentralized organizational chart, with “a culture of substantial deference to the business units” in defining and addressing risks. Management only focused on high level sales metrics, not business practices.
3. **Board of Directors.** The Board was aware of sales issues, but it relied on management reports. The Board couldn’t see beyond reports and wasn’t willing to ask.

The poor employee behavior that was incentivized, rather than published vision, became the real culture. ₃

Purpose of the ACRE Committee



“The purpose of the ACRE Committee is to provide structured, systematic oversight of LACERA’s governance, risk management, ethics and compliance, and ***internal controls***.” (ACRE Committee Charter, Section II)

Purpose of Internal Audit Activity: “Internal Audit enhances LACERA’s ... Governance, risk management, and ***control processes***.” (Internal Audit Charter, Section I)

Purpose of Ethics and Compliance Activity: “The Program promotes continuous improvement of LACERA’s ethics and compliance ***controls***.” (Ethics and Compliance Program Charter, Section I)

To fulfill its Purpose, the ACRE Committee should :

1. Understand the central role of Compliance and Values in LACERA’s Control Environment; and
2. Integrate consideration of Culture and Values into the Committee’s work on an ongoing basis.

Controls and the Control Environment



Controls are:



“Any action taken by management, the board, and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved.” (IIA, Standards Glossary)

For example: Policies, procedures, Code of Ethical Conduct, and processes and practices to ensure compliance with laws and regulations.

The **Control Environment** is:

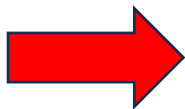


“The attitude and actions of the board and management regarding the importance of control within the organization. The control environment provides the discipline and structure for the achievement of the primary objectives of the system of internal control. The control environment includes the following elements:

- **Integrity and ethical values.**
- Management's philosophy and operating style.
- Organizational structure.
- Assignment of authority and responsibility.
- Human resource policies and practices.
- Competence of personnel.” (IIA, Standards Glossary)

The Control Environment is the foundation “setting the **ethical tone, integrity, and values** that guide an organization. This component emphasizes the leadership’s commitment to integrity and accountability, influencing employee behavior and the **organization’s culture**. Establishing a strong control environment is critical as it creates the baseline for a reliable internal control system.” (COSO Framework Components)

The control environment “is the foundation for all other components of internal control, providing discipline and structure ... **The effectiveness of controls cannot rise above the integrity and ethical values of the people who create, administer, and monitor them.**” (PCAOB, Internal Control Components)



LACERA Organizational Culture and Values



Organizational Culture is the shared and mutually accepted norms, values, beliefs, attitudes, expectations, ethical behaviors, and practices communicated and modeled by trustees, leadership, and staff that form LACERA's collective identity.

Culture is measured by:

- (1) LACERA's effectiveness in performing its Mission for members and beneficiaries; and
- (2) Evidence that effectiveness is achieved through practices that are demonstrably consistent with LACERA's Values.

LACERA's **Values** are:

INTEGRITY -- We earn trust by our dedication to honesty, fairness, and ethical conduct in the service of our members and each other.

INCLUSIVITY -- We welcome all individuals, honoring and respecting their unique stories and perspectives, and celebrating the value that diversity adds to the organization in meeting our Mission and strategic priorities.

INNOVATION -- We cultivate a creative, forward-thinking approach in seeking out new ideas and novel solutions to continually improve our operations and the member experience.

ACCOUNTABILITY -- We take responsibility for our actions and operate with the highest standards of professionalism and respect in fulfilling our mission and duty as prudent stewards of the pension funds.

COLLABORATION -- We promote unity by successfully working together across all levels of the organization to deliver on our strategic priorities and objectives.

TRANSPARENCY -- We clearly communicate our knowledge, ideas, and expertise in an open, fair, and honest environment.



Culture is Driven by Behavior



The most important driver of organizational culture is staff's observations of the practices and processes they see as actually followed and the behaviors that are rewarded and supported.

Almost 60% of the variation in cultural experience is explained by what the members of an organization **actually do** rather than what the organization **states** in values, policies, and procedures.

Almost 10% is attributable to a strong ethics and compliance program and cultural resources.

The remaining variation is attributable in small increments to many other factors.

--Gartner Compliance and Ethics Global Culture Assessment (2017)



LACERA's goal is that our Culture aligns with our Values (I ACT) because our Values are seen in the behavior of trustees, management, and staff.

The ACRE Committee plays a major role because of its oversight of the Control Environment, including Culture and Values.





Practical Effect of Strong Culture and Values

Strong Cultures do Better

Research shows that organizations with strong cultures perform better in:



Culture Scale:

-  Inspired
-  Competent
-  Requisite
-  Nascent

Strong cultures results in:

- Individuals and teams are more than twice as likely to overperform¹
- Staff are more than twice as likely to be engaged and commit higher levels of discretionary effort²
- Significant increase in observing and reporting misconduct, a lower fear of retaliation, and reduced levels of misconduct/greater compliance³

¹Gartner Compliance and Ethics Global Culture Assessment (2017)

²Gartner Create a Culture of Integrity to Improve Corporate Compliance (2019)

³LRN Benchmark of Ethical Culture (October 2021); ECI State of Ethics and Compliance in the Workplace (2021); Gartner (2019)

Culture and Values in ACRE's Work



Structure for the practical application of LACERA's Culture and Values in all areas of the ACRE Committee's oversight responsibility:

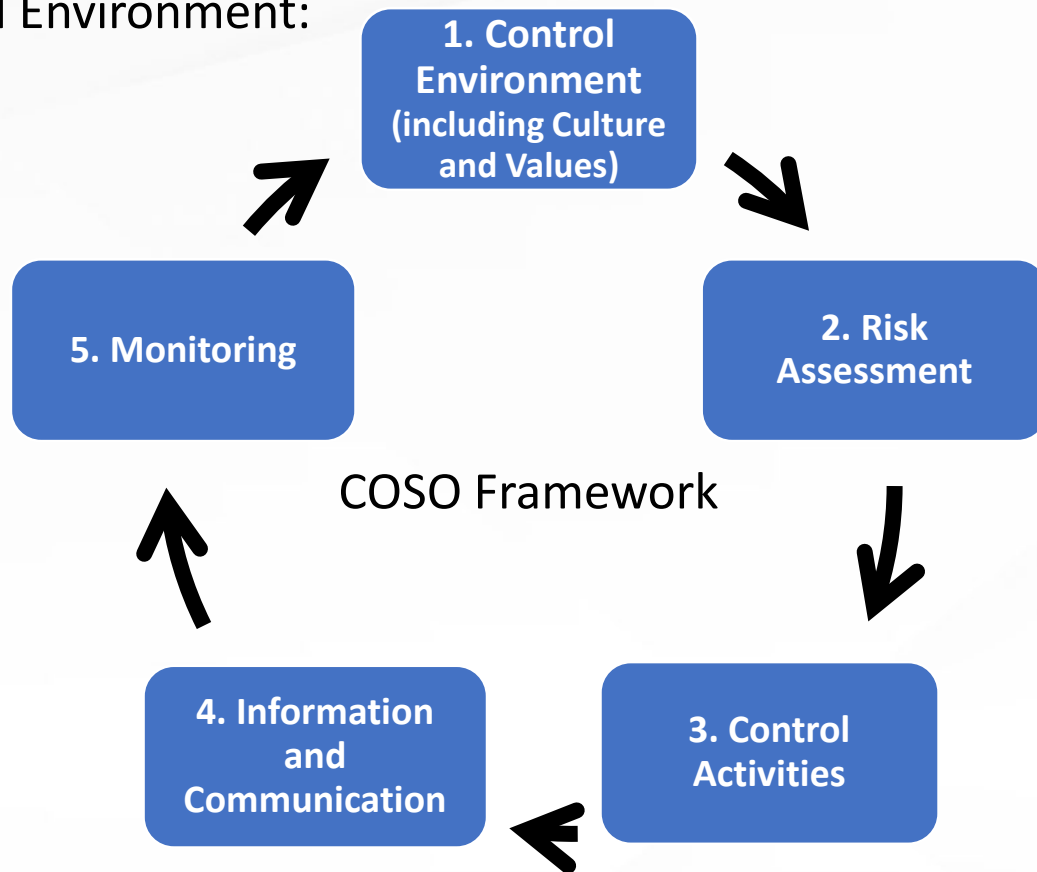
1. Culture and Values are part of the Control Environment that determines the effectiveness of all LACERA Controls.
2. LACERA's Culture and Values should be modeled by the ACRE Committee as standard bearers.
3. Culture and Values are a factor to be considered in every audit, consulting engagement, risk assessment, report, findings, recommendations, and work plan provided to the Committee by Internal Audit and the Ethics and Compliance Program and in every management response.
4. Culture and Values are part of the responsibilities and accountability of the Internal Audit and Ethics and Compliance Programs.
5. Operationalize Culture and Values through measurement and KPIs.

1. Culture/Values in LACERA's Control Environment



Effective Internal Controls

require the ACRE's oversight of a process that begins with the Control Environment:



Under U.S. Sentencing Guidelines and DOJ Guidance, strong culture is relevant to every criteria of an Effective Ethics and Compliance Program:

- Standards, Policies, Procedures, Code of Ethical Conduct
- Program Framework – Governance, Oversight, and Authority
- Due Care in Delegation of Authority
- Communication and Training
- Monitoring and Auditing/Reporting Channels
- Incentives and Discipline
- Remediation

2. ACRE Committee Models Culture/Values

The ACRE Committee establishes in its Charter, as a governing “Principle,” that ***“The ACRE Committee conduct itself in accordance with ... LACERA’s ...Values.”*** (ACRE Committee Charter, Section III)

- This provision in the ACRE Charter is included in the IIA’s Model Audit Committee Charter.

The U.S. Sentencing Guidelines and DOJ “Evaluation of Corporate Compliance Programs” provide that program effectiveness requires that:

“The organization’s governing authority shall be knowledgeable about the content and operation of the compliance and ethics program.” (U.S. Sentencing Guidelines, 18 USCS Appx § 8B2.1(b)(2)(A))

“The company’s top leaders – the board of directors and executives – set the tone for the rest of the company. ***Prosecutors should examine the extent to which senior management have articulated the company’s ethical standards, conveyed and disseminated them in clear and unambiguous terms, and demonstrated rigorous adherence by example.***” (DOJ Evaluation of Corporate Compliance Programs, Section II.A)

COSO includes “the tone at the top regarding the importance of internal control including expected standards of conduct” as part of the Control Environment. (COSO Internal Conduct – Integrated Framework Executive Summary)

These standards mean the ACRE Committee knows and applies LACERA’s Values.

Oversight of Culture Requires Humility

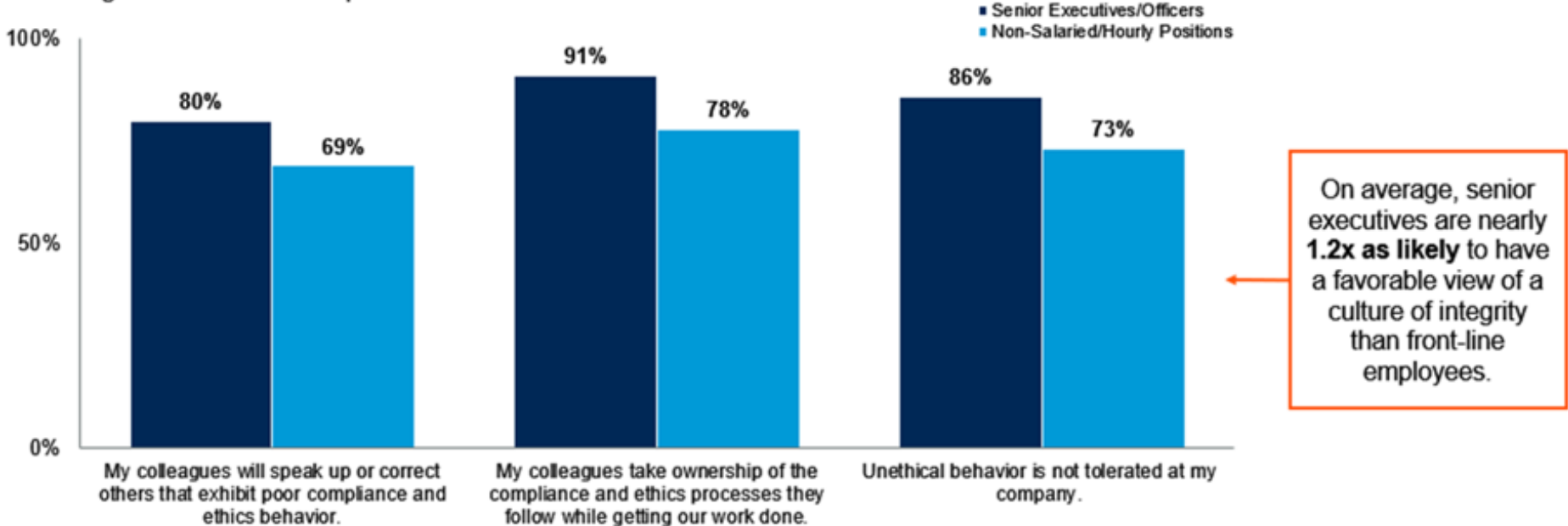


Leadership may perceive Culture as better than other staff.

Hard to Reconcile Senior and Front-Line Employee Views

Although many senior leaders view their company's culture of integrity in a favorable light, **this is not the case for many front-line employees.** Leaders must recognize this disconnect and **factor it into plans to strengthen culture.**

Senior Executive vs. Front-Line Employee Views of Culture of Integrity
Percentage of "Favorable" Respondents



Source: 2021-2022 Gartner Risk Clarity Benchmark, n=37 organizations with senior executives/officers, n=38 organizations with non-salaried/hourly positions

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3a. Culture/Values are a Factor in Internal Audit's Work and Reporting



The IIA Standards provide that “internal auditors may make **recommendations** that enhance the control environment (e.g., a tone at the top that **promotes a culture of ethical behavior** and a low tolerance for noncompliance).” (IPPF Standard 2130)

- “Documents that may demonstrate conformance with Standard 2130 include the internal audit activity’s assessment and testing of controls.” (Same)
- “Conformance may also be demonstrated through **plans, reports on individual engagements, follow-up** on issues raised in audit reports, and/or an overall evaluation of controls.” (Same)

LACERA’s Internal Audit Charter, in defining the “Scope and Type of Internal Audit Services, provide that Internal Audit engagements may include **evaluating whether: ... LACERA’s ethics and compliance are upheld.**” (Internal Audit Charter, Section IV)

As a result of these best practices and Charter requirements, the ACRE Committee should expect to see evidence that Culture and Values are considered and, when relevant, there should be:

- Discussion of the effect of LACERA’s Control Environment in Internal Audit’s work product.
- Analysis, findings, and recommendations as to the effect of Culture and Values on the adequacy of Controls.

Internal Audit should also engage the Committee in a discussion of the impact of Culture and Values, and when reports include a Management Response, management should address these issues.

3b. Culture/Values are a Factor in the Ethics and Compliance Program's Work and Reporting



The U.S. Sentencing Guidelines and the DOJ “Evaluation of the Corporate Compliance Programs” establish an expectation that as to “how the company has leveraged its data to gain insights into the effectiveness of its compliance program and otherwise sought to promote an **organizational culture that encourages ethical conduct** and a commitment to compliance with the law.” (U.S. Sentencing Guidelines, Section 8B2.1(a)(1); DOJ ECCP, Section III)

The Ethics and Compliance Program Charter provides that the Program’s “Services” include:

- The Program “promotes a strong and engaged culture of ethical conduct and compliance.” (Ethics and Compliance Charter, Section I)
- **“The Program is consistent with LACERA’s ... Values.”** (Ethics and Compliance Program Charter, Section II)
- “The Program will also provide training and communications on LACERA’s values and ethics.” (EC Program Charter, Section VII.G)

The Charter includes numerous requirements for activities and reporting related to ethics, compliance, and Culture. (Program Charter, Section VII.A-L and Section VIII.A-N)

Because of these best practices and Charter requirements, the ACRE Committee should expect that Program staff will address Culture and Values, where relevant:

- In its analysis, findings, recommendations, reports, and other work product.
- In its discussion with Committee.

Because the CEO and Boards’ share oversight role for the Ethics and Compliance Program, the Program should also engage them in discussion of Culture and Values.

4. Culture/Values Are Part of Program Accountability



The ACRE Committee may consider (a) how the CAE and CECO include in their work evaluation of Culture and Values as a part of the Control Environment and (b) how the CAE and CECO model LACERA's Culture and Values.

- CAE's Accountability for Ethics and Professionalism
 - ***"The CAE will ensure that Internal Audit staff: ... Encourage and promote an ethics-based culture in the organization."*** (Internal Audit Charter, Section III.A.3)
 - This provision is consistent with IIA Standards for the CAE, which require ***"uncompromising ethics."*** (IIA, Chief Audit Executives)
- CECO's Accountability for the Ethics and Compliance Program
 - ***"Under the leadership of the CECO, the Program shall be accountable to the ACRE Committee, Board, and the CEO for" program activities relating to ethics and culture."*** (Ethics and Compliance Program Charter, Section VIII.A-N)
 - The DOJ's Guidance for that "high-level personnel ... shall ensure that the organization has an effective ethics and compliance program." (DOJ "Evaluation of Corporate Compliance Programs, Section II.A)
 - The Guidance also provides that, "Prosecutors should also evaluate ... '[t]he quality and experience of the personnel involved in compliance, such that they can understand and identify the transactions and activities that pose a potential risk.'" (DOJ ECCP, Section II.B)

5. How the ACRE Committee can Operationalize Culture and Values through Measurement and KPIs



Ethics and Compliance Program Charter provides for measurement and reporting on LACERA's "culture of ethics and compliance." (EC Charter, Sections VII.J, VIII.L)

Measurement methods:

- **Key Performance Indicators (KPIs):**
 - **Employee Survey Results** on Values-based issues, such as perception of ethical behavior at LACERA, fear of retaliation and comfort in reporting misconduct, understanding of policies and procedures, trust in leadership to uphold ethical standards.
 - **Compliance Metrics**, such as number of control deviations by area, material v. nonmaterial deviations, time taken to remediate control issues, timeliness of policy review within review cycle.
 - **Whistleblower Data**, such as ethics hotline reporting, number of investigations and founded v. unfounded claims, time taken to conduct investigations.
 - **Employee Turnover Metrics**, such as turnover rate by position, reasons for turnover.
 - **Training and Development Metrics**, such policy attestation and training rates.
- **Qualitative Data**, such as surveys, focus groups, and exit interviews.
- **Benchmarking and Continuous Monitoring.**

Discussion and Questions





February 25, 2025

TO: 2025 Audit, Compliance, Risk, and Ethics (ACRE) Committee
Debbie Martin (BOI), Trustee
Alma K. Martinez (BOI), Trustee
Nicole Mi (BOI), Trustee
Nancy Durazo (BOR), Trustee
Jason Green (BOR), Trustee
Wayne Moore (BOR), Trustee
Elizabeth Ginsberg, Ex-Officio

Audit Committee Consultant
Larry Jensen

FROM: Richard P. Bendall 
Chief Audit Executive

FOR: March 13, 2025 Audit, Compliance, Risk, and Ethics (ACRE) Committee

SUBJECT: **LACERA Risk Management and Internal Audit Risk Assessment**

BACKGROUND

The ACRE Committee Charter provides that the Committee has responsibility for oversight of Internal Audit, Ethics & Compliance, and Enterprise Risk Management. This presentation reiterates the importance of the Committee understanding the IIA's Three Lines Model and the role of the Committee's oversight of the second and third lines. It also seeks to ensure the Committee understands the difference between risk management, a first line management role and the risk assessment process employed by Internal Audit (the third line function) in developing annual risk-based audit plans.

Attachments

A: LACERA Risk Management and Internal Audit Risk Assessment Presentation

RPB:rb



LACERA Risk Management and Internal Audit Risk Assessment

Presented by:

Richard Bendall, Chief Audit Executive

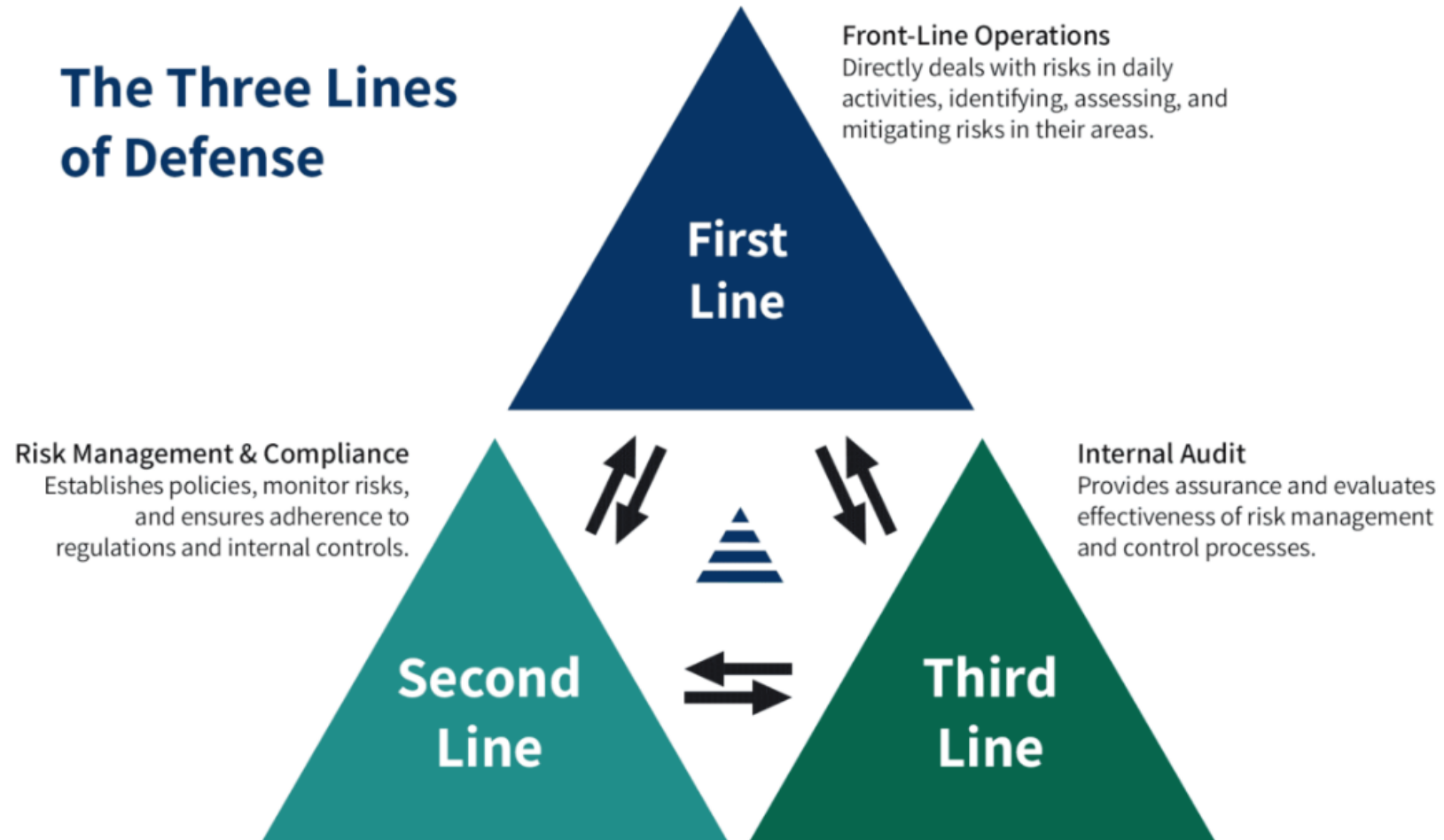


1. The Three Lines of Defense Model
2. First Line - Risk Management
 - Everyday examples
 - At LACERA
 - ❑ BOR – Administrative Operations
 - ❑ BOI – Investment Operations
3. Second Line
 - Enterprise Risk Management
 - Compliance and Ethics
4. Third Line – Internal Audit (Assurance)
 - Internal Audit Risk Assessment

Another View of the 3 Lines of Defense Model



The Three Lines of Defense





Managing risks to achieve objectives.

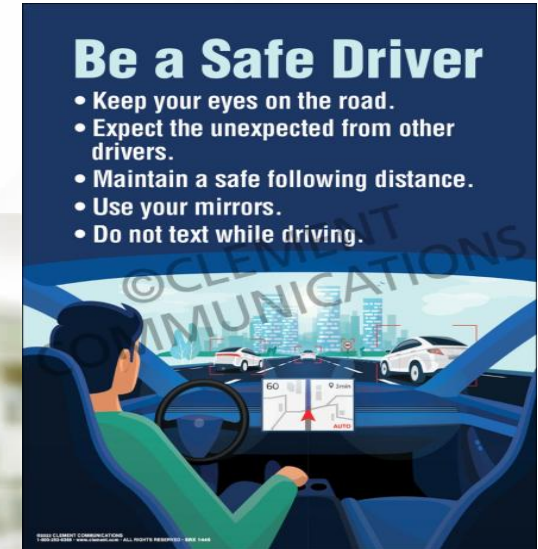
At an organization, such as LACERA, risk management is managing risks to achieve objectives that align with the strategic objectives and direction of the organization.

Risk Management – Daily life



Each of us employ risk management in our daily lives.

- Brushing our teeth
- Driving
- Crossing the road



Evaluating Risk



Inherent vs. Residual Risk



This is the level of risk before any controls are employed to reduce the risk.

Put another way, inherent risk is the level of risk in place to achieve an entity's objectives before actions to mitigate the likelihood and/or impact of the risk.

This is level of risk after controls are employed to mitigate the inherent risk.



To PRODUCE, PROTECT AND PROVIDE the Promised Benefits

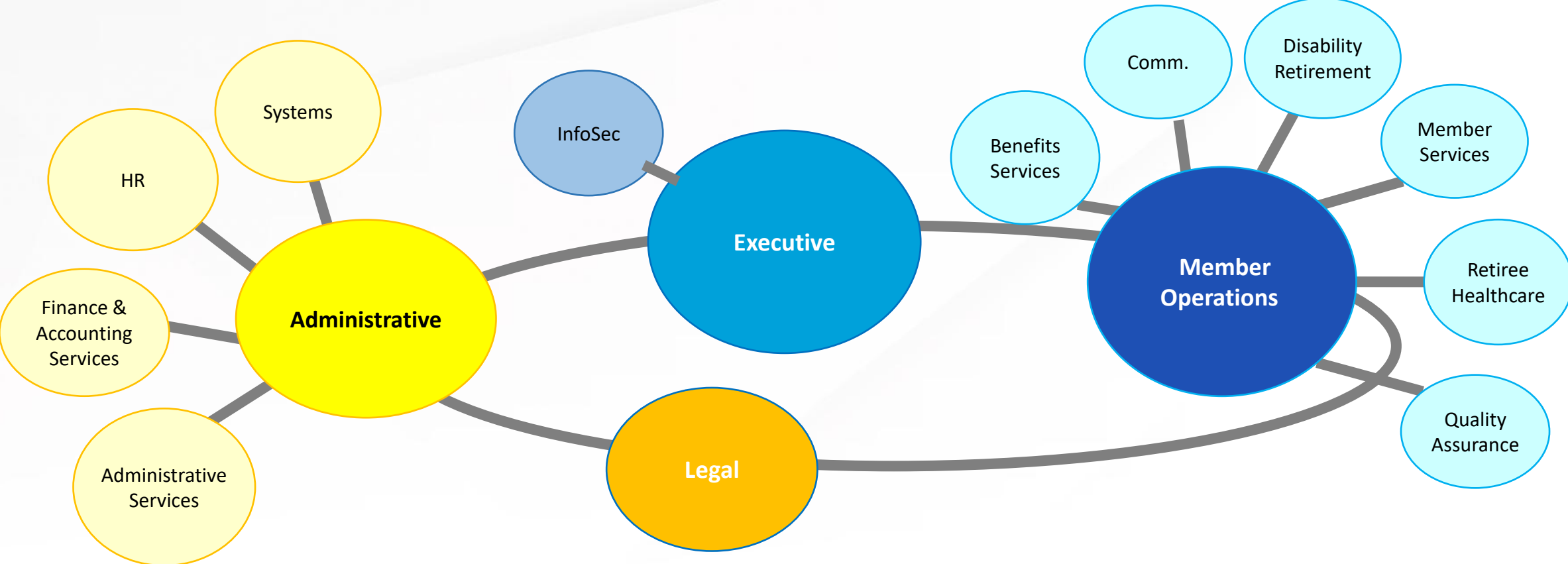




Providing the Promised Benefits (and Protect them)

Member Operations Group (MOG)	Administrative Support Divisions	Hybrid 1 st and 2 nd Line Divisions
<ul style="list-style-type: none">• Member Services• Benefits• Retiree Health Care• Disability Retirement	<ul style="list-style-type: none">• Administrative Services• Systems• Financial Accounting Services Division (FASD)• HR• Communications	<ul style="list-style-type: none">• Legal• InfoSec• Quality Assurance

BOR – First Line Oversight Role





Producing the Promised Benefits (and Protect them)

Investments Office

- Various Asset Classes
- Investment Managers
- Custodial Bank
- Consultants

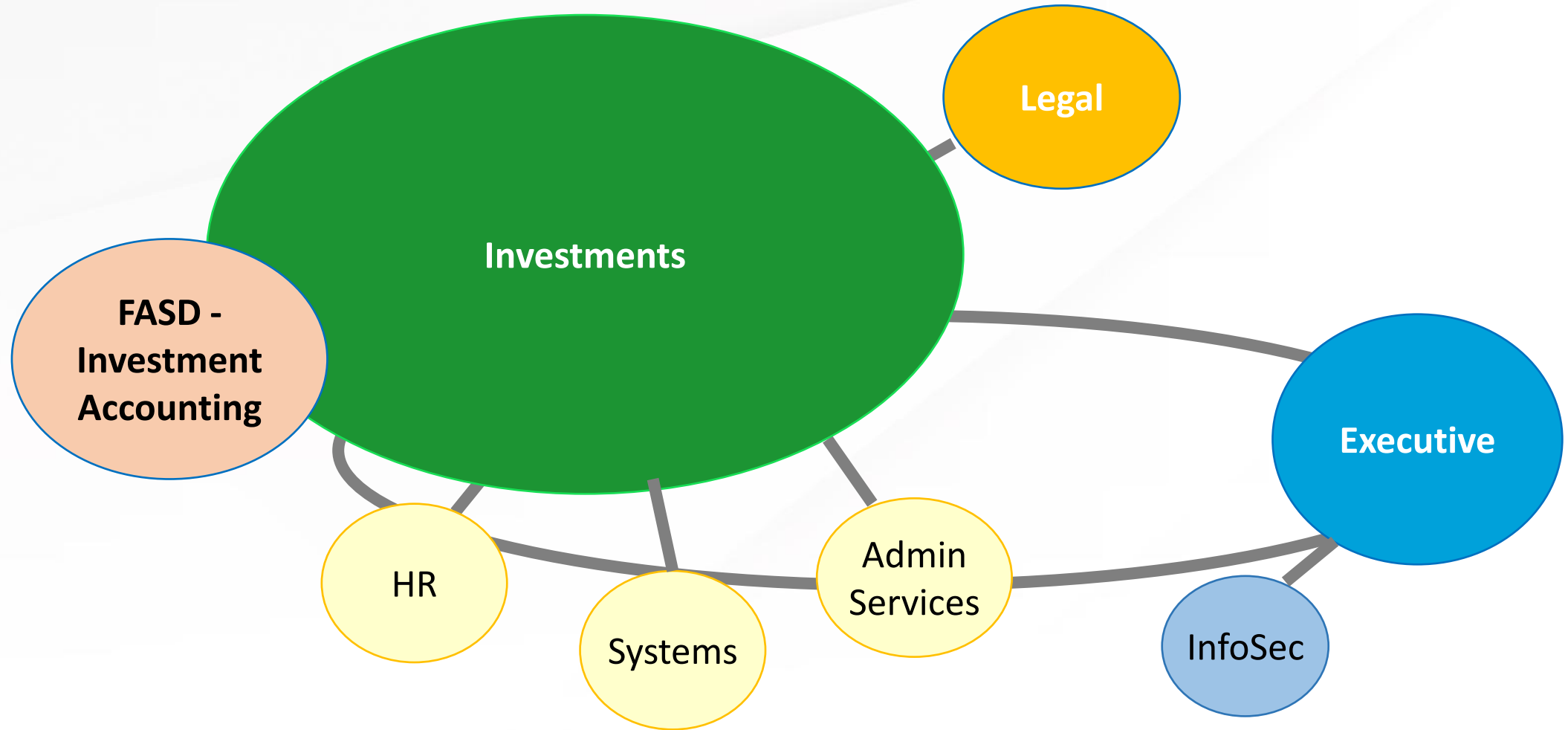
Administrative Support Divisions

- Financial Accounting Services Division (FASD)
- Administrative Services
- Systems
- HR
- Communications

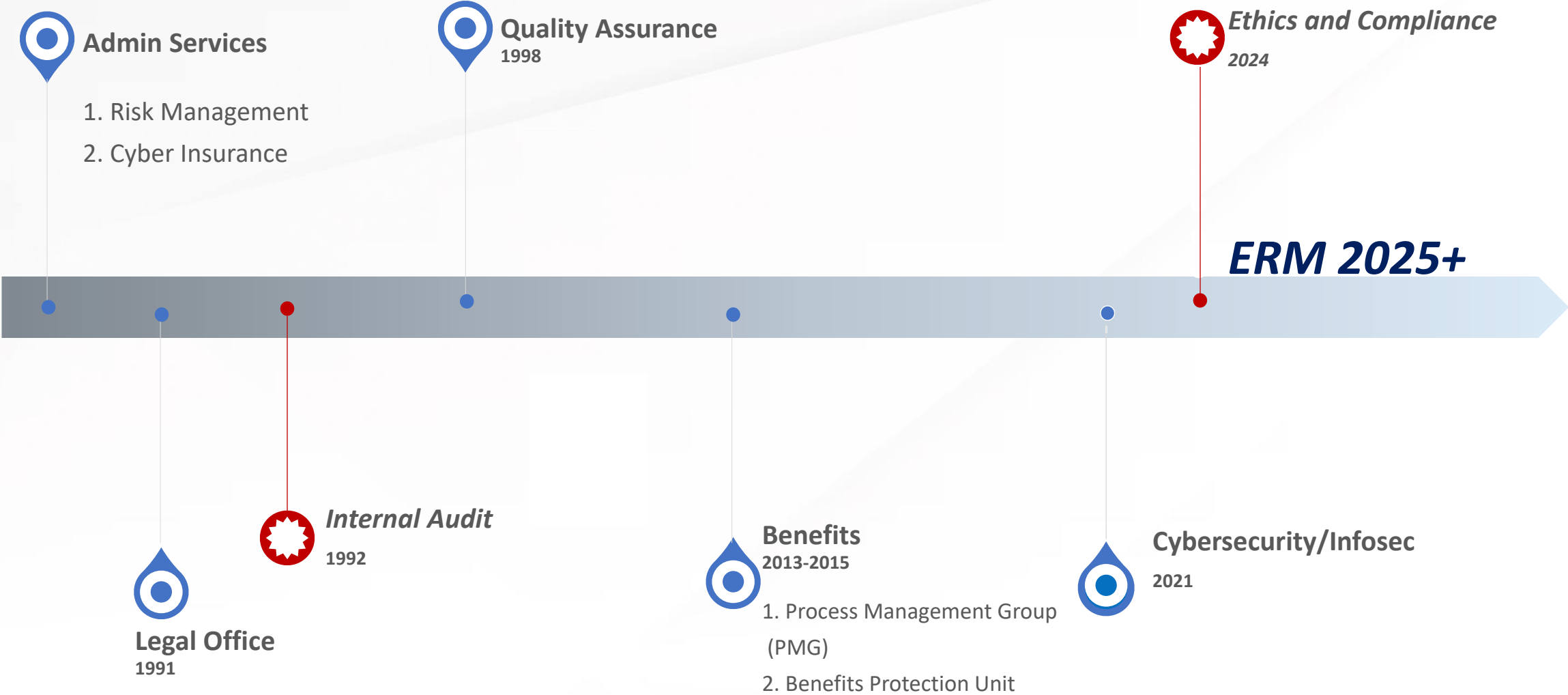
Hybrid 1st and 2nd Line Divisions

- Legal
- InfoSec

BOI – First Line Oversight Role



Risk Management Evolution - LACERA



Second Line Functions



- Ethics and Compliance
- Enterprise Risk Management



“A process effected by an entity’s board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives”

- Committee of Sponsoring Organizations of the Treadway Commission (COSO)



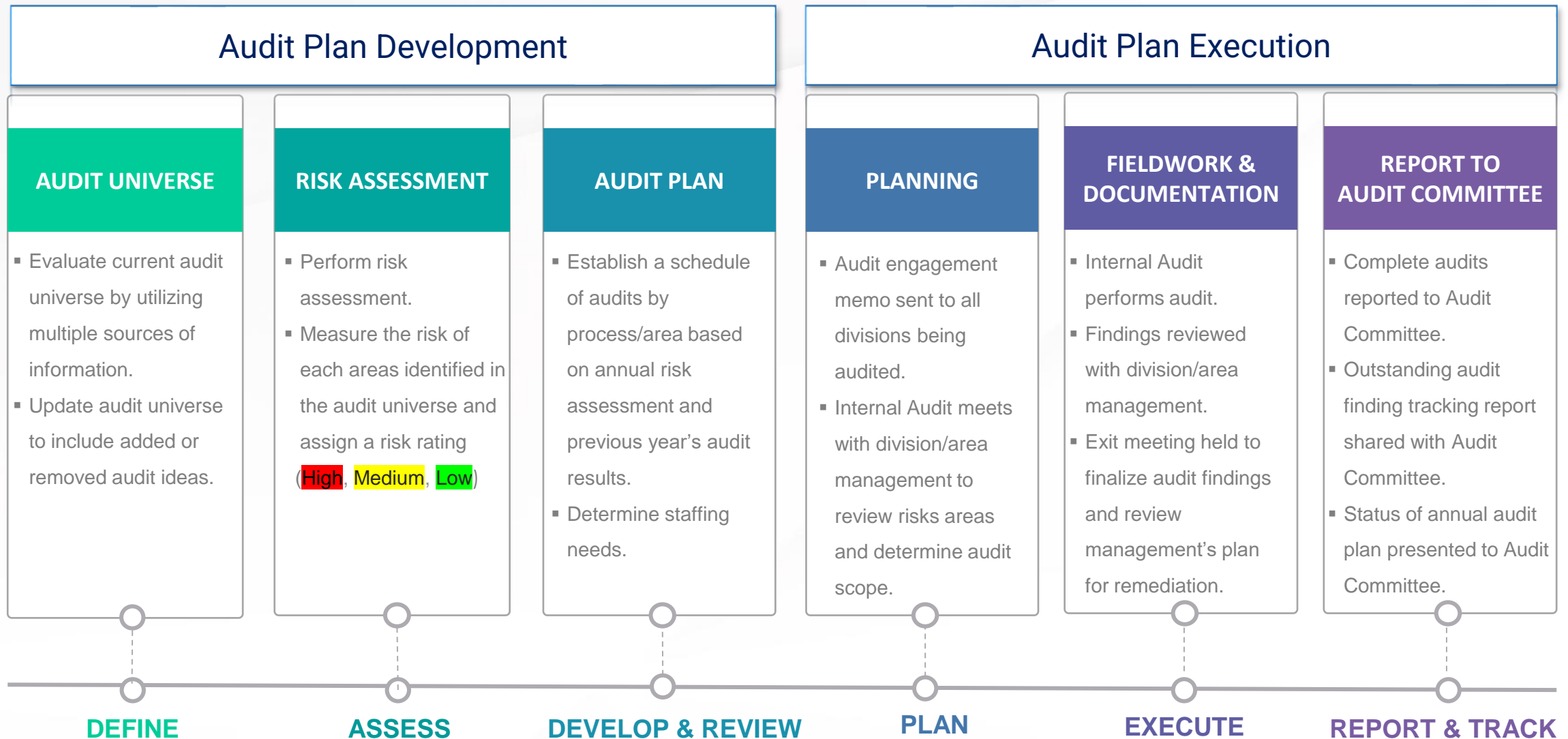
A formal Enterprise Risk Management (ERM) program aims to build a framework and structure around an organizations risk management activities and align risk management across the organization with organizational objectives. Elements of a centralized ERM program:

- Risk Registers
- Key Risk Indicators
- Divisional Risk Champions
- Risk Appetite
- Emerging Risks
- Dashboards and Reporting
- Alignment with Organizational Strategic Planning

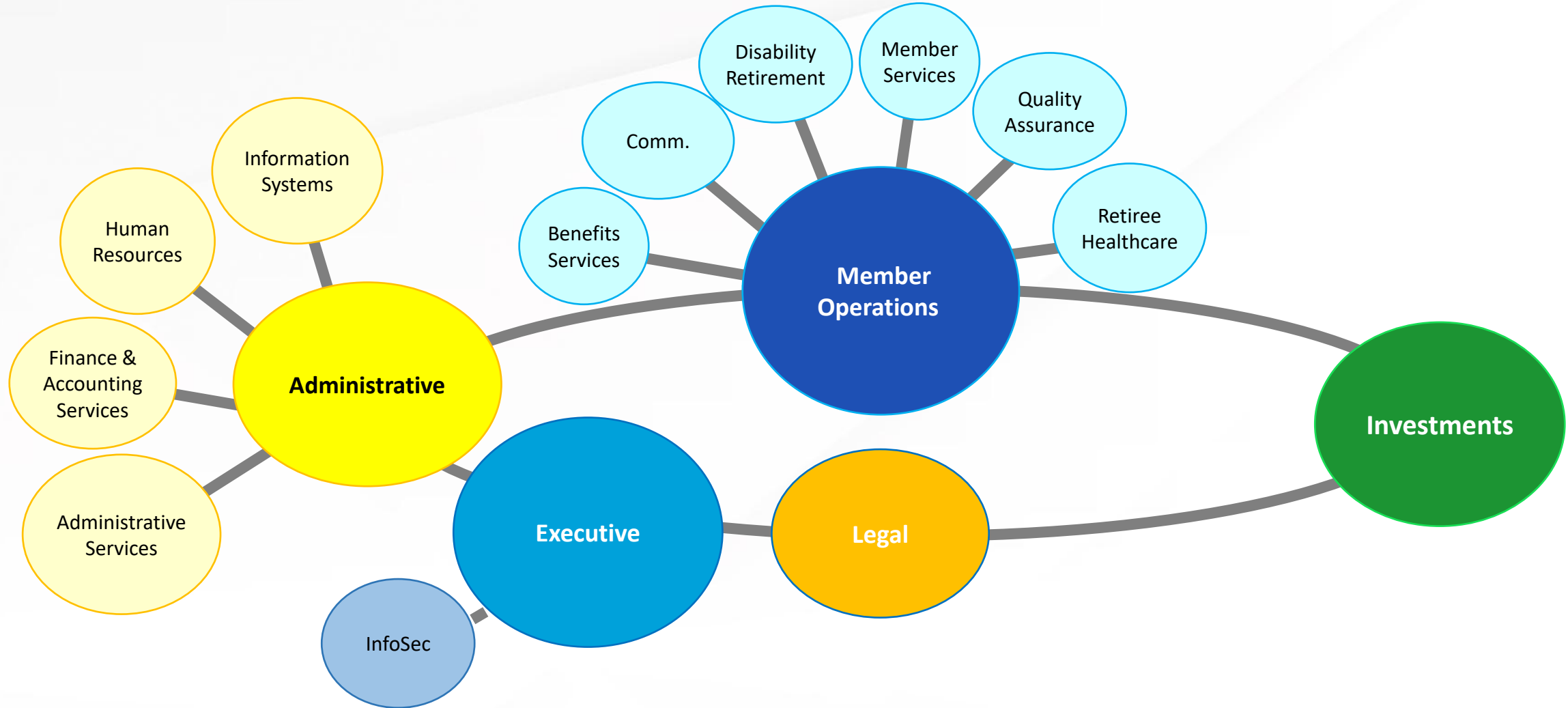
Third Line – IA, Overview of Audit Planning



Overview of Internal Audit Process



Audit Universe by Organization Structure



Example Exerpt from Audit Universe



2025 FASD Audit Universe

		Prior Audit	Prior Audit Rating	Risk Rating	Engagement Reports/Comments
GENERAL ACCOUNTING					
2	Child Support Payments				
3	Member Payroll & Tax Payment				
4	Member Healthcare				
5	Treasury Bank Accounts Recon				
6	Member Special Payments				Current Other Value-Added Engagement in Progress
7	Accounts Payable	3/9/2022	N/A	Low	Accounts Payable Audit Report
8	Corporate Credit Cards	8/31/2023	Opp for Improvement	Med	Audit of Corporate Credit Cards
9	Corporate Credit Cards - CEO	3/2/2023	Satisfactory	Low	Review of Chief Executive Officer's Credit Card Expenditures
10	Travel Training Expenses & Reporting	7/11/2019	N/A	NA	Board and Staff Education & Travel Audit
11	Recon Reimbursable Cost (OPEB County Trust Fund)				
12	Check Distributions (add per mtg)	6/24/2021		NA	Title Holding Company (THC) Stale Check Review
13					
REPORTING AND COMPLIANCE					
	Actuarial Projects & Reporting	12/14/2023	N/A		Consulting on Internal Controls over Financial Reporting - Cash and Treas
	Reporting & Acct Compliance Regulations (add per mtg)				

Annual Audit Planning for FYE 2026



March



Obtain Approval for IA Budget

Obtain ACRE Committee approval of the FY 2026 Internal Audit Budget based on a framework of expected Audit Plan.

June



Obtain ACRE Committee approval of the FY 2026 Audit Plan

- Obtain ACRE Committee and input and approval
- Finalize the Audit Plan

April



Kickoff/Perform Risk Assessment

Perform Risk Assessment:

- Obtain input from ACRE Committee and Executive Office
- Evaluate current risks –external and internal
- Evaluate recent organizational changes
- Evaluate prior audit ratings and risks
- Survey and interview division managers
- Update the Audit Universe

July



Initiate work on FY 2026 Audit Plan

Exerpt from the FYE 2024 Divisional Risk Survey



Internal Audit Division
2024 Risk Assessment

Division:		Survey Completed By:		Date:	
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Instructions: Please answer the following questions to the best of your ability. When answering the questions, you should consider risks associated with work processed within your Division and controls implemented to address those risks.

OPERATIONAL OBJECTIVES	Yes	No	Comment
1. Are key objectives/goals clearly established for your Division? List the key objectives/goals of your Division?			
2. Have you established key performance indicators (KPIs) for each objective. If yes, please list the KPIs associated with each objective. If the answer is no, please describe where you are in the process of developing KPIs.			
3. Are there significant operational limitations that prevent your Division from accomplishing your Divisional objectives? Describe at a high level.			
4. Are there any initiatives in LACERA's Strategic Plan that will have a significant impact on your			

Top Risks Include:



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

Top Risks and Our Current Audit Plan



Top Risk Areas	Audit Project
Cybersecurity	Application Security Reviews, IT Risk Assessment (including assessment of NIST at LACERA)
Organizational Governance	Strategic Plan – Compliance and Enterprise Risk Management
Human Capital / Talent Management	Advisory Review of HR Recruiting
Business Continuity & Crisis Management	Review of LACERA Business Continuity Program

Questions or Comments





February 24, 2025

TO: 2025 Audit, Compliance, Risk, and Ethics (ACRE) Committee
Debbie Martin (BOI), Trustee
Alma K. Martinez (BOI), Trustee
Nicole Mi (BOI), Trustee
Nancy Durazo (BOR), Trustee
Jason Green (BOR), Trustee
Wayne Moore (BOR), Trustee
Elizabeth Ginsberg, Ex-Officio

Audit Committee Consultant
Larry Jensen

FROM: Christina Logan 
Principal Internal Auditor

FOR: March 13, 2025 Audit, Compliance, Risk, and Ethics (ACRE) Committee

SUBJECT: **Overview of External Financial Audit and Reports and Overview of Actuarial Audit**

INTRODUCTION

As established in the Audit, Compliance, Risk, and Ethics (ACRE) Committee's Charter, the Committee has the following responsibilities:

- "Approve the appointment and compensation of the Financial Auditor, hired to perform an independent audit of LACERA 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." (VII. Responsibilities 2a. pg. 6)
- "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." (VII. Responsibilities 3. pg. 7)

At its March 2023 meeting, the Committee selected Plante Moran to provide three years of financial auditing services for fiscal year end June 30, 2023 - 2025. Internal Audit has begun its work to issue a new request for proposal (RFP) for financial audit services for fiscal year ending June 30, 2026 – 2031. We intend to bring a recommendation to release the RFP to the Committee's April 2025 meeting.

To assist the Committee with its oversight of the financial audit, Plante Moran will be providing a presentation reviewing the required reporting and the financial statement risks they deem as significant. Additionally, CavMac LLC, LACERA's Actuarial Audit firm, will be presenting to the Committee to discuss the actuarial model, and the scope of the actuarial audit work they perform for LACERA.

While these firms provide separate but overlapping services, both firms help to ensure LACERA's financial health and the integrity of LACERA.

Attachments

A: Plante Moran's Overview of External Financial Audit and Reports

B: CavMac's Overview of Actuarial Audit

Los Angeles County Employees
Retirement Association

Audit, Compliance, Risk and Ethics Committee

March 13, 2025



Introductions



Kristin Hunt, CPA
Partner



Amanda Cronk, CPA
Principal



Agenda

- ✓ Required Reporting – why?
- ✓ Financial Statement Risks
- ✓ Questions
- ✓ Additional Thought Leadership



Required Reporting – why?

Financial Statements:

- Audit Committee and ACRE impact – results of the audit
- Required by CERL in accordance with GAAP
- County requirement – Component Unit of LA County
- Internal controls operating as intended related to financial reporting
- Transparency for members
- Accuracy of interim financial information

GASB 68 and 75 Reports:

- Employers require
 - AICPA provides clear guidance on what employers must have for their own financial reporting
- Accuracy of information – employers utilize to budget their own legacy costs



Financial Statement Risks

The ultimate goal of the audit is the expression of an opinion on your financial statements.

Investment valuations – Existence and Valuation

- Obtain download of all holdings from State Street directly
- Analysis of trends along with substantive testing comparing each quarter of the year for hard to value
- Perform tests of key controls surrounding assertions for hard to value
- Substantive testing of a sample of various investment types

Census data testing – Accuracy and Completeness

- Use of technology for analytics – compare complete data set from current year to prior year
- Substantive testing for accuracy and completeness
- Actuarial assumptions and calculations – recalculating discount rate, review key assumptions for reasonableness compared to market and other systems

All while also considering and testing internal controls in place.



Questions?



Additional Thought Leadership

Cybersecurity: Protecting your retirement system from hidden threats

AI and cybersecurity risks: How is your organization strengthening its defenses?



Thank you!

For more information contact:

Kristin Hunt, CPA

419-842-6110

Kristin.Hunt@plantemoran.com

Amanda Cronk, CPA

810-766-6045

Amanda.Cronk@plantemoran.com

Los Angeles County Employees Retirement Association

Actuarial Audit Discussion
March 13, 2025



- Review of the actuarial funding model
- Actuarial vs financial audit
- Scope of audit work prepared by CavMac
- Evaluation of LACERA's actuarial auditing process



Inputs

- Membership Data
- Benefit Provisions
- Asset Data
- Actuarial Assumptions
- Actuarial Methods

Actuarial Model

- Contribution Rate
- UAAL
- Funded Ratio
- Actuarial Gain or Loss
- Projections

Outputs

- Risk in the context of a public retirement system refers to the potential for events or conditions that could negatively impact the system’s ability to achieve its objectives, particularly in terms of funding its future obligations to retirees.
- Actuarial services are an important part of ensuring LACERA’s ability to make future benefit payments, but are highly technical and very specialized
 - Difficult for the Boards to evaluate the retained actuary’s work
 - As fiduciaries, Boards are responsible for the accuracy and reliability of the actuarial work
- Actuarial audits are performed to evaluate the critical work being performed by the system’s retained actuary, ensuring numerical accuracy and reasonable assumptions and methods.

- Retirement Plan

- Actuarial funding valuation
- GASB 67 and 68 reports
- Experience study (prepared by retained actuary every 3 years)
- Special projects

- OPEB Program

- Actuarial funding valuation
- GASB 74 and 75 reports
- Experience study (prepared by retained actuary every 3 years)
- Special projects

- Actuarial audits of all work products are not performed every year

- Both essential components of ensuring the financial health and integrity of a public retirement system, but focus on different aspects of the system's operation
 - Financial audit focuses on the accuracy and compliance of the system's financial records and statements.
 - Actuarial audit focuses on actuarial areas of expertise such as the soundness of actuarial assumptions and methods used to forecast long-term liabilities (obligations).
- Both play a distinct but complementary role in ensuring the system is well-managed and able to meet its obligations to current and future retirees.

Financial vs Actuarial Audit

	Financial	Actuarial
Purpose	Provide independent assessment of the financial status of the retirement system	Evaluate the accuracy of the actuarial measurements and reasonableness of assumptions and methods
Focus	Accuracy and compliance of the system's financial statements	Accuracy of results and reasonableness of actuarial assumptions, methods
Areas of Review	Financial statements and disclosures; compliance with regulatory requirements	Actuarial data, assumptions, methods, funding policy and reports
Frequency	Annually	Periodic basis typically 3 to 5 years
Audience	Trustees, administrators and other external stakeholders	Trustees, retained actuary, other stakeholders
Reporting	Audit opinion	Report identifying concerns and recommendations



- Validation of census data
 - Review appropriateness and completeness of data
 - Confirm appropriate treatment of LACERA “raw” data to create the “valuation” data
- Replication valuation
 - Liability measures, based on current assumptions and methods
 - Actuarial value of assets
 - Unfunded actuarial accrued liability/funded ratio
 - Amortization and cost calculations
- GASB reports
 - Verify the calculations which are based on the funding valuations
 - Verify the allocations among participating employers



- Experience study review
 - Verify numerical results and opine on reasonableness of recommended changes
 - Verify cost impact of recommended changes
 - Evaluate actuarial methods and funding policy
 - How liabilities are calculated and allocated to different time periods
 - Amortization policy
 - How are contributions projected to meet future obligations
- Actuarial Reports
 - Compliance with actuarial standards of practice
 - Effective communication of results
 - “Fresh eyes” provide a different perspective



- Audit of the actuarial valuations (both retirement and OPEB) are full replication audits
 - Independently prepare valuation results from census data
 - Also review individual sample life results for a more in-depth review
 - Most thorough type of audit and is generally preferred by actuarial community
- Audit of triennial experience study (both retirement and OPEB) are replication audits
 - Most often, an audit relies on the retained actuary's "number crunching" results and simply opines on reasonableness of recommended assumptions based on that data
 - LACERA's audit includes independent development of numerical results (actual occurrences versus expected) to verify the retained actuary's findings
- Overall, LACERA's actuarial auditing is more robust than most systems. Audit results are more credible because of processes used.

THANK
YOU



AMENDED AGENDA

A REGULAR MEETING OF THE AUDIT, COMPLIANCE, RISK, AND ETHICS
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, MARCH 13, 2025

This meeting will be conducted in person and by emergency teleconference under California Government Code Section 54953(e) based on the Governor's Proclamation of a State of Emergency due to the Los Angeles County fires.

*Teleconference Location for Trustees and the Public under California Government Code Section 54953(b)
10518 Brightstone Drive, Midlothian, Virginia 23112*

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.

AUDIT, COMPLIANCE, RISK, AND ETHICS (ACRE) COMMITTEE TRUSTEES:

Debbie Martin (BOI), Trustee
Alma K. Martinez (BOI), Trustee
Nicole Mi (BOI), Trustee
Nancy Durazo (BOR), Trustee
Jason Green (BOR), Trustee
Wayne Moore (BOR), Trustee
Elizabeth Ginsberg, Ex-Officio

AUDIT, COMPLIANCE, RISK, AND ETHICS (ACRE) COMMITTEE CONSULTANT
Larry Jensen

A. Approval Of Governor's Proclamation of State of Emergency Due to The Los Angeles County Fires.

I. CALL TO ORDER

- II. PLEDGE OF ALLEGIANCE
- III. ELECTIONS OF OFFICERS (Election of Chair, Vice Chair, and Secretary)
- IV. 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
- V. APPROVAL OF THE MINUTES
 - A. Approval of the Minutes of the Regular Meeting of December 12, 2024

II. PUBLIC COMMENT

(Members of the public may address the Board orally and in writing. To provide Public Comment, you should visit <https://LACERA.com/leadership/board-meetings> and complete the request [form](#).

If you select oral comment, we will contact you via email with information and instructions as to how to access the meeting as a speaker. You will have up to 3 minutes to address the Board. 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 within the form 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.)

III. NON-CONSENT ITEMS

- A. **Proposed 2025 ACRE Committee Meeting Dates**
Recommendation as submitted by Christina Logan, Principal Internal Auditor: That the Committee review and approve the proposed 2025 ACRE Committee meeting dates.
(Memo dated February 26, 2025)
- B. **Internal Audit Proposed Fiscal Year 2025–2026 Budget Request**
Recommendation as submitted by Richard P. Bendall, Chief Audit Executive: That the Committee approve the Internal Audit Proposed Fiscal Year 2025-2026 Budget Request, and upon approval, direct staff to include it in LACERA’s Administrative Budget for Board approval. (Memo dated February 27, 2025)

VII. NON-CONSENT ITEMS (Continued)

C. **Ethics and Compliance Program Fiscal Year 2025-2026 Budget Request**

Recommendation as submitted by Steven P. Rice, Chief Counsel: The Committee approve the Proposed Ethics and Compliance Program Fiscal Year 2025-2026 Budget Request, and upon approval, direct staff to include it in LACERA’s Administrative Budget for approval by the Board of Retirement and Board of Investments.

(Presentation) (Memo dated February 25, 2025)

D. **Deputy, Chief Ethics and Compliance Officer, LACERA Proposed Classification and Compensation**

1. Approve establishment of one (1) new non-represented classification and salary range applicable only to LACERA and two (2) ordinance / budgeted designated positions, and refer the classification and salary to the Joint Organizational Governance Committee (JOGC) for review and recommendation to the Board of Retirement and Board of Investments:

New Classification Title

Salary Schedule

Deputy, Chief Ethics and Compliance Officer,
LACERA

118J

2. Recommend to the JOGC and joint Boards that they direct staff, upon approval by the JOGC and the joint Boards, to submit to the Board of Supervisors the required ordinance language to implement the new LACERA classification and pay range by amending the Los Angeles County Salary Code Sections 6.28.050, 6.127.010, and 6.127.030.

(Memo dated February 20, 2025)

VIII. REPORTS

A. **ACRE Orientation Introduction**

Richard P. Bendall, Chief Audit Executive

(Presentation) (Memo dated February 25, 2025)

VIII. REPORTS (Continued)

- B. **ACRE and Internal Audit Roles, Responsibilities, and Processes**
Leisha E. Collins, Principal Internal Auditor
(Presentation) (Memo dated February 27, 2025)
- C. **Ethics and Compliance – ACRE Roles and Responsibilities**
Allison Barrett, Senior Staff Counsel
(Presentation) (Memo dated February 25, 2025)
- D. **The Role of Culture and Values in the Work of the ACRE Committee**
Steven P. Rice, Chief Counsel
(Presentation) (Memo dated February 25, 2025)
- E. **LACERA Risk Management and Internal Audit Risk Assessment**
Richard P. Bendall, Chief Audit Executive
(Presentation) (Memo dated February 25, 2025)
- F. **Overview of External Financial Audit and Reports and Overview of Actuarial Audit**
Richard P. Bendall, Chief Audit Executive
(Presentation) (Memo dated February 24, 2025)

IX. CONSULTANT COMMENTS

Larry Jensen, Audit, Compliance, Risk, and Ethics Committee Consultant
(Verbal Presentation)

X. 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.)

XI. 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.)

XII. GOOD OF THE ORDER

(For Information Purposes Only)

XIII. 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.