

Section 3.0 DUTIES AND RESPONSIBILITIES

3.1 The Board's Role

Revised: May 14, 2013; February 25, 2014

All authority granted by statute in Article XVI, Section 17 of the California State Constitution, by Article XI of the City Charter and Administrative Code provisions of the City of Los Angeles, to the Board of Administration, is retained, except as delegated by specific resolution. Consistent with its fiduciary role as Trustee of the Fund, the Board's principal role is to proactively manage the delivery of benefits and investment of trust assets for the exclusive benefit of its members and beneficiaries. The Board will establish policies and procedures to ensure LACERS is appropriately governed and managed to meet its fiduciary obligations.

The Board's role is to:

A. Develop and Adopt Policies

1. Set the long-term strategic direction through the adoption of a strategic plan and set an annual business plan for LACERS through the adoption of the annual budget, focusing on the goals of LACERS against which its performance is measured and monitored.
2. Set policies for LACERS, which include:
 - a) A statement of investment objectives and policies for the system, inclusive of the desired rate of return, acceptable levels of risk for each asset class, asset allocation goals, guidelines for delegation of authority, and evaluation of investment performance.
 - b) An Actuarial Funding Policy, inclusive of the Actuarial Cost Method, Asset Smoothing Method, and Amortization Policy.
 - c) Board Governance policies, inclusive of clearly defined roles, responsibilities and permissible conduct of the key players; a Committee structure with charters defining their roles and responsibilities; and an educational and travel policy for Board and staff.
 - d) Board rules and regulations necessary to carry out the administration of the System or assets under its control
3. Select, regularly evaluate, and, if necessary, take disciplinary action against the General Manager.
4. Delegate execution of established Board policy and strategic objectives to the General Manager and through him/her re-delegation to the employees of LACERS.

B. Review and Evaluate Performance

1. Monitor organizational performance and regularly review results as compared to:
 - a) LACERS mission/vision statement
 - b) Strategic plan and other long-range goals
 - c) Annual business plans
 - d) Performance measures that include external as well as internal measures
2. Monitor investment performance and regularly review results as compared to benchmarks.

Section 3.0 DUTIES AND RESPONSIBILITIES

3. Monitor Actuarial Services, including:
 - Review, approve, and monitor actuarial data and assumptions.
 - Periodically review the services of the actuary and conduct an actuarial audit when the retained actuary has provided consecutive service for more than six years, or as reasonably determined.

C. Risk Control

1. Ensure the integrity of the financial control and reporting system.
2. Oversee all audits, including approval of the outside financial auditor, the annual internal audit plan, and provide that financial controls and reporting systems are set forth.
3. Review and consider the purchase of fiduciary liability insurance, to provide an optional layer of liability protection for Board Members and others acting in a capacity of Fiduciary to the LACERS trust in the event of legal claim(s) that the Trustee(s) have not fulfilled their fiduciary duty in any action or decision. The purchase of the policy will result in a cost to the System to cover the premium and a personal cost to the Trustee in form of a waiver of recourse of approximately \$50 per year.

D. Other Board Responsibilities

1. At all times meet high ethical standards.
2. Organize the Board of Administration; organize its Committees; and approve charters and delegations to Committees and the General Manager.
3. Periodically evaluate the Board, its performance, and take any steps necessary to improve Board operations.
4. Set the Board agenda by identifying, articulating, prioritizing, and scheduling matters the Board will regularly address.
 - a) Identify benchmarks that trigger Board review.
 - b) Identify information needs and determine how, when, and in what form information is to be delivered to Board Members so as to enable the Board to meet its responsibilities, having regard for time available.
5. Be primarily responsible and accountable to members and their beneficiaries, ensuring the System provides strong member relations and effective communications. Be responsive to inquiries of member representative organizations, and the public. Work collaboratively with stakeholders with oversight responsibilities for the Retirement System including the Plan sponsor, the Internal Revenue Service, and other governmental entities.
6. Provide for the election of employee and retired representatives on the Board.
7. Conduct member hearings and decide appeals.

Section 3.0 DUTIES AND RESPONSIBILITIES

8. The Board is responsible for creating and maintaining an atmosphere that encourages frank and collegial discussions both at the Board and Committee level and as between the Board and management. The Board strives to achieve a governing style that emphasizes:
- Strategic leadership
 - Outward vision
 - Focus on the future
 - Proactivity
 - Encouragement of collegiality
 - Respect for diversity in viewpoints
 - Governance by consensus
 - A partnership with LACERS management
 - Ethical conduct of Board business to avoid even the appearance of impropriety.
- The Board establishes and communicates Board policies and priorities, and then monitors performance in light of its established policies and priorities. The Board recognizes that the achievement of its goals requires self-discipline by the Board as a whole and by individual Board Members to live by the policies articulated herein and to govern with excellence.

3.2 General Manager

Revised: May 14, 2013; Revised February 25, 2014

Board/General Manager Relationship

The Board has delegated to the General Manager the responsibility for the administration and management of the System. Policy and direction set by the Board is implemented through the General Manager so that a strong relationship between the Board and General Manager, and clear delineation of authority is critical to the accomplishments of the Board's objectives.

General Manager Authority

The Board has delegated to the General Manager responsibility for the administration and management of the System consistent with Board delegation of authority. This includes broad responsibility for the following:

- Employing, training, developing, supervising, monitoring, and evaluating senior managers and staff. This may include succession planning for senior managers.
- Preparing and monitoring the annual administrative expense budget.
- Governmental affairs/media relations – The General Manager is authorized to work directly with the City executive and legislative branches as well as respond to public records requests, keeping the Members of the Board informed during the General Manager's Report. The Board President retains authority as the Board's spokesperson.
- Actuarial valuations and studies – To the extent budgeted, the General Manager may direct actuarial services necessary for the administration of the System.

Section 3.0 DUTIES AND RESPONSIBILITIES

The General Manager's duties are defined by the Board and include the following:

- With advice and counsel from the Board, achieve the long-term policies and strategic objectives established for the System by the Board, including as necessary:
 - Determine the appropriate methods for attaining the Board-established policies and strategic objectives.
 - Direct LACERS employees in furtherance of those objectives.
 - Ensure that management activities and decisions are within Board-approved policies.
 - Represent LACERS, or designate other staff representatives, to outside parties and organizations.
 - Provide leadership to LACERS employees by promoting conduct which emulates the Department's Guiding Principles.
 - Act as the liaison for communications and information flow between the Board and LACERS employees.
 - Provide annual goals of the General Manager which augment those in the Strategic Plan, if any, to be presented to the Board on or preceding the General Manager's annual evaluation, upon request.

3.3 Commitment of a LACERS Board Member

Members of the Board of Administration have a fiduciary responsibility to act solely for the exclusive benefit of members and beneficiaries with a secondary duty to minimize contributions of the employers. All responsibilities must be fulfilled in a cost effective and efficient manner.

Members function as part of a seven-member Board consisting of four appointed and three elected members.

The Board is required by the Administrative Code to meet twice per month. These meetings generally occur on the second and fourth Tuesday of each month and may last between two and four hours.

Committee meetings may last between one and two hours. Depending on the nature of the Committee assignment, meetings may be regular monthly meetings or on an as-needed (Ad Hoc) basis addressing single issues.

- Advanced preparation for the meetings is imperative. Depending on the Committee assignment, preparation can require between one and eight hours.
- Education is a fiduciary responsibility and is strongly encouraged. In-house seminars and outside conferences are available for this purpose. The time commitment for education is usually five days per year.

Section 3.0 DUTIES AND RESPONSIBILITIES

- Most meetings take place during normal business hours, Monday through Friday; however, some travel and conferences take place over weekends.
- Members are expected to attend all regularly scheduled Board and Committee meetings. If a Board Member's attendance becomes sporadic, the Member should strongly consider resigning from the Board for the benefit of the members they have vowed to serve.

3.4 Committee Protocol

Revised: September 10, 2013

There are two types of ordinary committees, standing and ad hoc, to which the Board may refer or commit matters under consideration. A standing committee is expected to have a continuing existence, whereas an ad hoc committee is expected to cease to exist upon completion of the submittal of a final report.

1. Standing and ad hoc Committees shall be established by a majority vote of the Board.
2. Committee Chairs and Members shall be appointed by the President or Acting President of the Board.
3. Committees shall each have three Members.
4. Committee Members shall serve from the time they are designated until their successors have been designated, and may be removed or replaced by the President or Acting President by his/her own act.
5. Committees shall operate under Robert's Rules of Order unless otherwise specified by statute or Board action.
6. Committees shall adhere to the same public notification and meeting requirements as the Board.
7. Committee meetings shall be called by the Committee Chair.
8. Committee agenda topics shall be set by the Committee Chair, but the Committee Chair shall take as an agenda item any matter submitted by two Committee Members.
9. Committee meetings shall be open to all Board Members; however, only Committee Members may vote.
10. Ad hoc committees shall not be established for a matter that falls within the purview of a standing committee.
11. Committees shall receive such assignments as fall within their Charter.
12. Committees shall communicate with the Board in the form of report(s) to the Board, offering recommendations and discussion upon referred matters for the Board's consideration.
13. Ad hoc committees shall cease to exist upon submittal of the final report to the Board.

Section 3.0 DUTIES AND RESPONSIBILITIES

3.5 Committee Structure

Updated: September 23, 2014

**LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
BOARD OF ADMINISTRATION
COMMITTEE STRUCTURE FOR FISCAL YEAR 2014-15**

STANDING COMMITTEES*

Audit	Benefits Administration	Governance
William J. Briggs II, Chair Elma Duke Rick Rogers	Michael R. Wilkinson, Chair Rick Rogers Nilza R. Serrano	Elizabeth L. Greenwood, Chair Jaime L. Lee Nilza R. Serrano

*Standing Committees remain in existence for the life of the establishing Board.

Section 3.0 DUTIES AND RESPONSIBILITIES

3.6.1 Audit Committee Charter

*Revised Committee Name Adopted: September 10, 2013; Revised Charter Adopted: November 12, 2013;
Revised: September 23, 2014*

I. PURPOSE/ROLE

The Committee will provide assistance to the Board in fulfilling its fiduciary oversight responsibility to the participants, the City of Los Angeles, the investment community, and others relating to LACERS' financial statements, and the legal compliance, ethics programs and other related risks, as established by the Board. In so doing, it is the responsibility of the Committee, with approval of the Board, to maintain free and open communication between the Committee, independent auditors, the internal auditors, and management of LACERS. In discharging its oversight role, the Committee is empowered to investigate any matter brought to its attention with access to all books, records, facilities, and personnel of LACERS.

II. AUTHORITY

The Committee has the authority to direct the Departmental Audit Manager (DAM), external auditors, or consultants to conduct an audit, review, and/or investigation into any matters within the Committee's scope of responsibility. It is empowered to:

- Seek any information it requires from LACERS staff or external parties, all of whom are directed by the Board to cooperate with the Committee's request.
- Appoint, compensate, and oversee the work of all public accounting firms employed by LACERS.
- Resolve any disagreements between LACERS management and the internal or external auditors regarding financial reporting, actuarial audits, or other related matters.
- Retain independent counsel, accountants, or others to advise or assist the Committee in the performance of its responsibilities.
- Approve the consultants, or others retained by the organization to assist in the conduct of an audit, review, and/or special investigation.
- Meet with management, external and internal auditors, or outside counsel as necessary.

III. COMPOSITION OF COMMITTEE

The Committee shall consist of three LACERS Board Members. All members shall be appointed by the LACERS Board President. The LACERS Board President shall appoint a Committee Chair.

The Committee Chair is responsible for setting the agendas for each Committee Meeting. The Chair shall take as an agenda item any matter referred by the LACERS Board. The Chair shall also take as an agenda item any matter submitted by two or more members of the Committee.

IV. FREQUENCY OF MEETINGS

The Committee shall meet no less than four times during the calendar year, or more often as needed. Meetings will be conducted in accordance with open meeting and other applicable laws. Meeting agendas, along with appropriate briefing materials, will be prepared and

Section 3.0 DUTIES AND RESPONSIBILITIES

provided in advance to Committee members and other required attendees. Minutes of the meeting will be prepared and approved by the Committee.

Meeting notices, agendas, and materials will be provided to interested parties in conformance with applicable laws, regulations, customs, and practices. The Committee may invite members of management, external auditors, internal auditors, or other third parties, to attend meetings and provide pertinent information, as the Committee deems appropriate to carry out its responsibilities. The DAM shall support the Committee's activities and ensure appropriate staff and others are available to assist it. The DAM shall review minutes, draft reports, perform research, and render other types of assistance as reasonably requested by the Committee.

V. DUTIES AND RESPONSIBILITIES

The primary responsibility of the Committee is to oversee LACERS' financial reporting process on behalf of the Board and to report the results of its activities to the Board. Management is responsible for preparing LACERS' financial statements, and the independent auditors are responsible for auditing those financial statements. The Committee is responsible for understanding risks affecting LACERS' operations and monitoring how management implements controls to minimize those risks.

The Committee, in carrying out its responsibilities, believes its policies and procedures should remain flexible in order to best react to changing conditions and circumstances. The Committee will take the appropriate actions to set the overall "tone" for quality financial reporting, sound business risk practices, and ethical behavior.

The following are specific responsibilities with respect to LACERS' financial statements, internal controls, internal and external auditors, and compliance with laws and regulations.

A. *Financial Reporting*

- Review significant accounting and reporting issues, including complex or unusual transactions, and recent professional and regulatory pronouncements, and understand their impact on the financial statements.
- Review with management and the external auditors the results of the audit, significant adjustments or revisions to the financial statements, including any difficulties encountered.
- Inquire as to the external auditors' independent judgment about the appropriateness, not just the acceptability, or the accounting principles adopted by the organization and clarity of financial disclosures.
- Review LACERS' annual financial statements and any financial reports related to LACERS submitted to any governmental body; consider whether they are complete, consistent with information known to the Committee, and reflect appropriate accounting principles.
- Review the responsiveness and timeliness of management's actions to address findings and recommendations that resulted from the financial statement audit.

Section 3.0 DUTIES AND RESPONSIBILITIES

- Review with management and the external auditors all matters required to be communicated to the Committee under general accepted auditing standards.
- Review with the City Attorney-Retirement Division the status of legal matters that may have an effect on the financial statements.
- Review, in consultation with the external auditors and the DAM, the integrity of the organization's financial reporting processes.

B. *Risk Control and Management*

- Review the adequacy of policies and practices designed to avoid or mitigate risks related to benefits administration, investments, and general operations.
- Review the effectiveness of the LACERS' system for assessing, monitoring, and controlling significant risks or exposures.
- Review LACERS systems of internal accounting and financial controls whenever a significant change occurs.
- Review controls over LACERS' information systems, including security access and program change controls as well as contingency plans on an annual basis.
- Review annually the internal control reports of LACERS custodian (Service Organization Control Report) and of the City of Los Angeles management letter.
- Review and forward to the Board all internal and external auditors' significant findings and recommendations, including the management response thereto.
- Make recommendations to the Board for retention of actuarial audit services or other specialized audit services, including review of staff reports pertaining to such services.

C. *Internal Control*

- Consider the effectiveness of the LACERS' internal control system, including information technology security and control.
- Understand the scope of internal and external auditors' review of LACERS' internal control over financial reporting, and obtain reports on significant findings and recommendations, together with management's response.

D. *Internal Audit*

- Approve the LACERS' internal audit charter, and any revisions to the charter as needed.
- Advise on the appointment, replacement, or dismissal of the DAM in consultation with the General Manager as appointing authority.
- Review and recommend to the Board, the approval of a risk-based internal annual audit plan and all major changes to the plan. In consultation with the General Manager, review the DAM's performance relative to such plan.

Section 3.0 DUTIES AND RESPONSIBILITIES

- Ensure that internal auditors have full, free, and unrestricted access to all functions, documents, information, systems, contractors, consultants, and LACERS' personnel.
- Review all internal audit reports, and bring to the attention of the Board any audit issues the Committee determines significant and appropriate for consideration by the Board.
- Obtain and review the quality assurance report for the Internal Audit Section at least once every five years. Review for any concerns noted.
- Delegate to the DAM the oversight and management of the contracts of all public accounting firms hired by LACERS.
- Designate the DAM as the primary point of contact for handling all matters related to audits, examinations, investigations, or inquiries of the City Controller auditors, state and other federal agencies. The DAM will keep the Committee and/or the General Manager informed as appropriate.

E. *Engagement of External Auditors*

- Obtain a clear understanding with management that the independent auditors are ultimately accountable to the Board and the Committee as representatives of LACERS participants. As appropriate, the Committee will recommend to the Board the appointment, retention, or discharge of the external auditors with input from the DAM, the General Manager, and other parties as appropriate.
- Approve all audit and non-audit services to be performed by the external auditors.
- Review the independent auditors' proposed overall scope and approach, including coordination of efforts with internal audit.
- Discuss with management and the independent auditors the adequacy and effectiveness of the accounting and financial controls, including LACERS system to monitor and manage business risk and legal and ethical compliance programs.
- Review and confirm the independence of the external auditors by obtaining a list of all payments to the external auditors (itemizing payments for audit, other attestation projects, and non-audit services provided) and statements from the auditors on relationships between the auditors and any LACERS staff, and discussing these relationships with the auditors.
- Prove guidelines and mechanisms so that no Committee member or LACERS' staff shall improperly influence the external auditors.
- Review with management and the independent auditor the financial statements of LACERS Comprehensive Annual Financial Report.

F. *Compliance*

- Review the effectiveness of the LACERS' system for monitoring compliance with laws, regulations, contracts, policies, and the results of management's investigation and follow-up (including disciplinary action) of any instances of noncompliance.

Section 3.0 DUTIES AND RESPONSIBILITIES

- Review the findings of any examinations by regulatory agencies, any auditor observations related to compliance, and the responsiveness and timeliness of management's actions to address the findings/observations.
- Review the process for communicating and monitoring compliance with the code of ethics, code of conduct, and fraud policies.
- Obtain regular updates from management and the City Attorney's Retirement Division regarding compliance matters.

G. Special Investigations and Whistleblower Mechanism

- Institute and oversee special investigations as needed.
- Assess and, if appropriate, oversee the creation and maintenance of an appropriate whistleblower mechanism for reporting any fraud, noncompliance, and/or inappropriate activities.
- As appropriate, recommend to the Board the retention of accountants or other specialists to advise the Committee and the Board or assist in the conduct of an investigation.

H. Other Responsibilities

- Regularly report to the Board about Committee activities, issues, and related recommendations.
- Provide an open avenue of communication between internal auditors, the external auditors, and the Board.
- Review any other reports that LACERS issues that relate to Committee responsibilities.

VI. CHARTER REVIEW

The Committee and the Board will review this Charter at least every three years to ensure it remains appropriate. The Committee will recommend any changes to the Board for review and approval. The Board may adjust the Charter at any time.

Section 3.0 DUTIES AND RESPONSIBILITIES

3.6.2 Internal Audit Charter

Adopted by the Board: November 12, 2013

I. PURPOSE

The purpose of this Charter is to formally define LACERS' internal audit function's purpose, authority, and responsibility. The internal audit charter establishes the internal audit function's position within LACERS including the nature of the Departmental Audit Manager's (DAM) functional reporting relationship with the Board; authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities. This Charter shall be reviewed annually and updated as necessary.

II. MISSION

The Mission of the Internal Audit Section is to provide independent, objective assurance, and consulting services designed to add value and improve LACERS' operations. It is to assist LACERS in accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control, and governance processes by:

- Providing a wide range of quality, independent internal auditing services for the Executive Management and the Board, and consulting services for management;
- Performing independent assessments of the risk management systems, internal controls, and operating efficiency, guided by professional standards and using innovative approaches;
- Supporting LACERS' efforts to achieve its objectives through independent auditing and consulting services; and
- Maintaining a dynamic, team-oriented environment that encourages personal and professional growth, and challenges and rewards internal audit staff for reaching full potential and excelling.

III. OBJECTIVES AND SCOPE

Assurance Objectives: The objectives of the Internal Audit Section's assurance services are to provide independent assurance to the Board, the Audit Committee, and LACERS' Executive Management that LACERS' assets are safeguarded, operating efficiency is enhanced, and compliance is maintained within prescribed laws, Board Rules, and management policies. Assurance objectives include independent assessment of LACERS' governance, risk management, and control processes.

Consulting Objectives: The objectives of the Internal Audit Section's consulting services, the nature and scope of which are agreed with management, are to provide management with assessments and advice for improving LACERS' governance, risk management and control without the Internal Audit Section assuming management responsibility. For example, consulting services may provide assessments and advice on the front-end projects so that risks can be identified, managed, and internal controls can be designed.

Section 3.0 DUTIES AND RESPONSIBILITIES

Scope: The scope of work of the Internal Audit Section is to determine whether LACERS' network of risk management, internal control, and governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure:

- Programs are operating within the highest fiduciary standards and are directed toward the requirements defined in Federal and State law, the Charter of the City of Los Angeles, the Administrative Code of the City of Los Angeles, Board Rules, and LACERS' policies and procedures;
- Processes and practices are consistent with industry best practices, using the best public and private examples as benchmarks;
- Significant legislative and regulatory issues impacting LACERS are recognized and addressed appropriately;
- Operations and processes are consistent with established missions, objectives, and goals;
- Operations and processes are being carried out as planned;
- Existing policies are appropriate and updated;
- Employee data is appropriately reported to LACERS;
- Significant financial, managerial, and operating information is accurate, reliable, and timely;
- Resources are acquired economically, used efficiently, and adequately protected;
- Quality service and continuous improvement are fostered in LACERS control processes;
- Contractors are meeting the objectives of the contracts, while in conformance with applicable laws, regulations, policies, procedures, and best practices; and
- Specific programs, operations, and processes are review at the request of management or the Board.

Opportunities for improving member service, management of risks, internal control, governance, and the organization's effectiveness and image may be identified during audits. This information will be communicated to management and the Audit Committee as appropriate.

IV. AUTHORITY

This Charter establishes LACERS' internal audit function. The Internal Audit Section reports functionally to the Board through its Audit Committee, and administratively to the General Manager. The Audit Committee advises on the appointment, replacement, or dismissal of the DAM in consultation with the General Manager as appointing authority.

The DAM is responsible for managing the Internal Audit Section and preparing an audit plan. The Audit Committee reviews and recommends the approval of the annual audit plan to the Board. The DAM shall periodically inform the Audit Committee regarding the status of the audit plan and changes needed. The DAM is authorized to allocate internal audit resources, set project frequencies, select audit subjects, determine scopes of work, and apply the techniques necessary to accomplish the audit objectives. The DAM is authorized to hire (within budgetary constraints), retain, train, and develop internal audit staff to achieve the internal audit objectives as stated in this Charter.

Section 3.0 DUTIES AND RESPONSIBILITIES

The DAM and other Internal Audit staff are not authorized to perform operational duties for LACERS and/or its contractors. LACERS Internal Audit staff is not authorized to initiate or approve accounting transactions external to the Internal Audit Section. Internal Audit Section staff is not authorized to direct the activities of any LACERS employee not employed in the Internal Audit Section, except to the extent such employees have been assigned appropriately to auditing teams or to otherwise assist the internal auditors.

V. ACCESS

The DAM and designated audit staff, as appropriate, are granted authority for full, free, and unrestricted access to all of LACERS' functions, records, files and information systems, personnel, contractors, physical properties, and any other item relevant to the function, process or unit under review. All LACERS' contracts with vendors shall contain language enabling the internal auditors, other auditors, and specialists to have access to relevant records and information. All LACERS employees are required to assist the staff of the Internal Audit Section in fulfilling its audit functions and fiduciary duties.

The DAM shall have free and unrestricted access to the Chairperson of the Audit Committee, and the President, Vice President, and Members of the Board of Administration. The DAM shall also have free and unrestricted access to the General Manager, other executive management, and all personnel, contractors and vendors, members, retirees, and beneficiaries of LACERS.

Staff of the Internal Audit Section shall handle documents and information given to them in the same prudent and confidential manner as by those employees normally accountable for them. The DAM shall ensure that the Internal Audit staff is instructed in the handling and safeguarding of confidential information.

VI. INDEPENDENCE

Organizational Placement: To provide for the independence for the Internal Audit Section, its personnel report to the DAM, who in turn reports functionally to the Board and administratively to the General Manager. By reporting functionally to the Board, the DAM is able to maintain independence and objectivity in planning and executing internal audit activities. The Board supports internal audit's role by maintaining internal audit's independence, and by recognizing and promoting internal audit as a value-added activity.

Professional Standards Independence: The Audit Committee recognizes that professional independence requires that the auditors have knowledge of operations and appropriate expertise in the subject matter that is being audited. Therefore, the DAM will include as part of the reports to the Audit Committee, a regular report regarding internal audit personnel, including their qualifications, certifications, and development. The DAM shall periodically discuss standards of professional audit independence with the Audit Committee. The standards of independence used as benchmarks shall be those indicated in the Professional Standards section of this document.

Potential Impairment of Independence: The DAM should discuss any potential issues regarding impairment of independence and/or conflicts of interest and their mitigation(s)

Section 3.0 DUTIES AND RESPONSIBILITIES

with the Audit Committee, as necessary. If objectivity is impaired in fact or in appearance, the details of the impairment should be disclosed to the General Manager and the Audit Committee. The nature of the disclosure will depend on the impairment. Each Internal Audit Section staff member (including the DAM) shall be required to annually certify to the Audit Committee that he/she has no actual or perceived conflicts of interest that would impair their objectivity or independence. The form for such certification is attached to this charter, and may be revised by the DAM with approval of the Audit Committee at any time.

VII. RESPONSIBILITIES AND ACCOUNTABILITY

The DAM is responsible for the following in order to meet the mission, objectives, and scope of this Charter and the Internal Audit Section:

1. Select, train, develop, and retain a competent Internal Audit staff who collectively have the abilities, knowledge, skills, experience, expertise, and professional certifications necessary to accomplish the mission, objectives, and scope of this Charter, subject to the General Manager's approval and budgetary considerations. Provide opportunity and support for staff obtaining professional training, professional examinations, and professional certifications.
2. Establish policies for conducting and directing internal audit activities, and technical and administrative functions according to LACERS' policies and direction provided by the Audit Committee and the Board, and professional standards described in Section VIII.
3. Perform an annual operational risk assessment. Develop and implement a flexible annual audit plan (audit plan) using an appropriate risk-based methodology, including any risks or concerns identified by management, and submit the audit plan to the Audit Committee for review and approval. The audit plan will include some unassigned hours in order to provide flexibility for changing conditions. Performance of the audit plan will be periodically reviewed and reported to the Audit Committee. The audit plan may be updated, if necessary.
4. Perform independent analyses of significant operations to evaluate the adequacy and effectiveness of existing systems of internal control and the quality of performance (economy, efficiency, and effectiveness) in carrying out LACERS' business objectives.
5. Coordinate with audit clients to finalize recommendations for improvement and identify implementation timelines. Internal Audit staff shall consider costs and benefits while formulating and discussing its recommendations.
6. Establish and maintain a follow-up system to monitor the disposition of results communicated to management and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.

Section 3.0 DUTIES AND RESPONSIBILITIES

7. Issue periodic reports to management and the Audit Committee and management summarizing results of assurance and consulting services. Any management letters issued should also be reported to the Audit Committee.
8. At least every three years, assess whether the purpose, authority, and responsibility, as defined in this Charter, continue to be adequate to enable the Internal Audit Section to accomplish its mission, objectives, and scope. The result of this assessment should be communicated to the Audit Committee.
9. Implement a quality assurance and improvement program. Obtain an external assessment no less frequently than every five years as required by the International Standards for the Professional Practice of Internal Auditing. Conduct periodic internal quality assurance and ongoing quality procedures. Results of the quality assurance and improvement program should be reported to the Audit Committee.
10. Lead the process for selecting the external audit firms. Coordinate/manage the contract(s) with any external audit firms and evaluate their performance. Report to the Audit Committee on all activities and associated cost of work performed by the external audit firms.
11. Consider the scope of work of the external auditors and regulators, as appropriate, for the purpose of providing optimal audit coverage to LACERS at a reasonable overall cost
12. Act as the primary point of contact for handling all matters related to audits, examinations, investigations, or inquiries by other City entities, State or Federal agencies. Keep the Audit Committee and/or the General Manager informed as appropriate.
13. Evaluate annually the quality of the annual financial report and suggest improvements in the presentation and disclosure.
14. Consult with LACERS management, as appropriate, regarding potential policy and procedural changes.
15. As appropriate, provide consulting services to management that add value and improve the organization's governance, risk management, and control processes without assuming management responsibility.
16. Participate in professional audit organizations by attending meetings, joining the governing boards, presenting speeches and papers, and networking with other professionals. Network with internal audit staff of other public pension systems to learn and exchange best practices information. Participate in other professional organizations related to LACERS' mission. These may include, but are not limited to, organizations involved with benefits, investments, and accounting.
17. Periodically review LACERS' fraud and ethics policies.

Section 3.0 DUTIES AND RESPONSIBILITIES

18. Assist in the investigation of significant suspected fraudulent activities within LACERS and notify the General Manager, the Audit Committee, and other executives, as appropriate, of the results.
19. Inform the Audit Committee of significant risk exposures and control issues including fraud risks, governance issues, and other significant matters.
20. Inform the Audit Committee of emerging trends and successful practices in internal auditing.
21. Attend all Audit Committee meetings and ensure the attendance of additional audit staff and attendance by auditees as appropriate.

VIII. PROFESSIONAL STANDARDS

The Internal Audit Section shall adhere to the International Standards for the Professional Practice of Internal Auditing (ISPPA) and to the Code of Ethics, both as promulgated by the Institute of Internal Auditors (IIA), current version of which is attached to this Internal Audit Charter. Internal Audit Section shall also obtain guidance from professional standards of other relevant professional organizations including, but not limited to, the following:

- Information Systems Auditing Standards, Guidelines, and Procedures, and the Code of Professional Ethics of the Information Systems Audit and Control Association (ISACA);
- Public Company Accounting Oversight Board (PCAOB) auditing standards, as applicable;
- American Institute of Certified Public Accountants (AICPA) Professional Standards and Code of Ethics, as applicable;
- Generally Accepted Government Auditing Standards (GAGAS) from the United States General Accounting Office, as applicable; and
- Other professional standards, such as those of the Institute of Management Accountants (IMA) and the Association of Certified Fraud Examiners (ACFE), as applicable.

IX. RELATIONSHIP TO THE RISK MANAGEMENT AND INTERNAL CONTROLS PROGRAMS

The Board has overall responsibility for ensuring that risks are managed. In practice, the Board delegates to management the operation and implementation of the risk management system. The Internal Audit Section's role is to provide an independent and objective assurance on the effectiveness of the risk management system.

Management is responsible for implementing the system of internal control. The Internal Audit Section is responsible to provide an independent and objective assurance that the internal control system is operating effectively.

Section 3.0 DUTIES AND RESPONSIBILITIES

X. PROCUREMENT

The DAM occasionally may need to obtain expertise of persons outside of the Internal Audit Section. This expertise may be obtained within LACERS through appropriate arrangements with management. When obtaining this expertise, care must be taken to avoid conflicts of interest within LACERS that could damage the quality of the audit work performed and/or conclusions obtained.

Expertise may also be obtained from outside LACERS through contracts. In such cases, the DAM needs to obtain sufficient information regarding the scope of work of the external service provider to ensure the scope of work is adequate for the purposes of the internal audit activity. The DAM must document the scope of work, professional standards to be used, deliverables, deadlines, and other matters in an engagement letter or contract. The Audit Committee should be informed of the use of an external service provider.

XI. RELATIONSHIP TO PREVENTION, DETECTION, AND CORRECTION ACTIVITIES

Because LACERS recognizes that it is more expensive to detect and correct problems after the fact than it is to prevent them in the initial stages of a project, the Internal Audit Section will strive to participate in the initial stages of major projects so that risks can be managed appropriately and internal controls instituted in the design phase in order to prevent problems and minimize costs.

Section 3.0 DUTIES AND RESPONSIBILITIES

Auditor Annual Independence Certification

DIRECTIONS: Each auditor must complete this Evaluation form in its entirety. The purpose of this form is for individual auditor and LACERS Internal Audit management to consider all circumstances relative to internal audit projects, in order to identify and address any potential threats to independence by applying appropriate safeguards or controls.

In all matters relating to audit work, LACERS Internal Audit (IAS), and individual auditors must be independent, in compliance with Sections 1100, 1120 and 1130 of the International Standards for the Professional Practice of Internal Auditing (ISPPA). Auditors should avoid situations that could lead reasonable and informed third parties to conclude that the auditors are not independent and thus are not capable of exercising objective and impartial judgment on all issues associated with conducting the audit and reporting on audit work. Auditors should evaluate these considerations during the course of their audits and immediately report any potential or actual threats.

Threat Consideration: To be completed by all audit staff **annually**:

Threat Categories: Complete the following, considering the threat as a broad category that could potentially influence your independence.	Yes	No
Self-interest threat – Do you have a direct or indirect financial or other interest that will inappropriately influence your judgment or behavior?		
Self-review threat – Will any of the anticipated audit work put you in a position to audit the work, services, or judgments you previously performed during a non-auditing (consulting) service?		
Familiarity threat – Do you have any relationship with LACERS management or personnel, or personnel of LACERS contractors/consultants which may impact your ability to be objective as LACERS Internal Audit staff?		
Undue influence threat – Are you experiencing pressure from management, LACERS Staff or external parties, which will impact your ability or make independent and objective judgments on internal audit projects?		
Management participation threat – Have you taken on a management or any other role which has or will result in performing management functions for any unit within LACERS? If so, please list the unit(s) _____		
Relationship – Do you have any official, professional, financial, or personal relationship with anyone that might limit the extent of inquiry or disclosure, or weaken audit findings in any way?		
Accounting – During the past year, have you approved invoices, payrolls, claims, or other proposed payments for any unit within LACERS? During the past year, did you maintain any part of the official accounting records for LACERS?		
Conflict of Interest or Secondary Employment – Are you or have you been in a conflict of interest position or engaged in any secondary employment activities which may impact your ability, in any way, to perform internal audit projects?		
Other Threat: Is there any other relevant potential threat which may impact your independence or perception regarding any audit? (If so, disclose here. If you are not sure, discuss it with the Departmental Audit Manager.)		

Section 3.0 DUTIES AND RESPONSIBILITIES

Auditor Annual Independence Certification

Safeguard Consideration: If “yes” is marked in any boxes above, please complete the following section:

Potential Threat	Recommended Safeguard to mitigate Threat (and is risk reduced to an acceptable level?)	Departmental Audit Manager only: Does the safeguard eliminate or reduce the threat to an acceptable level?
<i>Ex. Accounting – I previously worked in the Fiscal Section, but I only handled the accounts payable.</i>	<i>I don't believe this is an unacceptable risk, as I don't manage or work in investment accounting or other areas within Fiscal Section, and I left about six months ago.</i>	<i>No. To avoid the perception of impairment, auditor is not approved to participate in audit projects relating to the Fiscal Section.</i>

Acknowledgement: (initial after each statement)

Comply with ISPPIA: I understand that I have a duty and obligation to ensure audit work is performed in full accordance with ISPPIA. In conducting my work, I have the obligation to immediately report any conditions or situations which may compromise compliance with any ISPPIA to the Departmental Audit Manager (DAM). _____

Remain Independent: I have been advised that during the course of any audit, if any personal, external, or organizational impairments or potential threats arise that may affect my ability to do the work and report findings impartially, I will notify the DAM promptly. Further, I will assess ongoing threats, identify potential safeguards, and engage the DAM in remedying any situations which may give rise to even the perception of bias or conditions which may impact the integrity of any audit work. _____

Policies and Procedures: I have been informed and am familiar with the policies and procedures of IAS, regarding independence and objectivity. I am also familiar with the requirements of the 2012 ISPPIA. _____

Obligation to Report: I understand that I have an obligation to report any instance or information regarding an actual or potential impairment by any auditor in IAS to the DAM. _____

Direct Access to Audit Committee Chair: If for any reason I am uncomfortable discussing any of the foregoing matters with the DAM, I understand that I am expected to discuss the matter with the Audit Committee Chairperson. _____

I certify that all the included information is complete and accurate and reflects my best ability to provide clear, detailed information regarding any activity or condition which may impair or to be perceived to impair independence and/or objectivity.

Signature: _____ Date: _____

Name (print): _____

Departmental Audit Manager Review and Approval:

Overall Assessment: _____

Restrictions: _____

Signature: _____ Date: _____

Section 3.0 DUTIES AND RESPONSIBILITIES

3.7 Benefits Administration Committee Charter

Adopted: March 26, 2013; Revised September 23, 2014

I. PURPOSE/ROLE

The purpose of the Benefits Committee (Committee) is to provide assistance to the Board in fulfilling its oversight of the pension and retiree health care programs and related services.

II. AUTHORITY

The Committee is authorized to:

- Seek any information it requires from LACERS staff, consultants, or external parties as long as requests for staff time are not extraordinary and the expense for consultants or external parties, if any, has been approved by the Board in advance.

III. COMPOSITION OF COMMITTEE

The Committee shall consist of three LACERS Board Members. All members shall be appointed by the LACERS Board President. The LACERS Board President shall appoint a Committee Chair.

The Committee Chair is responsible for setting the agendas for each Committee Meeting. The Chair shall take as an agenda item any matter referred by the LACERS Board. The Chair shall also take as an agenda item any matter submitted by two or more members of the Committee.

IV. FREQUENCY OF MEETINGS

The Committee shall meet no less than four times during the calendar year, or more often as needed. Through the General Manager, the managers of the Retirement Services Division and the Health Benefits Administration and Communications Division shall support the Committee's activities and ensure appropriate staff time and others such as actuaries and consultants are available to assist it. The managers shall schedule meetings, prepare meeting agendas and other materials after conferring with the Committee Chair, review minutes and draft reports, perform research, and render other types of assistance as reasonably requested by the Committee.

V. DUTIES AND RESPONSIBILITIES

The Committee's responsibilities are to:

- Recommend to the Board draft rules, policies and procedures for member benefits and departmental administration in accordance with relevant law and the LACERS mission statement
- Approve and recommend processes to monitor implementation of rules and policies within the Board's purview

Section 3.0 DUTIES AND RESPONSIBILITIES

- Propose adjustments to operations which the Committee deems appropriate for the sound administration of member benefits and the Department as a whole
- Evaluate insurance providers, consultants and other benefits contractors and make recommendations to the Board regarding the establishment or modification of services provided to the Board and members
- Review and recommend to the Board medical and dental subsidies and Medical Premium Reimbursement Program reimbursement limits
- Review information on services and progress of programs
- Monitor progress of benefits-related goals in the strategic plan

VI. CHARTER REVIEW

The Committee and the Board will review this Charter at least every three years to ensure it remains appropriate. The Committee will recommend any changes to the Board for review and approval. The Board may adjust the Charter at any time.

Benefits Administration Committee Work Plan

Approved by the Board: March 26, 2013

August	November	April	June
Consider and approve recommendation to the Board regarding health plan, health plan premium rate, health plan subsidies, and medical plan premium reimbursement (A)	Evaluate whether additional benefits service providers are required (A) Monitor progress of benefits-related goals in the strategic plan (I) Review of health plan utilization data (I)	Review information on services and programs (I) Review of health plan utilization data (I) Selection of health plan RFP finalists (A)	Initial review of health plan renewals (I) Selection of health plans from RFP (A)

(A) = Action

(I) = Information

Section 3.0 DUTIES AND RESPONSIBILITIES

3.8 Governance Committee Charter

Adopted by the Board: January 14, 2014; Revised: September 23, 2014

I. PURPOSE/ROLE

The purpose of this Committee is to help ensure good governance internally at LACERS and in the corporations in which LACERS is invested to the extent that the governance impacts shareholder value.

Governance refers to the system by which an organization is directed and controlled. The governance structure specifies the distribution of rights and responsibilities among different participants in the organization; specifies the rules and procedures for decision-making; and monitors actions, policies, and decisions of the organization. Good governance practices align interests among key stakeholders, leading to a higher probability that goals and objectives will be attained, maximizing stakeholder value if applicable. A good governance structure helps ensure effective organizational performance and reduce organizational risks.

II. AUTHORITY

The Committee has the authority to:

- Monitor developments in the corporate governance arena that may affect the value of the equity holdings in LACERS' portfolio and to review and make recommendations to the Board regarding corporate governance issues, proxy voting practices related to corporate securities held in the LACERS portfolio, and securities litigation issues/activities;
- Seek any information it requires from LACERS staff;
- Seek information from outside service providers as long as the expense, if any, has been approved by the Board in advance.

III. COMPOSITION OF COMMITTEE

The Committee shall consist of three LACERS Board Members. All members shall be appointed by the LACERS Board President. The LACERS Board President shall appoint a Committee Chair.

The Committee Chair is responsible for setting the agendas for each Committee Meeting. The Chair shall take as an agenda item any matter referred by the LACERS Board. The Chair shall also take as an agenda item any matter submitted by two or more members of the Committee.

IV. FREQUENCY OF MEETINGS

The Committee shall meet no less than twice during the calendar year, or more often as needed.

The General Manager or designee will confer with the Committee Chair on the Committee agenda items. The Commission Executive Assistant shall schedule meetings and prepare meeting agendas and other materials. The General Manager will assign Investment staff members to draft reports, perform research, and render other types of assistance as

Section 3.0 DUTIES AND RESPONSIBILITIES

reasonably requested by the Committee related to Corporate Governance items; and an Administrative Services staff member to draft reports, perform research, and render other types of assistance as reasonably requested by the Committee related to Board Governance and Department Administrative items.

V. DUTIES AND RESPONSIBILITIES

The Board assigns specific duties to the Committee as follows:

Board Governance Policies & Monitoring

- Establish a schedule for review of the LACERS' Board Governance Policies in light of best practices among public retirement systems;
- Consider and recommend to the Board, if appropriate, new governance policies or changes to the existing governance policies;
- Review management audit findings on Board Governance issues and recommend actions if appropriate;
- Monitor and report compliance with Board Governance Policies;
- Make recommendations for an annual schedule of Board Governance education;
- Make recommendations for a periodic Board Self-Evaluation.

Consultant Monitoring

- Review and make necessary recommendations to the Board on RFPs, contract awards, and on-going consultant monitoring in areas relating to:
 - Board support services (Board governance consultant and fiduciary liability insurance);
 - Department administrative services (actuarial, information technology service providers, lease contracts, and other administrative services except those relating to audit).

Corporate Governance Policies & Monitoring

- Examine the effectiveness of LACERS current corporate governance policies and activities;
- Review and recommend modifications of existing Corporate Governance Policies; and
- Report to the Board on activities of other state and national pension fund associations and of member stakeholder associations regarding corporate governance issues.

Proxy Voting Policies & Monitoring

- Periodically, recommend proxy voting policies and guidelines to the Board;
- Through staff, monitor proxy voting activity including, but not limited to, the status of current proxy votes and votes which fell outside existing guidelines and previously established policy; and
- Interact with staff and legal counsel on shareholder responsibility policy matters.

Securities Litigation Policies & Monitoring

- Recommend a securities litigation policy to the Board if found desirable by the Committee;
- Review and monitor securities litigation issues/activities and make recommendations to the Board, as appropriate.

Section 3.0 DUTIES AND RESPONSIBILITIES

Committee Annual Work Plan

- Develop an annual work plan for the Committee;
- Make recommendations to the Board regarding new or continued strategic initiatives related to Governance and make the necessary budgetary requests to support the initiatives;
- Request reports to monitor expenditures throughout the year against budgeted amounts.

Miscellaneous

- Address other issues as directed by the Board.

VI. CHARTER REVIEW

The Committee and the Board will review the Charter at least every three years to ensure it remains appropriate. The Committee will recommend any changes to the Board for review and approval. The Board may adjust the Charter at any time.