

## 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

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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.

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- 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.

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- 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.

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- 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.