

Introduction

1. The Board of Retirement has established an Audit Committee to assist it in overseeing the audit function within OCERS. The Audit Committee is an advisory committee to the Board of Retirement, and its recommendations are subject to final approval by the Board. Notwithstanding the preceding sentence, with respect to those matters expressly assigned to it in this Audit Committee Charter, the Audit Committee has final authority.

Purpose

2. The Audit Committee provides oversight of OCERS internal and external audit activities. The Audit Committee assists the Board in ensuring the independence of the internal audit functions and ensuring that appropriate action is taken on audit recommendations. The Audit Committee helps promote and enhance effective internal controls for OCERS operations, and oversees communication between external auditors, internal auditors, and management. The Audit Committee resolve disagreements between the internal auditor, external auditor, and/or management regarding financial reporting, internal control risks, and other matters.

Membership

3. The Board Chair will appoint members of the Audit Committee as provided in the OCERS By-Laws and will designate one member to serve as the Committee Chair and one member of the committee to serve as Vice Committee Chair.

The Audit Committee will consist of four members of the Board of Retirement. As provided in the OCERS By-Laws, two members of the Audit Committee constitute a quorum.

Ideally, members should have expertise in accounting, auditing, financial reporting, and internal control. Although these desired traits are not mandatory, members should be sufficiently knowledgeable about these topics to make informed decisions with the assistance of a financial expert.

Communications

4. The Audit Committee expects that all communication with OCERS management as well as with any external assurance providers will be direct, open, and complete.

Meetings

5. The Audit Committee will meet at least quarterly, with authority to convene additional meetings as circumstances require. All Audit Committee members are expected to attend each meeting. The Director of Internal Audit and Internal Audit staff will attend all Audit Committee meetings. Meeting notices will be provided to interested parties in conformance with applicable laws, regulations, customs, and practices. All meetings are subject to the Brown Act. Meeting agendas will be prepared and provided in advance to members, along with appropriate briefing materials. Minutes of meetings will be prepared and will contain a record of persons present, decisions taken, and a high-level summary of the discussion.

Responsibilities and Duties

6. The Audit Committee's key areas of responsibility are:
 - a. *Compliance*: The Audit Committee will provide the policy and framework for the OCERS Compliance Program, as set forth in the Compliance Program and Chief Compliance Officer Charters, monitor the effectiveness of the Compliance Program, and communicate with the Board on audit and compliance-related policies.
 1. In monitoring the Compliance Program, the Audit Committee will review reports provided by the Chief Compliance Officer on the operation and effectiveness of the Compliance Program on at least a biannual basis.
 - b. *Governance*: Review the charters and policies assigned to the Audit Committee at least once every three years in accordance with the schedule set forth in the OCERS Charters and Policies Review Schedule and recommend the same for approval by the Board of Retirement;
 - c. *Financial Reporting Process*:
 1. Monitor management's processes for the reporting of all financial information, including management's review with the external auditor regarding their scope, plan, duties, responsibilities, and the timing and engagement fee of the annual financial audit;
 2. Review the audited financial statements with the external auditor and senior management;
 3. Review management letters with OCERS's management;
 4. Review the external auditor's assessments of the appropriate application of accounting principles by OCERS management;
 5. Review all matters required to be disclosed by accounting standards, including significant changes in those standards; and
 6. Meet with senior management, at least annually, to discuss the effectiveness of the internal financial and operational control policies.
 - d. *Oversight of the External Auditors*:
 1. Conduct the solicitation for the financial auditor, including without limitation, approving the Request for Proposals or other solicitation vehicle, reviewing candidate qualifications and conducting interviews, and recommend one or more finalists to the Board for appointment;
 2. Conduct the solicitation for the actuarial auditor, including without limitation, approving the Request for Proposals or other solicitation vehicle, reviewing candidate qualifications and conducting interviews, and recommending one or more finalists to the Board for appointment;
 3. Conduct the solicitation for, select, and appoint all external auditors (other than the financial auditor and the actuarial auditor) engaged for the purpose of issuing an

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- independent audit report or performing other independent audits, reviews, or attest services;
4. Oversee the work of all external auditors and conduct regular monitoring and performance reviews of the actuarial auditor and the financial auditor at least biennially in accordance with the Board's Procurement and Contracting Policy; and
 5. Approve other audits, agreed upon methodologies, and non-audit work to be conducted by external auditors.
- e. *Oversight of Internal Audit:*
1. Approve all decisions regarding the performance evaluation, appointment, or removal of the Director of Internal Audit including the roles and responsibilities, necessary qualifications, experience, and competences for the position;
 2. Approve the compensation and salary adjustments for the Director of Internal Audit;
 3. Acknowledge actual or potential impairments to the internal audit function's independence when approving roles or responsibilities for the Director of Internal Audit that are beyond the scope of internal auditing;
 - a. Engage with the CEO and the Director of Internal Audit to establish appropriate safeguards if Director of Internal Audit roles and responsibilities impair or appear to impair the internal audit function's independence;
 4. Establish a direct reporting relationship with the Director of Internal Audit and the internal audit function to enable the internal audit function to fulfill its mandate without interference from management;
 5. Provide the Director of Internal Audit with opportunities to discuss significant and sensitive matters with the Audit Committee, including meetings without senior management present;
 6. Review and approve the risk-based Internal Audit plan along with significant changes to the plan;
 7. Make appropriate inquiries of the Director of Internal Audit to determine whether there is audit scope, budgetary, or resource limitations that impede the ability of the internal audit function to carry out its responsibilities;
 8. Receive and review internal and external audit reports and management responses and make appropriate recommendations to the Board;
 9. Receive and review the results of the internal audit function's quality assurance and improvement program including internal assessments and external assessments. The external assessments are to be conducted at least once every five years by a qualified, independent assessor; and
 10. Communicate the Board's perspective on the organization's strategies, objectives, and risks to assist the Director of Internal Audit with determining internal audit priorities.

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- f. *Internal Control and Risk Management:* The Audit Committee will review management responsibilities for:
1. The adequacy of OCERS internal controls, including information systems;
 2. Material risks facing OCERS and management's actions to minimize risk;
 3. Risks from external organizations such as service providers, vendors, investment managers, consultants, and plan sponsors; and
 4. Special investigations and whistleblower mechanisms. The Audit Committee can retain independent counsel, accountants, or other specialists to assist in the conduct of an investigation.

Reporting on Audit Committee Performance

7. The Audit Committee will:
- a. Report to the Board of Retirement its activities and the results of its reviews; and
 - b. Review significant changes in accounting standards and OCERS policies or practices that may impact the organization and report the results of that review to the Board of Retirement.

Charter Review

8. The Audit Committee will review this Charter at least once every three (3) years and recommend any amendments to the Board for approval as necessary to ensure that the Charter remains relevant and appropriate.

Charter History

9. The Audit Committee Charter was adopted by the Board of Retirement on November 18, 2002, and amended on January 17, 2012; July 20, 2015; May 15, 2017; January 13, 2020; April 17, 2023; and April 15, 2024.

Secretary's Certificate

I, the undersigned, the duly appointed Secretary of the Orange County Employees Retirement System, hereby certify the adoption of this policy.



4/15/2024

Steve Delaney, Secretary of the Board

Date