

## **Introduction**

The Audit Committee of OCERS oversees the Internal Audit Division under the following provisions:

## **Mission of the Internal Audit Division**

1. The mission of the Internal Audit Division is to provide reliable, independent and objective evaluations and consulting services to the Audit Committee and OCERS' management relating to business and financial operations. Internal Audit assists the Board of Retirement and management to achieve their objectives by testing and reporting on the effectiveness of internal control systems, risk management, and governance processes.

## **Independence of the Director of Internal Audit**

2. The internal audit activity must be independent, and internal auditors must be objective in performing their work. Independence is the freedom from conditions that threaten the ability of Internal Audit to carry out its responsibilities in an unbiased manner.
3. Internal Audit shall not participate in any management activity or management relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organization, in accordance with the Institute of Internal Auditors' Code of Ethics.

Independence is the fundamental principle that guides the reporting relationship of the internal auditor. Internal auditor independence is strongly emphasized by authoritative bodies such as the Institute of Internal Auditors, the American Institute of Certified Public Accountants, and the Government Accountability Office. The Director of Internal Audit will follow recognized professional standards established by the Institute of Internal Auditors and be free of operational and management responsibilities that would conflict with the standards. Any potential impairment to independence will be communicated to the Audit Committee.

## **Organizational Reporting**

4. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the Director of Internal Audit will have direct access to senior management and the Board of Retirement. This can be achieved by a dual-reporting relationship. The Director of Internal Audit will report functionally to the Audit Committee and administratively to the Chief Executive Officer.

Functionally reporting to the Audit Committee involves the Audit Committee:

1. Reviewing and recommending changes to the Internal Audit Charter to the Board of Retirement;
2. Approving the risk-based Internal Audit plan;
3. Receiving communications from the Director of Internal Audit on the results of audit activities;

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4. Approving all decisions regarding the performance evaluation, appointment, or removal of the Director of Internal Audit;
5. Approving the compensation and salary adjustments of the Director of Internal Audit;
6. Making appropriate inquiries of the Director of Internal Audit to determine whether there is audit scope or budgetary limitations that impede the ability of Internal Audit to carry out its responsibilities.

Administrative reporting is the reporting relationship within the OCERS management structure that facilitates the daily operations of the internal audit activity, which includes:

1. Budgeting and management accounting;
2. Human resource administration, including personnel evaluations, leave request approval, and compensation;
3. Internal communications and information flows;
4. Administration of the Internal Audit Division's policies and procedures.

### Objectives and Scope

5. The objective of Internal Audit is to assist the Board of Retirement and management in the effective discharge of their fiduciary responsibilities. Internal Audit will furnish them with audits, analysis, evaluations, recommendations, and information. Objectives include promoting effective internal controls, helping provide assurance that the organization's assets are safeguarded; compliance is maintained with prescribed laws, Board, and management policies; the reliability and integrity of OCERS' data is maintained; and procedures and operating efficiency are enhanced.

The scope of Internal Audit includes the examination and evaluation of the adequacy of OCERS' system of internal controls, risk management and governance processes. The scope includes:

1. Reviewing the reliability and integrity of financial and business information systems, and the means used to identify, measure, classify and report such information;
2. Reviewing the systems and processes established to ensure compliance with those policies, plans, procedures, laws, and regulations that are fundamental to the operations of OCERS and could have a significant impact on operations, financial reports, and disclosures;
3. Reviewing the means of safeguarding assets and verifying the existence of such assets;
4. Monitoring and evaluating the effectiveness of OCERS' risk management systems, including identifying internal and external risks;
5. Auditing the accuracy of data transmitted to OCERS by external parties.
6. Evaluating the quality of performance of external auditors and the degree of coordination with Internal Audit;
7. For consulting and advisory services, Internal Audit may provide assessments and advice to identify risks and internal controls for projects.

## **Authority and Responsibility**

6. The Internal Audit Division is established by the OCERS Board of Retirement pursuant to applicable laws and regulations, customs of corporate governance, and best practices. This Charter and all future amendments are approved by the Audit Committee and adopted by the Board of Retirement by a majority vote.

The responsibility of OCERS Internal Audit is to serve the Board of Retirement in a manner that is consistent with the International Professional Practices Framework of the Institute of Internal Auditors, as required by California Government Code 1236. In addition, when appropriate, OCERS Internal Audit follows professional standards promulgated by the Government Accountability Office, the American Institute of Certified Public Accountants, and the Information Systems Audit and Control Association.

OCERS Internal Audit is responsible for:

1. Establishing policies and procedures for auditing, and directing and performing its technical and administrative functions;
2. Developing and executing a comprehensive audit program for the evaluation of internal controls established over OCERS' financial and business activities;
3. Preparing an annual audit plan that identifies audit projects addressing areas of highest risk to OCERS operations;
4. Auditing management's stewardship of OCERS' trust funds and resources and their compliance with policies and procedures;
5. Recommending improvements in internal controls to help:
  - a. Safeguard trust funds and resources,
  - b. Ensure data is not compromised,
  - c. Ensure compliance with laws and regulations;
6. Auditing procedures and records for accuracy and completeness to accomplish and report on intended objectives;
7. Producing reports on the results of audits, including findings and recommendations;
8. Following-up on actions taken to correct reported deficiencies;
9. Creating and maintaining a mechanism (i.e., OCERS' Ethics, Compliance, and Fraud Hotline) for reporting financial statement fraud, other fraud, and inappropriate activities;
10. Conducting special investigations and analysis as needed.

## **Internal Audit Access to Personnel and Information**

7. Except where prohibited by law, Internal Audit will have complete and unrestricted access to all OCERS personnel, records, files, information systems, and assets. The Director of Internal Audit will

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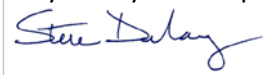
inform the Audit Committee whenever significant barriers or resistance to access to personnel or information occurs.

### Charter History

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.
9. The OCERS Internal Audit Charter was adopted by the Board of Retirement on November 18, 2002 and amended on August 19, 2008, January 17, 2012, July 20, 2015, and April 17, 2017.

### Secretary's Certificate

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



4/17/17

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Steve Delaney, Secretary of the Board

Date