

Introduction

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

Mission and Purpose of the Internal Audit Department

1. The mission of the Internal Audit Department is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight.
2. The purpose of the Internal Audit Department is to provide independent, objective assurance and advisory services designed to add value and improve OCERS's operations. Assurance services are an objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the organization. Advisory services, the nature and scope of which are agreed with the relevant stakeholders, are services that provide advice to OCERS' stakeholders without providing assurance or taking on management responsibilities. 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 and Objectivity

3. The Director of Internal Audit will ensure that the internal audit function is independent, and internal auditors are 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, including matters of audit selection, scope, procedures, frequency, timing, and report content.
4. 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. If the Director of Internal Audit and/or staff is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence and objectivity.

Internal auditors will:

- a. Disclose any impairment of independence or objectivity, in fact or appearance, to appropriate parties.
- b. Exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined.
- c. Make balanced assessments of all available and relevant facts and circumstances.
- d. Take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgments.

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

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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. If the Director of Internal Audit determines that independence or objectivity is impaired in fact or appearance, the details of impairment will be communicated to the Audit Committee and appropriate parties.

The Director of Internal Audit will confirm to the Audit Committee, at least annually, the organizational independence of the internal audit function.

Authority

5. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit function, 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:

- a. Reviewing and recommending changes to the Internal Audit Charter to the Board of Retirement;
- b. Approving the risk-based Internal Audit plan, approving significant changes to the plan, and obtaining confirmation from the Director of Internal Audit on the adequacy of resources to achieve the plan;
- c. Receiving timely communications from the Director of Internal Audit on the results of audit activities;
- d. Approving all decisions regarding the performance evaluation, appointment, or removal of the Director of Internal Audit;
- e. Approving the compensation and salary adjustments of the Director of Internal Audit; and
- f. Making appropriate inquiries of the Director of Internal Audit to determine whether there is audit scope, budgetary, or resource limitations that impede the ability of Internal Audit to carry out its responsibilities;
- g. Authorizing the internal audit function to have full, free, and unrestricted access to all functions, records, property, and personnel pertinent to carrying out any engagement, subject to accountability for confidentiality and safeguarding of records and information.

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

- a. Budgeting and management accounting;
- b. Human resource administration, including personnel evaluations, leave request approval, and compensation;
- c. Internal communications and information flows; and

- d. Administration of the Internal Audit Department’s methodologies.

Objectives and Scope

- 6. The objective of Internal Audit is to assist the Board of Retirement and management in the effective discharge of their fiduciary responsibilities. The Board of Retirement established an Audit Committee to assist in overseeing the audit function within OCERS. Internal Audit will furnish the Audit Committee with audits, analyses, evaluations, recommendations, and information. Objectives include promoting effective internal controls, helping provide assurance that the organization’s assets are safeguarded; maintaining compliance with prescribed laws, Board, and management policies; maintaining the reliability and integrity of OCERS’s data, and enhancing procedures and operating efficiency.

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

- a. Reviewing the reliability and integrity of financial and business information systems, and the means used to identify, measure, classify, and report such information;
- b. Reviewing the systems and processes established to ensure compliance with those methodologies, 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;
- c. Reviewing the means of safeguarding assets and verifying the existence of such assets;
- d. Monitoring and evaluating the effectiveness of OCERS’s risk management systems, including identifying internal and external risks;
- e. Auditing the accuracy of data transmitted to OCERS by external parties.
- f. Participating in the evaluation of the performance of external auditors and the degree of coordination with Internal Audit;
- g. Reporting periodically to senior management and the Audit Committee the results of the department and the work it performs; and
- h. Providing assessments and advisory services to identify risks and internal controls for projects.

Responsibility

- 7. The Internal Audit Department is established by the OCERS Board of Retirement pursuant to applicable laws and regulations, customs of corporate governance, and best practices to serve the Board of Retirement, as required by the California Government Code 1236. This Charter and all future amendments are approved by the Audit Committee and adopted by the Board of Retirement by a majority vote.

OCERS Internal Audit will adhere to the required elements of the International Professional Practices Framework of the Institute of Internal Auditors, including the Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Global Internal Audit Standards (the Standards), and the Definition of Internal Auditing. In addition, Internal Audit will adhere to the

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Institute of Internal Auditors' Considerations for Implementation as outlined within the International Professional Practices Framework. Further, 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:

- a. Establishing methodologies for auditing and directing and performing its technical and administrative functions;
- b. Developing and executing a comprehensive audit program for the evaluation of internal controls established over OCERS's financial and business activities;
- c. Preparing an annual audit plan that identifies audit projects addressing areas of highest risk to OCERS operations;
- d. Auditing management's stewardship of OCERS's trust funds and resources and their compliance with policies and procedures;
- e. Recommending improvements in internal controls to help:
 1. Safeguard trust funds and resources,
 2. Ensure data is not compromised,
 3. Ensure compliance with laws and regulations;
- f. Auditing procedures and records for accuracy and completeness to accomplish and report on intended objectives;
- g. Producing reports on the results of audits, including findings and recommendations;
- h. Following-up on actions taken to correct reported deficiencies;
- i. Communicating with the CEO and the Audit Committee the impact of resource limitations on the internal audit plan;
- j. Managing the internal audit function appropriately to fulfill its mandate;
- k. Coordinating with other assurance providers, if applicable; and
- l. Conducting special investigations and analysis as needed.

Quality Assurance and Improvement Program

8. Internal Audit will maintain a quality assurance and improvement program that covers all aspects of the internal audit function. The program will include an evaluation of the internal audit function's conformance with the Standards and an evaluation of whether internal auditors apply The Institute of Internal Auditor's Code of Ethics. The program will also assess the efficiency and effectiveness of the internal audit function and identify opportunities for improvement.
9. The Director of Internal Audit will communicate to senior management and the Audit Committee on the internal audit function's quality assurance and improvement program, including results of

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internal assessments and external assessments. The external assessments are to be conducted at least once every five years by a qualified, independent assessor.

Charter History

10. 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.
11. 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; April 17, 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