

# **AUDIT, COMPLIANCE, RISK, AND ETHICS (ACRE) COMMITTEE CHARTER**



**2024**



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ETHICS (ACRE) COMMITTEE CHARTER**

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## **AUDIT, COMPLIANCE, RISK, AND ETHICS (ACRE) COMMITTEE CHARTER**

### **I. CHARTER**

This Charter establishes the authority and responsibilities of the Audit, Compliance, Risk and Ethics (ACRE) Committee (Committee), as assigned by the Los Angeles County Employees Retirement Association's (LACERA) Board of Retirement and Board of Investments (Boards). The ACRE Committee Charter is a living document which shall be reviewed at least every three years.

### **II. PURPOSE AND ASSIGNED FIDUCIARY OVERSIGHT DUTIES**

In November 2003, LACERA's Boards established the LACERA Audit Committee.

In October 9, 2024 LACERA's Boards expanded the Audit Committee's responsibilities to include Compliance, Risk, and Ethics. Subsequently, the Audit Committee was renamed the Audit, Compliance, Risk, and Ethics (ACRE) Committee to encapsulate the Committee's enhanced role in the oversight of LACERA's Ethics and Compliance and Enterprise Risk Management Programs.

The purpose of the ACRE Committee is to provide structured, systematic oversight of LACERA's governance, risk management, ethics and compliance, and internal controls. The Committee assists the Boards in fulfilling their fiduciary oversight duties for LACERA's Audit Activity and Organizational Governance Activities, which include Ethics, Compliance and Enterprise Risk Management.

### **III. PRINCIPLES OF THE ACRE COMMITTEE**

The ACRE Committee conducts itself in accordance with its fiduciary duty of prudence and loyalty to LACERA's members and their beneficiaries pursuant to Article XVI, Sec. 17 of the California Constitution, LACERA's Code of Ethical Conduct, LACERA's Mission, Vision, and Values, all applicable laws, regulations, policies, and procedures, and the principles and standards from The Institute of Internal Auditors' (IIA) Ethics and Professionalism domain of the Global Internal Audit Standards. This Charter is also based on the United States Sentencing Guidelines for Organizations and the U.S. Department of Justice "Evaluation of Corporate Compliance Programs" (2023). The Committee expects the Boards, Management, staff, and LACERA's consultants and other vendors will also adhere to these requirements.

**Integrity** - Committee Members perform their work with honesty, diligence, and responsibility. The ACRE Committee expects and will encourage transparency when fulfilling its duties. Communications between Committee Members, Management, staff, and/or Professional Service Providers will be open, direct, and complete. Subject to applicable laws and organizational limitations, Management will regularly provide the Committee with updates on recently completed, related findings and follow-up emergent risks.

**Independence & Objectivity** - The Committee performs its responsibilities in an independent manner and in compliance with its fiduciary duty without exception. Committee Members will disclose any actual or perceived conflicts of interest to the ACRE Committee.

**Confidentiality** - Committee Members will not use or disclose confidential information. Committee Members are also prudent in the use and protection of other information acquired during the course of their duties, including public information because it relates to LACERA's risk and control environment.

**Competency** - Committee Members receive formal orientation training on the purpose and mandate of the Committee and LACERA's objectives. Committee Members are also provided regular education and training from the ACRE Consultant and staff on governance, audit (including understanding the annual financial statement reports), ethics and compliance, and enterprise risk management. Committee Members are obligated to diligently prepare for and actively participate in ACRE Committee meetings.

**Professional Standards** - The ACRE Committee ensures all related work will be handled with the highest professional standards consistent with auditing, ethical, compliance, and risk management standards of practice and industry guidelines.

#### **IV. ACRE COMMITTEE AUTHORITY**

The ACRE Committee has unrestricted access to the Boards, Management, and staff, and any relevant information necessary to discharge its duties, subject to certain legal limitations. All employees are directed to cooperate with the Committee and its requests. If access to requested information is denied due to legal or confidentiality reasons, the Committee, Chief Audit Executive (CAE), and/or Chief Ethics and Compliance Officer (CECO) will work with the Chief Legal Counsel and/or the Chief Executive Officer to resolve the matter.

#### **V. ACRE COMMITTEE COMPOSITION, CONSULTANT, AND OFFICERS**

The Committee consists of seven members: three elected annually from each Board, and the ex-officio member of both Boards, the Los Angeles County Treasurer and Tax Collector. If any elected Committee member leaves Board service or resigns from the ACRE Committee prior to the completion of their term, the Board of the departing member will elect a new committee member at the next regularly scheduled Board meeting.

The Committee shall have the authority to approve the hiring of the ACRE Committee Consultant ("Consultant") as an advisor. The Consultant serves as the audit technical and financial expert, to advise the Committee on audit and financial matters. The Consultant also advises the Committee on ethics, compliance, and risk management issues. The Committee conducts an annual performance evaluation of the ACRE Committee Consultant.

At the first Committee meeting of each calendar year, the Committee elects a Chair, Vice Chair and Secretary, each to serve for a term of one year or until their successor is duly elected and qualified, whichever period is shorter. In the event of a vacancy in the office of Chair, the Vice Chair shall immediately assume the office of Chair for the remainder of the term. In the event of a vacancy in the office of Vice Chair or Secretary, the Committee shall elect one of its members to fill such vacancy for the remainder of the term, at its next regular meeting.

## **VI. ACRE COMMITTEE MEETINGS**

The Committee conducts regular meetings with the time frame between meetings not to exceed four months. At the first meeting of each calendar year, the Committee will establish a meeting schedule for the year and may set additional meetings as the Committee deems necessary.

All Committee Members are expected to attend each meeting, review all relevant materials in advance, and actively participate. The ACRE Committee Consultant will attend all meetings of the Committee, unless excused by the Committee.

All meetings of the ACRE Committee shall be noticed as joint meetings with the Board of Retirement and Board of Investments to allow for participation of all trustees in open and closed session Committee discussions. However, non-committee trustees may not make or second motions or vote. Additionally, closed sessions to discuss the CAE's or CECO's annual performance assessment and the Committee's recommendation to the Boards regarding the appointment, discipline, dismissal, and/or removal of the GAE or CECO shall be noticed for attendance by Committee members only.

Regular meeting notices and agendas are posted at least 72-hours in advance of meetings and will be made available to the public in accordance with the Ralph M. Brown Act (Government Code Sections 54950, et seq.). Public documents referred to in the agenda are made available for review at the office of the staff secretary to the Committee and published on the LACERA website, lacera.com. The Committee invites members of Management, other key staff, Internal Auditors, Financial Auditors, all other Professional Service Providers, and/or any other relevant individuals to attend meetings and provide pertinent information, as necessary.

Special meetings of the Committee may be called in the manner provided by Government Code Section 54956(a). The Committee has such other powers to notice and agendize meetings as provided in the Brown Act.

Except as otherwise provided herein, Robert's Rules of Order shall guide the Committee in its proceedings; however, the Chair of the Committee shall have the same rights to vote and participate in discussions as any other member of the Committee without relinquishing the Chair. The order of business shall be as determined by formal action of the Committee. Four members of the seven-member Committee constitute a quorum.

Minutes will be prepared recording the time and place of each meeting of the Committee, the names of all members present, all official acts of the Committee, and the votes given by members except when the action is unanimous. The minutes will be written and presented for approval at the next regular meeting. The approved minutes will be signed by the Chair and Secretary.

## **VII. RESPONSIBILITIES**

The ACRE Committee provides oversight over the following:

### **A. Audit Activity**

#### **1. Internal Audit Activity**

Oversee and monitor Internal Audit's conformance with the IIA's Global Internal Audit Standards, particularly the described "essential conditions" which establish the foundation for an effective internal audit function and are listed below.

- a. The Internal Audit Activity is independent of Management and reports functionally to the ACRE Committee and administratively to the Chief Executive Officer.
  - b. Ensure the CAE has unrestricted access to and communicates directly with the ACRE Committee.
  - c. Discuss, review, and approve Internal Audit's Charter, which includes Internal Audit's mandate and the scope and types of internal audit services, at least every three years. Discuss with the CAE and Executive Management if any significant changes to LACERA or the industry, or other topics would impact the Internal Audit Charter and should be addressed.
  - d. Review and approve Internal Audit's Three-Year Roadmap, which provides a plan to continue to mature and improve Internal Audit.
  - e. Ensure the CAE has established a Quality Assurance and Improvement Program (QAIP). Annually, review the results of the QAIP.
  - f. Approve Internal Audit's risk-based Audit Plan, including the budget for resources and funding, to ensure the scope of governance, risk and control processes are adequately evaluated. Make appropriate inquiries of the CAE and Executive Management to determine whether scope or resource limitations are inappropriate.
  - g. Monitor Internal Audit's activity relative to its Plan. Approve all major changes to the Audit Plan.
  - h. Review, accept, and/or provide Internal Audit with further direction on Internal Audit's engagement reports.
  - i. Monitor Internal Audit's recommendations to ensure Management has adequately and timely addressed the risk(s) identified.
  - j. Make recommendations to both Boards regarding the appointment, discipline, dismissal, and/or removal of the Chief Audit Executive (CAE). Collaborate with Executive Management to determine the qualifications and competencies LACERA expects in a CAE, as described in the IIA's Global Internal Audit Standards.
  - k. Oversee the CAE's performance management, perform the CAE's annual performance assessment with qualitative input from the CAE and Chief Executive Officer (CEO), and administer the CAE's annual salary adjustments. The Committee's discussion regarding the CAE annual performance assessment will be made in executive session under Government Code Section 54957(b).
2. Professional Service Provider Activity
- a. Approve the appointment and compensation of the Financial Auditor, hired to perform an independent audit of LACERA's financial statements. Oversee the work of the Financial Auditor, including review of the Financial Auditor's proposed audit scope and approach, as well as coordination with Internal Audit and Management.

- b. Approve the appointments of other Professional Service Providers selected for inclusion in Internal Audit's Audit Pool to perform non-financial statement audits, reviews, or consulting, subject to limitations due to confidentiality, legal standards, and/or where approval will clearly impact the purpose or methods of the audit. Oversee the compensation of these providers in accordance with LACERA's Policy for Purchasing Goods and Services.
  - c. Approve the appointment and compensation of other Professional Service Providers, outside of Internal Audit's Audit Pool, hired to perform non-financial statement audits, reviews, or consulting, subject to limitations due to confidentiality, legal standards, and/or where approval will clearly impact the purpose or methods of the audit.
  - d. Review the Professional Service Providers, including the Financial Auditor's, results of the work performed, any findings and recommendations, Management's responses, and actions taken to implement the audit recommendations.
  - e. Resolve any significant disagreements regarding risks, findings and/or compensation between Management and Professional Service Providers.
3. Financial Reporting Process

The ACRE Committee is responsible for oversight of the independent audit of LACERA's financial statements, including but not limited to overseeing the resolution of audit findings in areas such as internal control, legal, regulatory compliance, risk, and ethics.

- a. Review significant accounting and reporting issues, including complex or unusual transactions and highly judgmental areas, recent professional and regulatory pronouncements, and understand their impact on the financial statements.
- b. Review with Management and the Financial Auditors the results of the audit, including any difficulties encountered.
- c. Review the annual financial statements and consider whether they are complete, consistent with information known to Committee members, and reflect appropriate accounting principles.
- d. Understand the scope of Internal and External Auditors' review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with Management's responses.
- e. Review with Management and the Financial Auditors all matters required to be communicated to the Committee under *Generally Accepted Auditing Standards*.

#### **B. Ethics and Compliance Program Activity**

The ACRE Committee oversees LACERA's Ethics and Compliance Program (Program); approves its Program Charter at least every three years (or as provided in the Charter); and takes other actions and makes recommendations and reports to the Board of Retirement and Board of Investments and the CEO as provided in the Program Charter and as the Committee deems appropriate. The Committee provides oversight of Management's ethics and compliance controls to maintain the highest ethical standards and to monitor compliance with laws, regulations, policies, and procedures. The Boards and CEO have responsibilities in connection with the Program as stated in the Program Charter, and nothing in this Committee Charter will be interpreted to change or limit the Boards and CEO's responsibilities under the Program Charter.

The Ethics and Compliance Program is a management function located within the Legal Office, where the CECO oversees the Ethics and Compliance Office and reports administratively to the Chief Counsel. The CECO reports directly to, and the Program is functionally overseen by the CEO, the ACRE Committee, and the Boards.

1. *Ethics and Compliance Personnel*

- a. Provide input on and approval of the CECO's appointment, termination, and discipline by the CEO. Approve and make recommendations to the Boards for additional staffing for the Ethics and Compliance Office upon the request of the CECO and CEO.
- b. Contribute to the CEO's annual performance evaluation of the CECO. Discussion regarding the CECO's annual performance assessment will be made in executive session under Government Code Section 54957(b).

2. *Ethics and Compliance Roadmap of Priorities, Work Plan, Budget, and Expenses*

- a. Review and approve the Ethics and Compliance Program Three-Year Roadmap of priorities and Program management.
- b. Review and approve the Program's annual work plan and quarterly work plan progress reports.
- c. Review and approve the Ethics and Compliance Office annual budget for resources and funding, for inclusion in LACERA's annual administrative Budget approved by the Boards.
- d. Review and approve additional unanticipated expenses necessary (beyond those budgeted) to support the Program in accordance with LACERA's Policy for Purchasing Goods and Services.

3. *Ethics and Compliance Risk Assessments*

- a. Review scheduled Program risk assessments of organization-wide operations and critical business processes, along with recommendations to upgrade current or establish new controls to mitigate identified ethics and compliance risks, control gaps, or other key risk indicators.
- b. Review interim assessment reports regarding mission critical ethics and compliance risks.

4. *Monitoring and Evaluating Ethical Conduct and Compliance*

Review quarterly Program evaluation reports and recommendations regarding LACERA's operations, business practices, and key risk indicators to advance organization-wide ethics and compliance with laws, regulations, policies, procedures, LACERA's Code of Ethical Conduct, and Conflict of Interest Code.

5. *Policies and Procedures*

- a. Review quarterly reports regarding Program policy and procedure review.
- b. Review new or updated policies and procedures within the purview of the Committee, including but not limited to LACERA's Code of Ethical Conduct and Conflict of Interest Code.



6. *Vendor/Third-Party Ethics and Compliance Risk Management*  
Review quarterly reports on vendor/third-party ethics and compliance risks and organizational response.
7. *Training and Communications*
  - a. Oversee the Program's ethics and compliance communication and training plans and quarterly status reports, including the process for communicating LACERA's governing laws, regulations, policies, procedures, Code of Ethical Conduct, and Conflict of Interest Code throughout the organization.
  - b. Undergo regular ethics and compliance training on LACERA's governing laws, regulations, policies, procedures, Code of Ethical Conduct, and Conflict of Interest Code.
8. *Reporting Channels and Commitment to Non-Retaliation*  
Review quarterly reports regarding reported ethics and compliance concerns or violations raised through LACERA's internal and external reporting channels.
9. *Investigations, Recommendations for Mitigation or Remediation*
  - a. Review written reports regarding detected or alleged ethics and compliance risks or violations, along with the results of investigations and recommendations for mitigation.
  - b. Oversee the Program's system for prevention and detection of fraud, including quarterly review of a summary of LACERA's Ethics Hotline reports, with Committee recommendations to the Boards as indicated.
10. *Privacy*  
Review the annual report on the status of LACERA's efforts to protect the privacy of LACERA member information and the confidentiality of other LACERA information.
11. *Organizational Culture of Ethics and Compliance*  
Review reports of the periodic survey of LACERA's culture of ethics and compliance.
12. *Ethics and Compliance Program Assessment and Evaluation*  
Annually review an annual report on the status and effectiveness of the Program, Management's Program-related controls, consulting or advisory engagements, any exceptions to control standards and their basis, and the Program's annual self-assessment.
13. *Foundational Program Work Pending Hiring of the CECO.*
  - a. Pending hiring of the CECO, the CEO and Chief Counsel, working in conjunction with Human Resources, will develop a job description and salary recommendation for the CECO to be submitted to the Committee and Boards for approval.
  - b. The CEO and Chief Counsel will perform additional foundational work for the Program, including but not limited to research, education, internal communication, and baseline ethics and compliance assessments, and will report on such activities to the ACRE Committee and the Boards at each Committee meeting until the CECO is hired.

### **C. Enterprise Risk Management Program Activity**

1. Obtain from the CAE an annual report on the implementation and maintenance of an appropriate enterprise-wide risk management process. Provide advice on the risk management processes established and maintained, and the procedures in place to ensure that they are operating as intended.
2. Provide oversight on significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by Management and/or the Boards.

### **D. Budgets**

LACERA will provide appropriate funding, as determined by the Committee, for compensation to the Financial Auditor, ACRE Consultant(s), and to any professional Service Provider that the Committee chooses to engage, and for payment of ordinary administrative expenses of the Committee that are necessary and appropriate to carry out its duties.

### **E. Other Responsibilities**

1. Report to the Boards as needed about the ACRE Committee's activities, issues, and related recommendations.
2. Provide an open channel of communication between all Professional Service Providers, including the Financial Auditor, Management, and the Boards.
3. Perform other activities related to this Charter as requested by the Boards.
4. Review and assess the adequacy of the Committee's Charter at least every three years, requesting the Boards' approval for proposed changes.

## **VIII. APPROVAL**

This Charter was reviewed by the ACRE Committee on September 19, 2024, and approved by the Board of Retirement on October 2, 2024, and the Board of Investments on October 9, 2024. This Charter is thereby effective October 9, 2024, and is hereby signed by the following persons who have authority and responsibilities under this Charter.

*Debbie Martin*  
Debbie Martin (Nov 12, 2024 19:43 PST)

Debbie Martin  
*Chair, Audit, Compliance, Risk, and  
Ethics Committee*

11/12/2024  
Date

*Patrick L. Jones*  
Patrick L. Jones (Nov 20, 2024 14:57 EST)

Patrick L. Jones  
*Chair, Board of Investments*

11/20/2024  
Date

*Shawn R. Kehoe*  
Shawn R. Kehoe (Nov 20, 2024 15:53 PST)

Shawn R. Kehoe  
*Chair, Board of Retirement*

11/20/2024  
Date