

PSERS Audit, Compliance and Risk Committee Charter

Article II Section 1

I. Purpose and Authority

The primary purpose of the Audit, Compliance and Risk Committee (“Committee”) is to assist the Board in fulfilling its fiduciary oversight responsibilities with respect to external and internal audits, compliance, risk management, special investigations, and other sources of verification and independent reassurance.

The Board hereby delegates all necessary power and authority to the Committee for the Committee to perform the duties and responsibilities described in this Charter. Except as expressly granted herein, nothing in this Charter shall be construed as giving the Committee the authority to take any action on behalf of the Board or Board Chairperson without first obtaining the approval of the Board.

II. Composition

The Committee shall consist of five (5) current members of the Board.

The Committee shall elect its Chair and Vice-Chair as provided for in the Bylaws.

The Chief Audit Officer (CAO), the Deputy Executive Director for Administration, and the Chief Counsel (CC) will be the primary staff liaisons with the Committee.

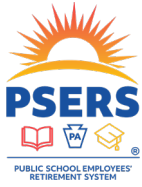
III. Meetings

Committee meetings shall be conducted in accordance with the Bylaws and established rules of order. The Committee shall meet at least four (4) times every year. The Committee Chair, in consultation with the Committee Members, shall set the dates and times of the committee meetings and request that the Secretary of the Board provide notice of meetings in accordance with the Bylaws.

IV. Responsibilities

A. *Conduct activities on behalf of the Board*

1. With the assistance of staff, hire, evaluate, and, as appropriate, terminate and plan for the succession of the Chief Audit Officer; make recommendations on CAO compensation to the Executive Director.
2. Conduct the search (using any of the methods of source selection defined in the Procurement Code) for the independent external auditor, with the assistance of staff, and make recommendations to the Board. The Committee should ensure the search is conducted for the independent external auditor contract at least every five (5) years unless the Board directs otherwise.
3. As necessary, with the assistance of staff, identify the need for independent advisors and/or investigators for special situations, conduct a search, and make recommendations to the Board.



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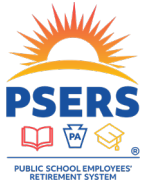
4. Evaluate the performance of all external audit, internal audit, compliance, and risk management service providers necessary or desirable for PSERS. The Committee should ensure that RFPs are conducted for each key service provider contract at least every five (5) years unless the Board chooses otherwise.
5. At least annually, meet individually with: the CAO; the external auditor; and the Deputy Executive Director for Administration, without other staff present, to ensure there has been no undue influence on their activities or reporting to the Committee or the Board.
6. Initiate investigations into any matters within its scope of responsibility and obtain advice and assistance from outside legal, accounting, or other advisers, as necessary, to perform its duties and responsibilities.
7. PSERS shall conduct an internal control audit at least every five (5) years. If an annual independent audit identifies a material weakness or significant deficiency or an internal control audit identifies a material weakness or significant deficiency, an additional internal control audit of PSERS shall be conducted for the year subsequent to the report or audit in which the weakness or deficiency was identified.

B. Recommend direction and policy to the full Board

1. Annually identify anticipated audit, compliance and risk policy priorities and establish a calendar of anticipated policy decisions and discuss with the Board.
2. Review and make recommendations to the Board on all policies and any amendments governing audit, compliance or risk, with the exception of policies that come within the duties and responsibilities of another Committee.
3. Recommend vital signs and metrics for the internal audit office and identify tolerances for acceptable vs. unacceptable variability in performance.

C. Recommend approval of key decisions

1. Recommend approval of the Internal Audit Charter.
2. Recommend approval of the staffing complement for the Internal Audit Office, Compliance, and Performance and Risk Management to the Board.
3. Recommend engagement of and budget for external consultants and advisors, as appropriate, to ensure adequate resources for Internal Audit, Compliance, and Performance and Risk Management.
4. Recommend approval of the Independent Auditor's Report, Independent Audited Financial Statements, and Management Letter.
5. Recommend approval of enterprise risk appetite and tolerances (excluding investment risk).

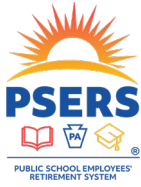


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D. Oversee Board-approved direction

1. Oversee the Internal Audit Office, including:
 - Meet with the Chief Audit Officer to review and approve the Agency's annual audit plan and receive periodic updates on progress vis-à-vis the audit plan.
 - Ensure the annual Internal Audit Plan is adequate to meet PSERS' needs.
 - Ensure that the Internal Audit Office has adequate resources to meet its responsibilities.
 - Meet with the CAO to review the status of audits, review the audit findings and recommendations, management's responses, and actions taken to implement the audit recommendations.
 - Review and approve the Internal Audit Charter.
 - Ensure there are no unjustified restrictions or limitations on the internal audit function.
 - Provide input to the Executive Director on the performance of the CAO, at least annually.
2. Oversee the auditing of all financial information, including:
 - Meet with the external financial auditors each year prior to the annual financial audit to review the audit plan and to identify other areas of the operations that should be reviewed.
 - Approve the Internal Audit Office's Annual Audit Plan.
 - Meet with the external financial auditors at the conclusion of the financial audit to review the audit results, including any recommendations, difficulties encountered, and any significant adjustments proposed by the auditors.
 - Oversee the evaluation and monitoring of the internal control system by internal and external auditors.
 - Review the findings and recommendations of the external auditors along with management's responses and actions taken to implement the audit recommendations.
 - Review the findings and recommendations of any examination by regulatory agencies, any auditor's observations related to compliance, management's responses and actions taken to implement the audit observations/recommendations.
 - Provide a forum for the resolution of all disputes between management and the internal and/or external auditors regarding the financial reporting process, risk assessment, internal control and other compliance issues.



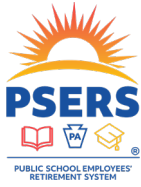
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3. Oversee PSERS compliance with statutes, policies, and standard business practices including:
 - Oversee the design and implementation of the Compliance Program, including the policies and procedures to help prevent and detect violations of law and to promote business ethics.
 - Review and approve the annual compliance plan and ensure that the Compliance function has adequate resources to meet its responsibilities.
 - Ensure the Compliance function performs compliance reviews with applicable laws, regulations, rules, board and management policies, directives and generally accepted business practices of the System.
 - Oversee key compliance and ethics activities and reports to include: enterprise program compliance, enterprise and Board policy compliance, service provider compliance, and privacy and security compliance.
4. Oversee PSERS performance and risk management activities, including but not limited to:
 - Review and approve performance and risk management plans annually and ensure that the Performance and Risk Management function has adequate resources to meet its responsibilities.
 - Review the effectiveness of the Agency's system for assessing, monitoring, and controlling significant risks or exposures.
 - Oversee enterprise risk appetite and tolerances.
 - Review emerging and significant risks specific to the area of responsibility of the committee, and report those risks to the board.
5. Oversee any other PSERS audit, compliance, risk, or related activities, including:
 - Oversee PSERS' policies and procedures for the receipt and handling of allegations of suspected misconduct and receive reports on a periodic and as-needed basis regarding significant reports received.
 - Oversee special investigations and whistleblower cases, as needed, on behalf of the Board.
 - Oversee ethics-related complaints, processes, and findings.

E. Obtain independent verification.

1. Periodically obtain appropriate independent verification of the performance and exception reports issued by management and to present the results to the Board.



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2. Review the effectiveness of the internal audit function by having an external quality assessment completed at least every three years.
3. In carrying out its duties and responsibilities, the Committee shall also have the authority to meet with and seek any information it requires from staff or external parties.

V. Reporting to the Board

The Committee Chair, with the support of staff, is responsible for reporting on the Committee's activities and recommendations to the Board. Subsequent to each Committee meeting, the Chair should provide:

- Minutes summarizing the Committee's deliberations;
- Documentation in support of any recommendations to the Board; and
- The proposed agenda for the next Committee meeting.

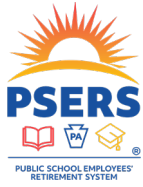
The Chair should ensure that the Board receives sufficient and reliable information to enable the Board to fulfill its fiduciary responsibility of monitoring and overseeing PSERS governance.

VI. Self-Evaluation

The committee shall conduct a self-evaluation of the Committee's performance as part of the Board's self-evaluation process. In addition to identifying opportunities for the committee to improve, the self-evaluation should also seek to identify unmet trustee continuing education needs to be communicated to the Board Governance Committee to add to the curriculum.

VII. Frequency of Review / History

The Committee shall collaborate with PSERS staff, including the Office of Chief Counsel, to review this Committee Charter at least every three years. The Committee shall recommend any changes to the Board, as appropriate.



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Document Properties

Document Owner: PSERS Board

Document Author: PSERS Board – Audit, Compliance and Risk Committee

Summary of Changes:

Date	Version	Author	Summary
March 15, 2022	1.0	Funston Advisory Services and Audit, Compliance and Risk Committee	
June 17, 2022	2.0	Audit, Compliance and Risk Committee	<ul style="list-style-type: none"> • Removed redundant language regarding Committee composition. • Clarified language regarding procurement of consultants. • Added language providing for initiation of investigations for matters within the scope of the Committee. • Added language to direct internal control audit. • Strengthened authority to meet with and seek information from staff and external parties.
October 21, 2022	3.0	Audit, Compliance and Risk Committee and Governance and Administration Committee	<ul style="list-style-type: none"> • Edited language re Meetings to reflect adherence to bylaws and established rules of order • Removed language relation to positions on legislation • Added language to recommend vital signs