

SAN DIEGO COUNTY EMPLOYEES RETIREMENT ASSOCIATION
POLICY ON THE ROLE OF THE AUDIT, FINANCE AND BUDGET COMMITTEE

I. PURPOSE

The Board of Retirement (Board) has established an Audit, Finance and Budget Committee (AFB Committee) to assist it in fulfilling the Board's oversight responsibilities regarding:

- A. The Independent Auditor's qualifications and independence.
- B. The integrity of SDCERA's financial reporting.
- C. The performance of SDCERA's Internal Audit function and Independent Auditor.
- D. The SDCERA's compliance with legal and regulatory requirements.
- E. The Committee's responsibilities are limited to oversight. SDCERA staff are responsible for the SDCERA's financial statements, including the estimates and judgments on which they are based, as well as SDCERA's financial reporting process, accounting policies, internal accounting controls, disclosure controls and procedures, and risk management.

II. STRUCTURE

A. Membership and Meeting

- 1. Committee Composition. The Committee shall consist of three (3) Board Members and two (2) independent, non-Board Members (Public Members).
- 2. Appointments. As a standing committee of the Board, all appointments to the Committee, including Public Members and the Committee Chair, will be in accordance with the effective Board Operations Policy.
- 3. Meetings. The time, location, agendas, materials, quorum, voting, attendance, rules of order, and recording of minutes of all Committee meetings shall be in accordance with the effective Board Operations Policy.

B. Power and Authority

- 1. Subject to Board Approval. All motions or formal business transacted by the Committee are subject to Board approval at regularly-scheduled Board meetings, except in cases in which the Board has granted the Committee specific authorities or powers to act on its own. The Committee Chair is responsible for presenting Committee recommendations to the Board for formal action. The Committee also may conduct or authorize investigations into any matter within the scope of duties and responsibilities delegated to the Committee.
- 2. Committee's Authority. The Committee has the authority to retain and compensate independent counsel, consultants and other experts and advisors (accounting, financial, or otherwise and also may utilize the services of SDCERA's Chief Legal Officer or other SDCERA advisors. SDCERA will provide appropriate funding as determined by the

Committee, for payment of compensation to the Independent Auditor for the purpose of preparing or issuing an audit report or performing other audit, review or attest services, for payment of compensation to any experts or advisors retained by the Committee and for payment of ordinary administrative expenses of the Committee.

III. DUTIES AND RESPONSIBILITIES

A. Interaction with the Independent Auditor

1. *Appointment and Oversight.* The Committee is directly responsible and has sole authority for the appointment, compensation, retention and oversight of the work of the Independent Auditor, including resolution of any disagreements between Staff and the Independent Auditor regarding financial reporting, for the purpose of preparing or issuing an audit report or related work or performing other audit, review or attest services for SDCERA. The Independent Auditor reports directly to the Committee.
2. *Pre-Approval of Services.* Before the Independent Auditor is engaged by SDCERA to render audit or non-audit services, the Committee will pre-approve the engagement. The Committee may delegate to one or more designated members of the Committee the authority to grant pre-approvals, provided such approvals are presented to the Committee at a subsequent meeting.
3. *Independence of the Independent Auditor.* The Committee will, at least annually, review the independence of, and quality control procedures of, the Independent Auditor and the experience and qualifications of the Independent Auditor's senior personnel that are providing audit services to SDCERA. In conducting its review:
 - a) The Committee will obtain an update prepared by the Independent Auditor describing:
 - (1) The auditing firm's internal quality control procedures.
 - (2) Any material issues raised by the most recent internal quality control review, or peer review, of the auditing firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the auditing firm, and any steps taken to deal with any such issues.
 - b) The Committee will discuss with the Independent Auditor its independence from the organization, and consider the impact any relationships or services may have on the objectivity and independence of the Independent Auditor.
 - c) The Committee will confirm with the Independent Auditor that the Independent Auditor is in compliance with the partner rotation requirements of the American Institute of Certified Public Accountants.

B. Annual Financial Statements and Annual Audit

1. *Meetings with Staff, the Independent Auditor and the Internal Audit Manager.* The Committee will:

- a) Meet with staff, the Independent Auditor and the Internal Audit Manager in connection with each annual audit to discuss the scope of the audit, the procedures to be followed and the staffing of the audit.
 - b) Review and discuss with staff and the Independent Auditor:
 - (1) Major issues regarding accounting principles and financial statement presentation, including any significant changes in SDCERA's selection or application of accounting principles, and major issues as to the adequacy of SDCERA's internal controls, including information technology and any special audit steps adopted in light of material control deficiencies.
 - (2) Analyses prepared by staff or by the Independent Auditor identifying significant financial reporting issues and judgments made in connection with the preparation of SDCERA's financial statements. These analyses may include the effect of alternative Generally Accepted Accounting Principles on SDCERA's financial statements.
 - (3) Any related-party transactions brought to the Committee's attention which could reasonably be expected to have a material impact on SDCERA's financial statements.
 - c) Review and discuss the annual audited financial statements with staff and the Independent Auditor, including SDCERA's disclosures under "Management's Discussion and Analysis," the Schedules of Funding Progress and the Schedules of Employer Contributions.
2. *Meetings with the Independent Auditor.* The Committee will meet with the Independent Auditor at its own discretion as to the time, place and frequency of such meeting. Subject to the requirements of the Ralph M. Brown Act, the Committee will meet with the Independent Auditor either privately or with staff present at the Committee's discretion. At these meetings, the Committee will:
- a) Review with the Independent Auditor any problems or difficulties the auditor may have encountered during the course of its audit work, including any restrictions on the scope of its activities or access to required information or any significant disagreements with staff and staff's responses to such matters. Among the items that the Committee should consider reviewing with the Independent Auditor are:
 - (1) Any accounting adjustments that were noted or proposed by the Independent Auditor but were "passed" as immaterial or otherwise.
 - (2) Any communications between the Independent Auditor's audit team and its national office with respect to auditing or accounting issues presented by the engagement.
 - (3) Any "management" or "internal control" letter issued, or proposed to be issued, by the Independent Auditor to the organization.

- b) Discuss with the Independent Auditor:
 - (1) All accounting policies and practices that the Independent Auditor identified as critical.
 - (2) All alternative treatments within Generally Accepted Accounting Principles for policies and practices related to material items that have been discussed among staff and the Independent Auditor, including the ramifications of the use of such alternative disclosure and treatments, and the treatment preferred by the auditor.
 - (3) Other material written communications between the Independent Auditor and staff, such as any management letter, management representation letter, reports on observations and recommendations on internal controls, Independent Auditor's engagement and independence letters, schedule of unadjusted audit differences and any listing of adjustments and reclassifications not recorded.
 - c) Discuss with the Independent Auditor the matters required to be discussed by Statement on Auditing Standards No. 114, "The Auditor's Communication with those Charged with Governance," as then in effect.
 - d) Discuss the responsibilities, budget and staffing of the association's Internal Audit function.
3. *Acceptance of Financial Statements in Annual Report.* The Committee will, based on the review and discussions in 12(b)(iii) and 13(c) above, and based on the disclosures received from the Independent Auditor regarding its independence and discussions with the Independent Auditor regarding such independence pursuant to paragraph 11 above, determine whether to accept, at the Board's delegated authority, the audited financial statements for inclusion in the SDCERA Comprehensive Annual Financial Report (CAFR) for the fiscal year(s) subject to audit.

C. Interaction with Internal Audit

- 1. *Appointment.* The Committee will approve the appointment, continuance or replacement of the Internal Audit Manager.
- 2. *Meetings with Internal Audit.* The Committee will meet at least annually with the organization's Internal Audit Manager to:
 - a) Discuss the responsibilities, budget and staffing of the organization's Internal Audit function and any issues that the Internal Audit Manager believes warrant Audit, Finance and Budget Committee attention. The Committee will discuss with the Internal Audit Manager any significant reports to staff prepared by the Internal Audit Manager and any responses from staff.
- b) Review with Internal Audit:
 - (1) The Internal Audit Department Charter.

- (2) Internal Audit's compliance with the Institute of Internal Auditors' (IIA's) Standards.

D. Interaction with SDCERA's Chief Legal Officer

1. *Meetings with Staff, the Independent Auditor, and General Counsel.* The Committee will discuss with staff, the Independent Auditor, and SDCERA's Chief Legal Officer any correspondence that is brought to the Committee's attention from or with regulators or governmental agencies, or any published reports that raise material issues regarding the association's financial statements, financial reporting process, accounting policies or internal audit functions.
2. *Separate Meetings with SDCERA's Chief Legal Officer.* The Committee will discuss with SDCERA's Chief Legal Officer any legal matters brought to the Committee's attention that could reasonably be expected to have a material impact on SDCERA's financial statements.

E. Other Duties and Responsibilities

1. **Questions and Concerns of Employees.** The Committee will establish procedures for the receipt, retention and treatment of complaints received by SDCERA regarding accounting, internal accounting controls or auditing matters and also establish procedures for the confidential and anonymous submission by employees of concerns regarding questionable accounting or auditing matters. Such procedures will also include consideration of financial systems that could reasonably impact the accurate processing and reporting of financial information.
2. **Risk Assessment and Risk Management.** The Committee will discuss with staff SDCERA's policies with respect to risk assessment and risk management, significant financial risk exposures and the actions staff has taken to limit, monitor or control such exposures. Note this provision does not apply to investment portfolio risk management, as such risks are to be addressed through investment policies and strategies established by the Board; however, it does apply to operational risks related to investments.
3. **Reporting to the Board.** The Committee, through its Chair, will report regularly to, and review with, the Board any issues that arise with respect to the quality or integrity of SDCERA's financial statements, SDCERA's compliance with legal or regulatory requirements, the performance and independence of SDCERA's Internal Audit function or any other matter the Committee determines is necessary or advisable to report to the Board.
4. **Administrative Budget.** An Administrative Budget will be presented to the Committee on an annual basis. On a quarterly basis, staff will review compliance with the Administrative Budget and report to the Committee upon it. Significant discrepancies will be reported to the Board.

IV. COMMUNICATIONS FROM MEMBERS, STAFF AND OTHERS

Members, staff and other interested persons who wish to communicate with the Committee, including communicating complaints regarding SDCERA's accounting, internal controls or auditing

matters, may do so via public communication during meetings of the Committee. Staff may also submit concerns regarding questionable accounting or auditing matters by contacting SDCERA's Fraud, Waste and Abuse Hotline on a confidential and anonymous basis.

V. COMMITTEE SELF-EVALUATION

- A. The Committee will evaluate its own performance on an annual basis, including its compliance with this Policy. It will also review this policy and provide the Board with any recommendations for changes in policies or other procedures governing the Committee annually.

REVIEW

This policy shall be reviewed by the Board at least every three (3) years and may be amended at any time.

HISTORY

April 1, 2004	Adopted, effective July 1, 2004
October 4, 2007	Revised
April 5, 2012	Revised, effective immediately
June 5, 2014	Revised, effective immediately
May 7, 2015	Revised, effective immediately
January 21, 2016	Revised, effective immediately