

Internal Memorandum

To: LASERS Audit Committee
From: Ryan Babin, Audit Services Director
CC: Cindy Rougeou, Executive Director
Date: June 24, 2016
Subject: Project 1603 Audit Charter and Policy Compliance Review

The Audit Services Division performed a review to determine if items outlined in the Audit Committee Charter, Audit Services Division Charter, and Audit Resolution Policy and Procedures are complied with and adhered to. The results of this review are broken down into two categories which are as follows:

1. Non-compliance Areas (see Appendix A)

This section outlines specific provisions where it was determined that full compliance with the charters or policy were not achieved. Furthermore, the steps deemed necessary to achieve full compliance have been outlined.

2. Charter Revisions (**ITEM CLOSED**)

This section outlines suggested revisions to the Audit Committee Charter (see Appendix B) and the Audit Services Division Charter (see Appendix C) that were identified during this review. These changes were approved by the audit committee and board at the June 24, 2016 meetings.

BOARD OF TRUSTEES:

Judge William Kleinpeter, Board Chair
Janice Lansing, Vice Chair
Thomas Bickham
Virginia Burton
Commissioner Jay Dardenne

Beverly Hodges
Hon. John Kennedy
Sen. Barrow Peacock
Rep. Kevin Pearson

Lori Pierce
Kathy Singleton
Shannon Templet
Lorry Simmons Trotter

Cindy Rougeou, Executive Director

Appendix A

Audit Committee Charter

<u>ITEM</u>	<u>SECTION</u>	<u>PROVISION</u>	<u>AUDIT COMMENTS</u>
A	C Authority, 1.j.	Ensure that contracts with third party providers contain appropriate audit language.	According to LASERS executive counsel, third party contracts contain appropriate audit language with the exception of one that they are aware of. The appropriate audit language will be added to this contract when renewed on December 31, 2016.
B	F Responsibilities and duties, 2.h.	Review the annual audit schedule, and any changes required in the planned scope of the audit plan. The committee should inquire as to the extent to which the planned audit scope can be relied upon to detect fraud or weakness in internal controls. The committee shall review and approve any significant subsequent changes in the audit plan.	Any changes to the audit plan are discussed with the audit committee at the quarterly meeting as part of the audit projects status update agenda item. However, changes are not formally approved. The process will be modified to include an action item when there is a significant subsequent change to the approved audit plan. An example of a significant change would be a project being added to or removed from the annual audit plan.
C	F Responsibilities and duties, 2.i.	Provide the policy and framework for : - effective risk management and mechanisms for periodic assessment of the risk management processes, including risks of the information systems, and risks of reliance upon significant vendors and consultants; - an effective internal control structure and mechanisms for periodic assessment of internal controls, including information systems controls, and internal control over purchases from significant vendors and consultants; - compliance with laws and regulations and LASERS approved policies and mechanisms for periodic assessment of compliance, including compliance by significant vendors and consultants.	This provision has been discussed with Executive Management and there was agreement that a formal policy or framework in these areas should be developed. It was determined that Audit Services would partner with Executive and perform a consulting project as part of the FYE 2017 audit plan as a first step in accomplishing this. The main purpose of this project would be to evaluate the various options available to formalize a policy and framework in these areas and develop a recommended approach that would best fit LASERS.

Audit Services Division Charter

<u>ITEM</u>	<u>SECTION</u>	<u>PROVISION</u>	<u>AUDIT COMMENTS</u>
D	B. Organizational status, 3.	The internal auditors have neither authority nor operational responsibility for any of the procedures or activities of LASERS. This independence promotes essential impartial and unbiased judgments, and assures appropriate consideration and effective action on observations and recommendations. Specifically, the division or its staff shall not design, install or operate any program or system, or engage in any other activity that could reasonably be construed to compromise its independence and objectivity. Furthermore, the Audit Services Division's objectivity is not adversely affected by: recommending standards of controls to be applied in developing systems and procedures, evaluating existing or planned financial and operating systems and related procedures, or making recommendations for modifications and improvements to strengthen controls and/or enhance operational effectiveness.	<p>There are two areas where Audit Services performs work of an operational nature which are outlined below. A concern exists because these responsibilities are not primarily owned by an operational division. The normal situation is that Audit Services would review these areas to ensure they are adequate, effective, etc., but since we perform them, no one performs an audits of us. The steps to transition the ownership of these items to an operational division are outlined below.</p> <ol style="list-style-type: none"> 1. Process to identify deceased individuals through comparison of external data sources (Louisiana Department of Health and Hospitals, LexisNexis, and the Berwyn Group) to annuitants and beneficiaries. IT has a project planned for the fourth quarter of FYE 2016 to develop a plan to transition this process over to IT and Member Services. At the conclusion of this project, a plan of action and timeline for completion will be finalized. 2. The testing of the funding actuarial data file is performed primarily by Audit Services and not an operational division. Audit Services initiated the ownership transfer to Member Services during the annual file testing performed in August 2015. Due to the complexity of this process, the transition may take 2-3 years.
E	B. Organizational status, 5.	Contracts with third party providers shall contain the organization's standard audit language enabling the LASERS internal auditors and other auditors and specialists to have access to relevant records and information. Any exceptions to this requirement shall be specifically approved by the board of trustees.	According to LASERS executive counsel, third party contracts contain appropriate audit language with the exception of one that they are aware of. The appropriate audit language will be added to this contract when renewed on December 31, 2016.

<u>ITEM</u>	<u>SECTION</u>	<u>PROVISION</u>	<u>AUDIT COMMENTS</u>
F	C. Relationship to risk management and internal control programs, 1.	The board has overall responsibility for ensuring that risks are managed. In practice, the board delegates to management the operation and implementation of the risk management and internal control system. The Audit Services Division's role is to provide an independent and objective assurance on the effectiveness of the risk management and internal control system.	<p>This item directly relates to the provision in the audit committee charter under F Responsibilities and duties, 2.i., bullets 1 and 2. The audit comments associated with that provision also apply here and are noted below.</p> <p>This provision has been discussed with Executive Management and there was agreement that a formal policy or framework in these areas should be developed. It was determined that Audit Services would partner with Executive and perform a consulting project as part of the FYE 2017 audit plan as a first step in accomplishing this. The main purpose of this project would be to evaluate the various options available to formalize a policy and framework in these areas and develop a recommended approach that would best fit LASERS.</p>

Audit Resolution Policy and Procedures

<u>ITEM</u>	<u>SECTION</u>	<u>PROVISION</u>	<u>AUDIT COMMENTS</u>
G	E. Consulting Services, 2.	Consulting project agreements will be developed at the start of each project and will be agreed upon by the division director and audit director. If necessary, the agreement may be approved by the executive director and/or audit committee. This agreement will be used to ensure that audit services has provided the agreed upon scope of consulting services to the organization.	Formalized consulting project agreements were not utilized for the consulting projects performed in 2015. However, for each consulting engagement the scope and objectives of the project were outlined and discussed with the client. Audit process changes have been made to ensure that appropriate consideration is given at the start of a consulting engagement as to whether a formalized consulting agreement is necessary.

Appendix B

**Audit Committee Charter
Board Governance 6.0**

Approved: January 25, 2007

Revised Date: ~~June 27, 2014~~

A. ORGANIZATION

The Board of Trustees of the Louisiana State Employees' Retirement System (LASERS) hereby constitutes and establishes an audit committee with authority, responsibility, and specific duties as described below.

B. STATEMENT OF PURPOSE

The purpose of the audit committee shall be to assist the board of trustees in fulfilling its oversight responsibilities for (1) the integrity of LASERS financial statements, (2) LASERS compliance with legal and regulatory requirements and with LASERS approved policies, (3) the ~~independent external~~ auditor's qualifications and independence, (4) the performance of LASERS internal audit function and ~~independent external~~ auditors, (5) the system of risk management, (6) the system of internal control, and (7) special investigations and a fraud reporting mechanism.

Commented [RB1]: Change the word independent to external to be consistent with the rest of the charter.

C. AUTHORITY

1. The audit committee has authority to conduct or authorize investigations into any matters within its scope of responsibility. It is empowered to:
 - a. oversee the work of the Audit Services Division (this division will report functionally to the audit committee);
 - b. oversee the work of the public accounting firm employed by the Louisiana Legislative Auditor to conduct the annual external audit (this firm will report directly to the audit committee);
 - c. resolve any disagreements between management and the external auditor and/or internal auditor regarding financial reporting.;
 - ~~d. pre-approve all auditing and permitted non-audit services performed by LASERS external audit firm;~~
 - ~~e.d.~~ retain independent counsel, accountants, or others to advise the committee or assist in the conduct of an investigation;
 - ~~f.e.~~ seek any information it requires from employees – all of whom are directed to cooperate with the committee's requests, or with parties working for the audit committee;

Commented [RB2]: Item C. Authority, 1.b of the audit committee charter states, "oversee the work of the public accounting firm employed by the Louisiana Legislative Auditor to conduct the annual external audit (this firm will report directly to the audit committee)". This clearly outlines the role of the LASERS audit committee as it relates to the work performed by the external audit firm hired by the LLA. Since LASERS is not able to pre-approve the work performed by the external audit firm on behalf of the LLA and the aforementioned section of the charter addresses the audit committee's authority, then this item should be removed from the charter.

- g.f.** meet with LASERS management, internal auditors, external auditors, or outside counsel, as necessary;
- h.g.** delegate authority to subcommittees, including the authority to pre-approve all auditing and permitted non-audit services, providing that such decisions are presented to the full committee at its next scheduled meeting;
- i.h.** report to the board on the activities, observations, and recommendations of the audit committee; and
- j.i.** ensure that contracts with third party providers contain appropriate audit language.

D. COMPOSITION

1. The audit committee will consist of at least three trustees who are independent and possess financial literacy skills sufficient to understand the financial statements of LASERS. These trustees are to be free from any relationship that, in the opinion of the board, would interfere with the exercise of his or her independent judgment as a member of the audit committee and should recognize the significance of the audit committee's responsibilities.
2. The terms of appointment will be arranged so that continuity is maintained and, at the same time, new members can bring fresh perspectives to the work of the audit committee.

E. MEETINGS AND MINUTES

1. The audit committee is to meet at least quarterly. The minutes of each meeting are to be approved at subsequent meetings and sent to the board.
2. The audit director, or designee, shall serve as the staff representative to the committee. The audit committee chairman shall meet no less than one time with the ~~independent accountant~~ external auditor separately, without management, during the year. Individual members of the audit committee shall afford the ~~independent accountant~~ external auditors and the audit director an opportunity to meet, when needed. Requests for such a meeting may be made through the committee chair, with or without the knowledge of management.

Commented [RB3]: Modified to remain consistent with other charters.

Commented [RB4]: Change the word independent accountant(s) to external auditor(s) to be consistent with the rest of the charter.

F. RESPONSIBILITIES AND DUTIES

1. The audit committee is to assist the board in fulfilling its fiduciary responsibilities as they relate to accounting policies and reporting practices, the quality and

sufficiency of audits, and the system of internal control. The audit committee is expected to be proactive and inquisitive and to provide an open avenue for communications between the board of trustees, the ~~independent accountant~~external auditors, the audit director, and LASERS management. The opportunity for the audit director to meet with the entire board of trustees as needed, however, is not to be restricted. The audit director, or designee, shall meet with the audit committee chair as needed and shall attend all audit committee meetings.

Commented [RB5]: Change the word independent accountants to external auditors to be consistent with the rest of the charter.

2. Responsibilities and duties to be carried out by the audit committee:

- a. Review the audit director's performance evaluation of the external auditors, including the degree of audit coordination, and the overall audit coverage. Any serious difficulties or disputes that management encountered during the audit should be duly noted. ~~This committee shall also review the recommendation for the selection, retention, or discharge of the external auditors.~~
- b. Review and update the Audit Services Division Charter, which specifies the auditor's reporting relationship and the Audit Committee Charter at least once every three (3) years.
- c. Confirm annually that all of the responsibilities outlined in the Audit Committee and the Audit Services Division Charters have been carried out.
- d. Obtain and review the quality assurance report for the Audit Services Division at least once every five years.
- e. The audit committee, in consultation with the executive director, will recommend to the board of trustees the appointment and removal of the audit director of the Audit Services Division.
- f. Review and provide input into the performance of the audit director and Audit Services Division on an annual basis.
- g. Review the Audit Services Division to determine compliance with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing, to include confirming and assuring the objectivity of the internal auditor.
- h. Review and approve the annual audit schedule, and any changes required in the planned scope of the audit plan. The committee should inquire as to the extent to which the planned audit scope can be relied upon to detect fraud or weakness in internal controls. The committee shall review and approve any significant subsequent changes in the audit plan.

Commented [RB6]: LASERS external audit is required to be performed the Louisiana Legislative Auditor who currently contracts this audit to a third party CPA firm. Therefore, LASERS does not have the sole discretion to select, retain, or discharge our external auditors. This rests primarily with the Louisiana Legislative Auditor. Therefore, suggest removing this sentence.

Commented [RB7]: Revise to match current practice.

i. Provide the policy and framework for :

- effective risk management and mechanisms for periodic assessment of the risk management processes, including risks of the information systems, and risks of reliance upon significant vendors and consultants;
- an effective internal control structure and mechanisms for periodic assessment of internal controls, including information systems controls, and internal control over purchases from significant vendors and consultants;
- compliance with laws and regulations and LASERS approved policies and mechanisms for periodic assessment of compliance, including compliance by significant vendors and consultants.

j. Review the resources made available to the division including staffing.

k. Review a summary of observations from completed internal audits and consulting projects and a progress report on the proposed internal audit plan, with explanations for any deviations from the original plans. The committee should also receive semi-annual status reports identifying past due open observations and recommendations made by the Audit Services Division which include, current status, and management's corrective action as a result of previously performed internal audits. The audit director will also present an annual report on the closed observations and risks management has decided to accept. In addition, the committee should review the implementation of previous audit recommendations.

~~l. Review with LASERS management and the audit director, LASERS general policies and procedures to reasonably assure the adequacy of internal controls as it relates to individual audits.~~

~~m.l. Monitor LASERS compliance with laws and regulations and the results of management's investigation and follow up (including disciplinary action) on accounting irregularities or on any fraudulent acts.~~ The committee should investigate any perceived or actual conflicts of interest.

~~n.m.~~ Review any difficulties encountered in the course of audit work, including any restrictions on the scope of activities or access to required information.

~~o.n.~~ Evaluate the performance measures of the auditing division annually.

~~p.o.~~ Regularly update the board of trustees about committee activities and make appropriate recommendations. The audit committee shall apprise the board through minutes about significant developments, which occurred in the course of performing the committee's duties.

Commented [RB8]: Revise to match current practice.

Commented [RB9]: Remove the last sentence since this is covered as part of the closed items report mentioned in the previous sentence.

Commented [RB10]: The review of LASERS policies is redundant and is covered under F Responsibilities and duties, 2.i., third bullet. Therefore, suggest removing this item.

Commented [RB11]: The compliance monitoring portion of this item is redundant and is covered under F Responsibilities and duties, 2.i., third bullet. The investigation of fraud and follow up is redundant and is covered under F Responsibilities and duties, 2.r. Therefore, suggest removing this sentence.

~~f.p.~~ Institute and oversee special investigations, as needed.

~~f.q.~~ Ensure there is an appropriate mechanism for reporting any fraud, noncompliance, and/or inappropriate activities to LASERS and that items reported are investigated.

G. POLICY REVIEW

The board will review this charter at least once every three (3) years to ensure that it remains relevant and appropriate.

H. HISTORY

This charter was adopted by the board on January 25, 2007.

This charter was revised by the board on March 23, 2007.

This charter was revised by the board on January 25, 2008.

This charter was revised by the board on April 23, 2010.

This charter was revised by the board on June 24, 2011.

This charter was revised by the board on June 27, 2014.

This charter was revised by the board on June 24, 2016.

Appendix C

Audit Services Division Charter

A. PURPOSE

1. The Audit Services Division is a team committed to providing professional, independent and objective assurance and consulting services to LASERS.
2. The division's scope of responsibility is to assist LASERS in accomplishing its strategic and operational objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the LASERS risk management, control, and governance process.
3. The division's primary mission is to provide an independent, objective evaluation of all agency operations and provide value added consulting services.
4. The objectives of consulting services conducted are to provide:
 - a. Assessments and advice to management for improving processes that will advance the goals and objectives of LASERS.
 - b. Assessments and advice on the front-end of projects so that risks are identified and internal controls are designed at the beginning of a project.
 - c. Education and training on risks, internal controls, and the audit process.

B. ORGANIZATIONAL STATUS

1. The organizational status and support given to audit services by the board of trustees and executive management are major determinants of the scope and value of the internal audit function to LASERS. In order to establish and preserve the independence of the internal audit function, the division reports functionally to the board through the audit committee and administratively to the executive director. The audit director reports directly and freely to the chair of the audit committee on LASERS audit policy, observations, guidance issues and other matters as so mandated. The audit director is free to make the audit committee aware of any areas of disagreement between the audit director and executive director as to items included on the audit plan.
2. The audit committee, in consultation with the executive director, will

recommend to the board of trustees the appointment and removal of the audit director of the Audit Services Division.

3. The internal auditors have neither authority nor operational responsibility for any of the procedures or activities of LASERS. This independence promotes essential impartial and unbiased judgments, and assures appropriate consideration and effective action on observations and recommendations. Specifically, the division or its staff shall not design, install or operate any program or system, or engage in any other activity that could reasonably be construed to compromise its independence and objectivity. Furthermore, the Audit Services Division's objectivity is not adversely affected by: recommending standards of controls to be applied in developing systems and procedures, evaluating existing or planned financial and operating systems and related procedures, or making recommendations for modifications and improvements to strengthen controls and/or enhance operational effectiveness. The audit director should discuss any potential issues regarding impairment of independence and/or conflicts of interest and the appropriate mitigations with the audit committee, as necessary.

The Audit Services Division should ~~annually certify to~~ notify the audit committee ~~that they have now~~ when an actual or perceived conflicts of interest ~~arises~~ that would impair their objectivity or independence.

4. As a representative of the audit committee and to accomplish audit objectives, the division is authorized to have unrestricted access to all LASERS records, files, documents, accounts, physical properties, and personnel during the conduct of any assurance or consulting activity. The Audit Services Division has authority to review all areas related to operational activities. Where the need is indicated, special arrangements will be made for the examination of confidential information. Auditors will exercise due diligence in the safeguarding and use of these resources.
5. Contracts with third party providers shall contain the organization's standard audit language enabling the LASERS internal auditors and other auditors and specialists to have access to relevant records and information. Any exceptions to this requirement shall be specifically approved by the board of trustees.

Commented [RB1]: A formal certification of this nature is not performed. Instead, the process of the Audit Services Division is to make the audit committee aware if an actual or perceived conflict of interest arises that would impair objectivity or independence. Therefore, it is suggested to revise the wording as noted.

C. RELATIONSHIP TO RISK MANAGEMENT AND INTERNAL CONTROL PROGRAMS

1. The board has overall responsibility for ensuring that risks are managed. In practice, the board delegates to management the operation and implementation of the risk management and internal control system. The

Audit Services Division's role is to provide an independent and objective assurance on the effectiveness of the risk management and internal control system.

D. STANDARDS AND ETHICS

1. The Audit Services Division, at a minimum, shall abide by:
 - a. The Louisiana Code of Governmental Ethics
 - b. LASERS Ethics Policy
 - c. The Institute of Internal Auditors (IIA) mandatory guidance which includes the *International Standards for the Professional Practice of Internal Auditing*, *Code of Ethics*, and *Definition of Internal Auditing*
 - d. ~~Information Systems (IS) Auditing Standards, Guidelines and Procedures, and the Code of Professional Ethics of the Information Systems Audit and Control Association (ISACA)~~
2. The IIA's ~~Code of Ethics and International Standards for the International Professional Practices of Internal Auditing~~ Framework ~~will should be used as guidance for~~ the standard operating procedures ~~for of~~ the Audit Services Division.

Commented [RB2]: Audit Services referenced information technology standards and guidelines for IT related projects performed during 2015. However, this was not limited to those provided by ISACA. Due to the specialization of the IT area, additional standards may be referenced. This is similar in the investment auditing area, as well. Therefore, the noted revisions are suggested.

E. SCOPE OF ACTIVITIES

1. Specific responsibilities include the following:
 - a. Establish policies for conducting its activities and direct its technical and administrative functions according to the policies and direction provided by the audit committee.
 - b. Assure that the resources of the Audit Services Division are efficiently and effectively used. This includes selecting, training, developing and retaining a competent internal audit staff that collectively have the abilities, knowledge, skills, experience, expertise and professional certifications necessary to accomplish the mission, objectives and scope of this charter. Provide opportunity and support for staff to obtain professional training, professional certifications, and to further their education.
 - c. The Audit Services Division will conduct an annual enterprise risk assessment with the goal of formulating an audit plan. Information gathered during the enterprise risk assessment may be shared with management.

Commented [RB3]: The Professional Practices Framework includes the Code of Ethics and the Standards. In addition, these items should be used as a guide for the standard operating procedures of the Audit Services Division, but not be the actual procedures. Therefore, the noted revisions are suggested.

- d. Develop a flexible annual audit plan using a risk-based methodology and input from the division directors, executive management, and board audit committee.
- e. Implement the annual audit plan, as approved by the audit committee, including, any plan amendments, special tasks or projects requested by executive management and the audit committee.
- f. Prepare an operating budget that is complementary to the implementation of the audit plan.
- g. ~~Evaluate programs to determine whether the programs are operating within the highest fiduciary standards and are directed toward the exclusive benefit of LASERS members, retirees, and beneficiaries.~~
- h. ~~Review and report on the administration of programs, including the performance of contractors for services. These activities include identifying opportunities for cost reduction and performance improvement. This also includes giving assurance that programs are managed in a reasonable, responsive, and consistent manner and utilize integrated, cost-effective, secure, and efficient service standards, procedures, and practices.~~
- i. Perform comprehensive reviews that encompass the examination and evaluation of the adequacy and effectiveness of internal controls and the quality of performance. These reviews will may include:
 - i. Reviewing and assessing the management controls utilized by LASERS to address business and operating risks.
 - ii. ~~Reviewing operations or programs~~ to ascertain whether results are consistent with established objectives and goals and ~~whether the operations or programs~~ are being carried out as planned.
 - iii. Evaluating compliance with policies, plans, procedures, laws and regulations, which could have a significant impact on operations ~~and reports~~.
 - iv. Appraising the economical and efficient use of resources.
 - v. Reviewing the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
 - vi. Reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify and report information.
- j. Evaluate the system of governance, risk management, and controls

Commented [RB4]: Since the board has delegated the authority and oversight of the Audit Services Division to the audit committee, this item should be revised to say audit committee instead of board.

Commented [RB5]: These items should be removed since the focus of the reviews performed by the Audit Services Division is covered in section E.1.i. of this charter. Therefore, these items are overlapping.

Commented [RB6]: Revised to allow for flexibility since not all projects will include each of these items.

Commented [RB7]: Revised to remove redundant and unnecessary language.

Commented [RB8]: Revised to remove redundant and unnecessary language.

during each engagement, as applicable.

- k. Assist in the investigation of suspected fraudulent activities involving the organization, according to LASERS fraud policy, and notify the audit committee and executive management, of the results, as appropriate.
- l. Conduct routine reviews of employer reporting agencies and investment management firms as outlined on the approved audit plan.
- m. Present to management the results of reviews conducted. The Audit Services Division will provide recommendations and evaluate any plan(s) or action(s) taken to correct the observation(s). If not considered resolved, see that further discussions are held to achieve resolution in accordance with the approved Audit Resolution Policy and Procedures.
- n. Conduct periodic follow-up reviews to evaluate the adequacy of management's corrective actions.
- o. Coordinate with the external auditor engaged by the Louisiana Legislative Auditor to avoid unnecessary duplication of effort between the external auditor and the Audit Services Division. Audit services will also review any external auditor findings, follow-up on corrective action taken and provide assistance.
- p. Participate as an advisor in the planning, design, development, and implementation phases of manual and automated systems to determine whether:
 - i. Adequate controls are incorporated in the system.
 - ii. Adequate risk management techniques have been addressed.
 - iii. Thorough systems testing is performed at appropriate stages.
 - iv. Systems documentation is maintained, complete, and accurate.
 - v. The intended purpose and objectives of the system implementation or modification have been met.
- q. Conduct periodic audits of data processing and make post-installation evaluations of major data processing systems to determine whether these systems meet their intended purposes and objectives.
- r. Respond to any specific requests for special reviews by the board of trustees, audit committee, executive director and from other staff, subject to the approval of the audit committee.
- s. Obtain specialized services from outside the organization when the nature of the engagement requires specialized services.

- t. Oversee the work of all contract auditors hired by LASERS.
- u. Provide education to the board of trustees and staff on risks, internal controls, and processes and practices of the Audit Services Division.

F. REPORTING

1. The audit director, in the discharge of audit's duties shall be accountable to the audit committee for the following:
 - a. Report the results of engagements performed to the audit committee, the executive director, and appropriate division directors at the audit committee meeting occurring nearest to the completion of the engagement. However, observations shall be brought to the attention of appropriate division directors during the engagement. In the case of a material observation, the audit director would notify the audit committee and executive director immediately.
 - b. Prepare materials for the audit committee meetings.
 - c. Submit at the June meeting of each year to the audit committee for adoption, a formal audit plan that is developed in line with the strategic plan and the risk assessment process. The audit plan should include an audit work schedule. Furthermore, the audit director should determine the nature, timing, and extent of follow-up audits in developing the audit plan.
 - d. Present proposed changes to the approved audit plan as needed. Report at each audit committee meeting on the status of engagements outlined in the audit plan.
 - e. Present, at least semi-annually, a report on the status of open observations and on the risks that management has decided to accept.
 - f. The audit director will confirm annually to the audit committee that all of the responsibilities outlined in the Audit Services Division Charter have been carried out.
 - g. Maintain a professional audit staff with sufficient knowledge, skills, experience, and expertise in the subject matter that is being audited. Therefore, the audit director will include as part of the reports to the audit committee an annual report on internal audit personnel, including their qualifications, certifications and development.

G. QUALITY ASSURANCE

1. The audit director will establish and maintain a quality assurance program

to evaluate the operations of the audit division. A quality assurance program includes training, supervision, internal and external assessments. The purpose of this program is to provide reasonable assurance that audit work conforms to the *International Standards for the Professional Practice of Internal Auditing*.

2. The audit director will obtain a peer review by other internal auditors as required by professional standards, no less frequently than once every five years.
3. The audit committee shall review the activities of the Audit Services Division annually to assure the independence and objectivity of internal auditing.

H. MEETINGS

The audit director, or designee, shall attend all audit committee meetings. The audit director may also meet with the chair of the audit committee, as needed.

I. POLICY REVIEW

The audit committee will review this charter at least once every three (3) years to ensure that it remains relevant and appropriate.

J. HISTORY

This charter was adopted on January 27, 2006 and recent revisions approved on June 27~~4~~, 2014~~6~~.