Federated City Employees' Retirement System

Police and Fire Department Retirement Plan

Internal Audit Charter

Internal Audit Charter

Office of Retirement Services
Federated City Employees' Retirement System
Police and Fire Department Retirement Plan

A. Introduction

This charter defines the purpose, scope, role and responsibilities, authority, and accountability of the Internal Audit Division of the City of San Jose – Office of Retirement Services (ORS).

The Head of the Internal Audit Division shall evaluate this formal document at least once every three years or as needed and discuss the details with the Board's respective Audit Committees and management to confirm the accuracy of the agreed upon role and expectations and to ensure it remains relevant to the needs of ORS.

B. Purpose and Mission

The purpose of internal audit is to provide an independent, objective assurance and consulting activity designed to add value and improve ORS's operations. Internal audit serves as a catalyst in improving the department's operational processes, governance, risk management, and internal controls.

The mission of the Internal Audit Division (IAD) is to help the department succeed by providing risk-based and objective assurance, advice, and insight. It helps the Board and management in ensuring operations are conducted in the highest standards and objectives are being accomplished by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

C. Scope of Work

The scope of work of the internal audit activity is to determine whether the ORS's network of risk management, control, and governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure:

- Adequacy and effectiveness of the system of risk management and internal controls operated within the department.
- Employees' actions are in compliance with policies, procedures, laws, and regulations.
- Financial and operational information is accurate, reliable, and timely.
- Safeguarding of assets.
- Programs, plans, and objectives are achieved.
- Coordination of activities and communication of information among the various governance groups occur as needed.
- Significant legislative or regulatory compliance issues impacting the organization are recognized and addressed properly.
- Quality and continuous improvement are fostered in the organization's risk management and control processes.
- Policies, standards, procedures, and controls are adequately documented as needed.

The nature of internal audit activities can be classified as either assurance or consulting services.

Assurance engagement is an objective examination of evidence for the purpose of providing an independent assessment on risk management, control, or governance processes for the organization. Examples of the types of engagements that would be considered assurance engagements include financial, performance, compliance, system security, and due diligence audits.

Consulting services are advisory and related client service activities generally performed at the request of an engagement client. The nature and scope of which are agreed upon with the client and which are intended to add value and improve an organization's operations. Examples include reviewing and/or drafting department's internal control policies and procedures, conducting internal control training, providing advice to management about the control concerns in new systems, and participating in quality meetings with a non-voting capacity.

D. Authority

To ensure effective performance, the IAD, with strict accountability for confidentiality and safeguarding records and information is authorized to:

- Have unrestricted access to all functions, records, property, and personnel within the law.
- Require assistance from staff and management in supplying information and explanations as needed within a reasonable period.
- Request specialist services needed to complete projects either from within or outside the department but subject to management and Board approval.
- Have full and free access to the Audit Committee and Board.
- Have meetings with the Audit Committee without management's presence.
- Have the right to attend and observe any meeting relevant to the department's functions (e.g., Investment Committee meetings, Audit Committee meetings, Disability Hearings, Full Board meetings, etc.)
- Allocate resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish audit objectives.

IAD is not authorized to do the following:

- Perform any operational duties for the department or any City department and affiliates.
- Initiate, record, authorize or approve accounting transactions external to IAD.
- Direct and oversee the activities of any organization employee not employed by IAD except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist the internal auditors.
- Assume management responsibilities.

E. Responsibility

The IAD has the responsibility to:

- Develop an annual audit plan using appropriate risk-based methodology, including any risks or control concerns identified by management, and submit the plan to the Audit Committee for review and approval.
- Implement the annual audit plan, as approved, including, as appropriate, any special tasks or projects requested by the Audit Committee and/or ORS management.
- Conduct fieldwork in a professional and timely manner.
- Maintain professionalism with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of this charter.
- Establish a quality assurance program that assures the operations of internal auditing activities.
- Perform consulting services, beyond internal auditing's assurance services, to assist management in meeting its objectives. Examples may include facilitation, training, committee participation for new or existing technology or business processes to increase the effectiveness of the internal control structure, and advisory services.
- Evaluate and assess significant functions and new or changing services, processes, operations, and control processes relevant to their development, implementation, and/or expansion.
- Issue periodic reports to the Audit Committee and management summarizing results of audit activities.
- Keep the Audit Committee and management informed of emerging trends and successful practices in internal auditing.
- Provide a list of significant measurement goals and results to the Audit Committee.
- Assist in the investigation of significant suspected fraudulent activities within the organization and notify the Audit Committee and management of the results.
- Consider the scope of work of the external auditors and regulators, as appropriate, for the purpose of providing optimal audit coverage to the organization at a reasonable overall cost.

To fulfill its responsibilities, the IAD may:

- Assist in identifying and assessing potential risk exposures related to ORS operations.
- Evaluate the adequacy of controls established to assess the adequacy of controls to manage the risks identified by management; ensure compliance with policies, plans, procedures, and business objectives, and assess the means of safeguarding assets.
- Evaluate 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.

- Assess the reliability and security of financial and management information and the systems and operations (in-house or outsourced) that produce this information.
- Appraise the use of resources with regard to economy, efficiency, and effectiveness.
- Follow up recommendations to make sure that effective remedial action is taken.
- Carry out ad hoc appraisals, investigations, or reviews requested by the management and/or the Board.

It is also the responsibility of the Head of Internal Audit Division to ensure that all information gained by all staff of the IAD in the course of audit remains confidential and will not be used or conveyed for purposes outside the scope of approved responsibilities.

F. Accountability

The Head of Internal Audit Division, in the discharge of his/her duties, shall be accountable to the Audit Committee of the Board and designated senior management to:

- Provide annually an assessment on the adequacy and effectiveness of the ORS's processes for controlling its activities and managing its risks in the areas set forth under the mission and scope of work.
- Report significant issues related to the processes to controlling the activities of ORS and its affiliates, including potential improvements to those processes, and provide information concerning such issues through resolution.
- Provide information periodically on the status and results of the annual audit plan and the sufficiency of division resources.
- Coordinate with and provide oversight of other control and monitoring functions (risk management, compliance, security, legal, ethics, environmental, and external audit).

G. Independence and Objectivity

Independence is the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner.

Objectivity is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others.

Internal Audit Division shall maintain its independence so that opinions, findings, conclusions, judgments, and recommendations will be impartial and will be viewed as impartial by reasonable and informed third parties.

The internal audit activity will remain free from interference by any element in the organization, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.

IAD will have no direct operational responsibility or authority over any of the activities audited. It will not be involved in any operational functions of any division (Investments, Accounting, Benefits, IT, and General Administration) within the department. Accordingly, IAD will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair internal auditor's judgment.

However, routine activities that relate directly to the performance of an audit, such as providing advice and information and responding to questions as part of an audit may be performed as these activities generally do not result to independence impairment.

IAD will periodically identify and assess threats to independence and objectivity. It will proactively manage the conflicts by evaluating the significance and applying safeguards as necessary. Should any conflict or impairment be known or arise, IAD will document the nature of the threat, its implications and steps taken to eliminate or reduce the exposure to an acceptable level.

Internal auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.

The Head of Internal Audit Division will confirm to the Board through the Audit Committee, at least annually, the organizational independence of the internal audit activity.

H. Organization

The Head of Internal Audit Division reports functionally to the Audit Committee constituted by the Board and administratively to the Chief Executive Officer. By having a dual-reporting structure and relationship, the degree of Internal Audit's independence and objectivity required by professional standards will be met.

I. Hiring of Internal Audit Division Personnel

When the Head of Internal Audit Division's position becomes vacant, the Audit Committee of both Boards shall establish an ad hoc committee to serve in an advisory role to the ORS CEO and assist in evaluating the finalist candidates for the position until it is filled, at which point the ad hoc committee will dissolve. The ad hoc committee shall consist of one member from each Board who sits on the Audit Committee.

J. Performance Evaluations of Internal Audit Division

The Audit Committee of both Boards will participate in conducting performance evaluations of the Head of Internal Audit Division.

K. Internal Audit Plan

At least annually the IAD will develop a risk based internal audit plan using appropriate risk-based methodology, including any key risks or control concerns identified by management.

The internal audit plan will include documentation of the risk assessment process, timing of the projects, planned hours, and resources needed to complete the audit.

The Audit Committee will review the audit plan and recommend approval to the Board. Interim changes to the plan will occur from time to time due to changes in risks, timing of initiatives, management needs and resource availability. Any changes will be communicated to the Audit Committee, Board, and management for approval.

L. Communication, Reporting and Monitoring

A written report will be prepared following the conclusion of each internal audit project and will be distributed to management. Internal audit results will also be communicated to the Audit Committee and the Board.

The report will include information regarding the audit objectives, scope, and methodology to understand the purpose of the audit; the nature and extent of the audit work performed; the context and perspective regarding what is reported; and any significant limitations in the audit objectives, scope, or methodology.

Findings and recommendations will be highlighted and will generally include management's response (agree or disagree) and corrective action taken or to be taken. Management's response should include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented.

Reasonable follow-up work shall be administered to ensure necessary steps are being taken to carry out the corrective action plans in a timely manner. However, it is the management's responsibility to establish a monitoring mechanism to make sure recommendations are being implemented.

M. Standards of Audit Practice

The Internal Audit Division is committed to the professional practice of internal auditing. The IAD

will strive to meet or exceed the Standards for the Professional Practice of Internal Audit including the Codes of Ethics and Core Principles established by the Institute of Internal Auditors (IIA).

Additionally, Internal Audit may use other professional standards in conjunction with Internal Audit Standards developed by IIA. Examples are the standards developed by Government Accountability Office (GAO), American Institute of Certified Public Accountants (AICPA), International Auditing and Assurance Standards Board (IAASB), Association of Public Pension Fund Auditors (APPFA) and Association of Certified Fraud Examiners (ACFE).

N. Quality Assurance and Improvement Program

The internal audit activity will maintain a quality assurance and improvement program that covers all aspects of the internal audit activity. The program will include an evaluation of the internal audit activity's conformance with applicable Internal Auditing standards and an evaluation of whether internal auditors apply the Code of Ethics. The program also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.

The Head of Internal Audit Division will communicate to management and the Board through the Audit Committee on Internal Audit's quality and improvement program, including results of both the continual internal assessments and periodic external evaluation of an independent third party at least once every five years.

O. Approval

The Audit Committee will review the charter at least once every three years. The committee will periodically propose changes and recommend the amendments to the Board for approval.

P. Charter History

The ORS Internal Audit Charter was adopted on August 15, 2019.

The ORS Internal Audit Charter was amended by the Joint Audit Committee on April 11, 2024.

Accepted by the Federated Board on April 18, 2024 and the Police and Fire Board on May 2, 2024.