

## **PENNSYLVANIA STATE EMPLOYEES' RETIREMENT BOARD**

### **AUDIT, RISK AND COMPLIANCE COMMITTEE CHARTER**

#### **I. PURPOSE.**

The Audit, Risk and Compliance Committee's purpose is to assist the Pennsylvania State Employees' Retirement Board (the "Board") in fulfilling its oversight responsibilities in the areas of internal controls, risk assessment, audit, and compliance of the State Employees' Retirement System, the State Employees' Defined Contribution Plan, and the Commonwealth's IRC §457 Deferred Compensation Plan (collectively "SERS").

#### **II. AUTHORITY.**

The Board hereby delegates all necessary power and authority to the Audit, Risk and Compliance Committee (the "Committee") to perform the duties and responsibilities described in this Charter and as may otherwise be delegated by the Board from time to time. 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 without first obtaining the approval of the Board.

#### **III. COMPOSITION.**

The Committee shall consist of three (3) to five (5) current members of the Board, who may be the designees of Board members (the "Committee Members"), as provided in the Board's Bylaws (the "Bylaws").

The terms of appointment for Committee Members shall be as provided for in the Bylaws.

#### **IV. MEETINGS.**

Committee meetings shall be conducted in accordance with the Bylaws, except as otherwise provided in this Charter. The Committee shall meet at least four (4) times every year. The Committee Chair, after consulting with the Committee Members, shall fix the dates and times of the committee meetings and shall request that the Secretary of the Board provide notice of meetings in accordance with the Bylaws.

The Committee may invite the Executive Director, Internal Audit Director, SERS Chief Counsel's Office (the "CCO"), Chief Financial Officer, Chief Investment Officer, Chief Compliance Officer, other members of SERS management, external auditors, internal auditors, consultants, and others to attend meetings and provide pertinent information, as it deems necessary or desirable.

**V. RESPONSIBILITIES.****A. Internal Controls.**

1. The Committee shall provide for and oversee the periodic assessment of internal controls by internal and external auditors.
2. The Committee shall review auditor recommendations for improving internal controls and recommend changes to the Board.
3. The Committee shall review the effectiveness of SERS' corporate governance process.
4. Except as provided under subparagraph a., SERS shall conduct an internal control audit at least every five (5) years.
  - a. If an annual independent audit prepared under section C. 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 SERS shall be conducted for the year subsequent to the report or audit in which the weakness or deficiency was identified.

**B. Risk Assessment.**

1. The Committee shall review SERS' annual internal audit plan and comprehensive risk assessment and recommend any changes to the Internal Audit Director and the Board.
2. The Committee shall review SERS' enterprise risk framework and management process and recommend any changes to the Board.
3. The Committee shall review the effectiveness of SERS' processes for risk management, including risk identification, assessment, mitigation and aggregate reporting and recommend any changes to the Board.
4. The Committee shall oversee the steps SERS management has taken to monitor and control such risks, including risks associated with information technology systems.

**C. Audit Process and Procedures.**

1. The Committee shall oversee all internal and external audits, as well as any investigations or audits conducted on SERS operations.
  2. The Committee shall oversee the annual audit of SERS by an independent certified public accountant. The audit shall include the Board's accrual and expenditure of directed commissions. The Board may use the same independent auditor for all SERS external audits. The Committee shall, with participation from the Internal Audit Director, recommend the selection and retention of the independent auditor. The Committee shall review the annual audit and present the
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annual audit to the Board along with its recommendations for Board consideration in accepting the report of the independent auditor.

3. The Committee shall meet at least annually with the Internal Audit Director to review internal audit plans, including the scope and objectives of audits and the allocation of internal audit resources.
4. The Committee shall review audit findings and recommendations. The Committee shall recommend to the Board any required actions for the implementation of such auditor recommendations.
5. The Committee shall review the effectiveness of internal audits every two (2) years and make recommendations to the Board for improving the effectiveness of such audits.

D. Compliance.

1. The Committee shall oversee SERS' system for monitoring compliance with applicable laws, policies, procedures, codes, and other legal requirements.
  2. The Committee shall oversee SERS' compliance with applicable whistleblower laws.
  3. The Committee shall oversee SERS' investigations of and responses to instances of non-compliance.
  4. The Committee shall review information and reports from the Executive Director and the CCO regarding compliance matters. The Committee shall recommend any proposed responses and/or actions that are to be taken to the Board.
  5. The Committee shall review any recommendations made by external service providers regarding SERS' compliance processes and make any recommendations for changes to the Board.
  6. The Committee shall oversee investment program compliance audits.
  7. The Committee shall collaborate with SERS staff and the CCO to oversee Board member compliance with applicable law, the Board Bylaws, ethics code provisions, and policies and procedures applicable to Board members.
  8. The Committee shall review the SERS compliance program and risks with the Chief Compliance Officer, including the program's design, implementation and effectiveness.
  9. The Committee shall oversee the Chief Compliance Officer's coordination with the SERS Manager of the Board Member Education Program of Board member education pursuant to the Board Education Policy.
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10. The Committee shall oversee the Chief Compliance Officer's logging and reporting of Board member referrals and communications of potential investment or service provider opportunities.

**E. Other Responsibilities.**

1. The Committee shall meet with the independent auditor at least annually to review the audited financial statements, associated management letter, and all other independent communications of the annual audit. The Committee shall also be provided an opportunity to discuss any significant issues that may have surfaced during the course of the independent audit.
2. The Committee shall review policies and procedures related to internal controls, risk assessment, audit processes and procedures and compliance. The Committee shall recommend any changes to such policies and procedures to the Board.
3. The Committee shall provide input to the Executive Director in the evaluation of the Internal Audit Director, with the input received from each member to be included in the evaluation.
4. The Committee shall have input into the candidate search process and selection of the Chief Compliance Officer. In addition, the Committee shall provide input to the Executive Director and, if the Chief Compliance Officer position is administratively housed in the Chief Counsel's Office, the Chief Counsel, in the evaluation of the Chief Compliance Officer, with the input received from each member to be included in the evaluation.
5. The Committee shall perform such other activities related to the Committee's functions and duties as are reasonably appropriate or are requested by the Board from time to time.

**VI. REPORTING.**

- A. Following a Committee meeting, the Committee Chair shall provide a written report to the Board at the next regularly scheduled Board meeting to update the Board as to its activities, findings, recommendations, and any other relevant issues. Committee meeting minutes shall be distributed to the Board.
- B. The Committee Chair shall share the agenda for an upcoming Committee meeting with the entire Board as soon as practicable.

**VII. SELF-EVALUATION.**

- A. The Committee shall collaborate with the Internal Audit Director and CCO to review this Committee Charter and the policies and procedures described in this Charter or otherwise overseen by the Committee on a biennial basis. The Committee shall recommend any changes to the Board.
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- B. The Committee and each Committee Member shall comply with the Board's self-assessment policies and processes and shall participate in any independent fiduciary reviews.

**VIII. MISCELLANEOUS.**

Capitalized terms not otherwise defined herein shall have the meanings set forth in the Bylaws.

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