

Employees' Retirement System of the City of Milwaukee

Internal Audit Charter May 2020

Purpose

The purpose of this Internal Audit Charter dated May 2020, is to assist the internal auditors in fulfilling their mission and fiduciary responsibilities under the oversight of the Administration and Operations (A&O) Committee. The provisions of this charter apply to the activities of the Employees' Retirement System (ERS) of the City of Milwaukee Internal Audit function only, and should be used for no other purpose. This document includes the following topics.

- I. MISSION**
- II. OBJECTIVES & SCOPE**
- III. INDEPENDENCE**
- IV. AUTHORITY**
- V. ACCESS**
- VI. RESPONSIBILITIES & ACCOUNTABILITY**
- VII. PROFESSIONAL STANDARDS**
- VIII. REPORT DISTRIBUTION & FOLLOW-UP**
- IX. RELATIONSHIP TO PREVENTION, DETECTION & CORRECTION ACTIVITIES**
- X. SIGNATURE SECTION**

I. MISSION

The mission of Internal Audit is to provide independent, objective assurance and consulting services designed to add value and improve the operations of ERS. It assists the Board and the Executive Director in accomplishing their oversight responsibilities by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control, and governance processes. The following are specific tasks to be carried out by Internal Audit to accomplish the mission:

- Supporting the agency's efforts to achieve its objectives through conducting a risk assessment every three years, designing, reviewing and executing an annual audit plan, and providing a wide range of quality independent internal auditing services.
- Assessing the integrity, quality, and efficiency of the systems of internal control.
- Assessing the degree to which ERS complies with various policies, procedures, laws, and regulations in a manner that facilitates operational efficiency, quality of service, and fiduciary responsibility.

- Examining and testing the performance of important control elements.
- Assessing the integrity of the financial reporting processes.
- Communicating results of audit projects through timely written reports delivered to the Board, the Executive Director, and management identified as stakeholders.
- Assessing through follow-up audit projects the degree to which management action plans created in response to recommendations in audit reports are carried out effectively and timely.

II. OBJECTIVES & SCOPE

Auditing Objectives. The objectives of the auditing services are to provide independent assurance to the A&O Committee and management that ERS' assets are safeguarded, operating efficiency is enhanced, and compliance is maintained with prescribed laws and regulations and Board and management policies. These objectives of auditing services include an independent assessment of the agency's risk awareness, reliability and integrity of the organization's data and information, and achievement of the agency's goals and objectives.

Consulting and Advisory Objectives. The objectives of internal audit's consulting and advisory services are to provide ERS management with recommendations for improving processes that will advance the goals and objective to successfully achieve the overall mission of the organization. The objectives will also allow internal audit the opportunity to follow-up with management to ensure action steps were taken to mitigate the risk.

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

- Programs are operating within the highest fiduciary standards and are in compliance with the requirements defined in the Federal and State constitutions, laws, and regulations, local government ordinances and rules, and the policies and procedures of the agency.
- Programs and processes are in synchrony with industry best practices, using the best public and private examples and all resources available as benchmarks.
- Significant legislative or regulatory issues impacting the agency are recognized and addressed appropriately and timely.
- Operations, processes and programs are consistent with established missions, objectives and goals and they are being executed in accordance with management's plan.
- Existing policies and procedures are appropriate and updated.
- Internal and external risks are identified and managed.
- Employers appropriately enroll employees, accurately report member earnings, and appropriately report other employee data.
- Interaction with appropriate governance groups occurs as needed.
- Significant financial, managerial, and operating information is accurate, reliable, and timely.

- Resources are acquired economically, used efficiently, and adequately protected.
- Quality service and continuous improvement are fostered in the organization's control process.
- Contractors, including third-party administrators, are meeting the objectives of the contracts, while in conformance with applicable laws, regulations, policies, procedures and best practices and the agency's contract monitoring process is effective to ensure minimal risk.
- Responsibilities and activities of the external financial statement auditors are coordinated with those of the internal auditors in order to provide continuity of audit efforts and to avoid duplication.
- Access for auditors is provided as appropriate.
- Specific operations, processes or programs are reviewed at the request of the A&O Committee, the Board, and management.

Opportunities for improving member service, management of risks, internal control, governance, cost benefit, and the organization's effectiveness and image may be identified during audits. This information will be communicated to the A&O Committee and to appropriate levels of management.

III. INDEPENDENCE

Independent Professional Standards. The A&O Committee recognizes that professional independence requires the auditors have knowledge of operations and appropriate expertise in the subject matter that is being audited. Internal Audit must provide the credentials of any or all staff members upon request of the A&O Committee.

Conflict of Interest. Internal Audit shall discuss any potential issues regarding impairment of independence and/or conflicts of interest and their mitigation(s) with the A&O Committee as necessary.

IV. AUTHORITY

The Internal Audit function is established by the Board of this agency and governed by the A&O Committee. This Charter is approved and all future amendments to it are to be approved by the A&O Committee through a majority vote. This Charter shall be reviewed at least annually and updated as required by the A&O Committee.

Internal Audit functionally reports to the A&O Committee. Meetings are held with the A&O Committee on at least a quarterly basis. The portion of the A&O Committee agenda regarding Internal Audit generally include:

- A discussion of current year Plan status
- Points of emphasis of audit reports issued in the quarter
- Status of audits in process
- Changes or proposed changes to the Plan
- Audit follow-up status reports as necessary (based on exceptions noted)
- Special requests for audits from the Board or from Management with Board approval

- Closed sessions, when necessary, as provided for under the Wisconsin open meetings law

The A&O Committee retains the right to provide input and approve the annual audit plan presented by Internal Audit. The risk assessment and Plan are discussed in the meeting at the end of the quarter in which they are completed. Internal Audit shall inform the A&O Committee of the status of the audit plan and any changes needed. Management may request special audits outside of the plan to be conducted, which must be approved by the A&O Committee. The mission, responsibilities, and workings of the A&O Committee are described in the committee charter.

Internal Audit staff is not authorized to initiate or approve accounting transactions external to those related to the function. Internal Audit staff is not authorized to direct the activities of any agency employee not employed by the function, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist the internal auditors.

V. ACCESS

The Internal Audit staff, as appropriate, are granted authority for full, free and unrestricted access to all of the agency's functions, records, files and information systems, personnel, contractors, external auditors, physical properties, rental locations, and any other item relevant to the function, process or department under review. All contracts with vendors shall contain standard audit language enabling the internal auditors and other auditors and specialists to have access to relevant records and information. Documents and information given to Internal Audit shall be handled in the same prudent and confidential manner as by those employees normally accountable for them. All of the ERS employees are required to assist the staff of Internal Audit in fulfilling their audit functions and fiduciary duties.

VI. RESPONSIBILITIES & ACCOUNTABILITY

Internal Audit is responsible for the following in order to meet the mission, objectives and scope of this Charter:

1. Establish policies for conducting Internal Audit activities and directing its technical and administrative functions according to the agency's policies and direction provided by the A&O Committee and professional standards described in Section VII.
2. Perform a risk-assessment every three years and review the flexible annual audit plan that will accomplish the mission, objectives and scope of this Charter. This plan will include some unassigned hours in order to provide flexibility for changing conditions. This plan shall in part be based upon risks and control concerns identified by management.
3. Facilitate the implementation of the audit plan.
4. Implement the annual audit plan, as approved, including, as appropriate, any plan amendments, special tasks or projects requested by management, the Board and the A&O Committee.

5. Obtain updates to follow-up on management action plans as they relate to the recommendations provided by Internal Audit for improvement to ensure the risks are being mitigated timely.
6. Transmit copies of all audit reports and management letters to the A&O Committee.
7. Assess periodically whether the purpose, authority and responsibility, as defined in this Charter, continue to be adequate to accomplish its mission, objectives and scope. The result of this periodic assessment should be communicated to the A&O Committee.
8. Assist in the investigation of significant suspected fraudulent activities within the organization and notify the A&O Committee, the Board and other Executives, as appropriate, of the results.

VII. PROFESSIONAL STANDARDS

Internal Audit shall follow the professional standards of relevant professional organizations. These professional standards include, but are not limited to, the following:

- Institute of Internal Auditors (IIA) Professional Standards and Code of Ethics
- American Institute of Certified Public Accountants (AICPA) Professional Standards and Code of Ethics, as applicable
- Generally Accepted Government Auditing Standards (GAGAS) from the United States General Accounting Office (GAO), as applicable

VIII. REPORT DISTRIBUTION & FOLLOW-UP

Draft audit reports are first distributed to the Executive Director or their designee for comments. After comment, they are then distributed to the applicable department head. Internal Audit is responsible for obtaining management responses and issuing the final version of the audit report according to the following time schedule:

- Once a draft report is issued to a department head, 15 business days are allowed for management responses to be prepared and forwarded to Internal Audit. Internal Audit may extend the deadline, though the maximum number of business days for a response will be 25 days.
- Upon receipt of acceptable management responses, Internal Audit has 10 business days to issue the final version of the report.
- In cases where the department under review does not meet the above schedule, Internal Audit has the authority to issue the report without management responses to the chairman of the A&O Committee.

Final audit reports are distributed as follows:

- The department head, under review, receives a complete copy of the full report.
- The Executive Director, the Board, and the A&O Committee also receive a copy of the full report.

IX. RELATIONSHIP TO PREVENTION, DETECTION AND CORRECTION ACTIVITIES

Internal Audit strives to participate in the initial stages of major agency-wide projects so that risks can be appropriately managed and internal controls instituted in the design phase in order to prevent problems and minimize the associated costs. It recognizes that it is more expensive to detect and correct problems than it is to prevent them in the initial stages of a project.

X. SIGNATURE SECTION

The A&O Committee reviewed and adopted this Internal Audit Charter in May 2020, and transmitted it to the Board. The Internal Audit Charter is effective immediately and is hereby signed by the following persons who have authority and responsibilities under this Charter.

Chair, A&O Committee

Date

Chairman, ERS Board

Date

Executive Director

Date