



PSERB Resolution 2024-74
Re: Internal Audit Office Charter
December 20, 2024

RESOLVED, that the Public School Employees' Retirement Board accepts the recommendation of the Audit, Compliance, and Risk Committee and adopts the changes to the Internal Audit Office Charter, as attached.

PENNSYLVANIA PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM INTERNAL AUDIT OFFICE CHARTER

Audit, Compliance and Risk Committee Approval

Date: December 04, 2024

PURPOSE

The purpose of the internal audit function at Pennsylvania Public School Employees Retirement System's (PSERS or Agency) is to provide guidance to the PSERS Board of Trustees (Board) and management with independent, risk-based, and objective assurance, advice, insight, and foresight.

The internal audit function enhances the Agency's:

- Successful achievement of its objectives.
- Governance, risk management, and control processes.
- Decision-making and oversight.
- Reputation and credibility with its stakeholders.
- Ability to serve the public interest.

PSERS' internal audit function is most effective when:

- Internal auditing is performed by competent professionals in conformance with The IIA's Global Internal Audit Standards, which are set in the public interest.
- The internal audit function is independently positioned with direct accountability to the board.
- Internal auditors are free from undue influence and committed to making objective assessments.

COMMITMENT TO ADHERING TO PROFESSIONAL STANDARDS

The Internal Audit Office (IAO) will adhere to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, which are the Global Internal Audit Standards and Topical Requirements. The Chief Audit Officer (CAO) will report periodically to the PSERS Board (Board) and executive management regarding the internal audit function's conformance with the Global Internal Audit Standards, which will be assessed through a quality assurance and improvement program.

As appropriate, the following professional standards will also serve as guidelines for the IAO and its work:

- Generally Accepted Auditing Standards (GAAS) of the American Institute of Certified Public Accountants (AICPA)
- Governmental Auditing Standards (GAS) of the Government Accountability Office (GAO)

- GAO Standards for Internal Control in the Federal Government
- IS Auditing Standards, Guidelines, and Procedures and the Code of Ethics of the Information Systems Audit and Control Association (ISACA)

MANDATE AND MISSION

The PSERS' bylaws and governance documents established by the Board (mandate) capture the importance of the Board's/Audit, Compliance and Risk Committee's role in authorizing the internal audit function.

The mission of IAO is to enhance and protect PSERS's value by providing risk-based and objective assurance, advice, and insight on governance, risk management and internal controls. IAO's vision is to be an objective source of independent advice, a trusted advisor to the governing bodies and senior management with commitment to integrity and accountability.

The IAO fulfills its mission by:

- Supporting the PSERS' efforts to achieve its strategic goals and business objectives.
- Align, collaborate and provide guidance to PSERS' Enterprise Risk Management (ERM) program and the Compliance program.
- Providing a wide range of independent, risk-based assurance and advisory services for the Agency to enhance its governance, risk management, control processes.
- Providing unbiased advice, insight, and foresight to the Board, executive management and staff through collaboration, data analysis, and effective communication.
- Encouraging and promoting a culture of ethics, integrity, and professionalism, both individually and organizationally.
- Serving PSERS' membership through its function and looking after the public interest at large, as PSERS being an Agency of the Commonwealth of Pennsylvania

AUTHORITY

Through this Charter, the Board grants the Internal Audit Office the mandate to provide the Board and executive management with objective assurance, advice, insight, and foresight. The IAO's authority is created by its direct reporting relationship to the Audit, Compliance and Risk (ACR) Committee of the Board. Such authority allows for unrestricted access to the Board.

The IAO will function under the governance policies established by the PSERS Board (Board). The Board authorizes the Internal Audit Office to:

- Have full and unrestricted access to all functions, data, records, information, physical property, and personnel pertinent to carrying out internal audit responsibilities. Internal auditors are accountable for confidentiality and safeguarding records and information. The CAO shall ensure the internal audit staff is adequately trained in safeguarding and the handling of confidential information.
- Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques, and issue communications to accomplish IAO's objectives. Obtain assistance

from the necessary personnel of the Agency and other specialized services from within or outside the organization to complete internal audit services.

- The Chief Audit Officer (CAO), Internal Audit Office staff, and the Executive Director shall abide by all aspects of the governance policies as they relate to the duties of the IAO.
- All PSERS employees are required to assist the IAO in fulfilling its mandate. All contracts with vendors shall contain the Commonwealth's standard audit language enabling PSERS's internal auditors, external auditors and specialists to have access to relevant records and information.

The IAO charter shall be reviewed at least every three years and updated, as necessary. The ACR Committee will recommend approval of the IAO charter and all future amendments to the Board.

INDEPENDENCE, ORGANIZATIONAL POSITION, AND REPORTING RELATIONSHIPS

The Chief Audit Officer will be positioned at a level in the organization that enables the Internal Audit Office to perform its services and responsibilities without interference from management, thereby establishing the independence of the internal audit function. The CAO will report functionally to the ACR Committee and administratively (for example, day-to-day operations) to the Executive Director. This positioning provides the organizational authority and status to bring matters directly to executive management and escalate matters to the ACR Committee, when necessary, without interference and supports the internal auditors' ability to maintain objectivity.

At least annually, the Chief Audit Officer will confirm to the ACR Committee the organizational independence of the internal audit function. If the governance structure does not support organizational independence, the CAO will document the characteristics of the governance structure limiting independence and any safeguards employed to achieve the principle of independence. The CAO will disclose to the ACR Committee any interference internal auditors encounter related to the scope, performance, or communication of internal audit work and results. The disclosure will include communicating the implications of such interference on the internal audit function's effectiveness and ability to fulfill its mandate.

CHANGES TO THE MANDATE AND CHARTER

Circumstances may justify a follow-up discussion between the Chief Audit Officer, ACR Committee, and executive management on the internal audit mandate or other aspects of the internal audit charter. Such circumstances may include but are not limited to:

- A significant change in the Global Internal Audit Standards.
- A significant reorganization within PSERS.
- Significant changes in the CAO, Board, and/or executive management.
- Significant changes to the Agency's strategies, objectives, risk profile, or the environment in which the organization operates.
- New laws or regulations that may affect the nature and/or scope of internal audit services.

BOARD OVERSIGHT

The Board established the ACR Committee to fulfill its oversight and fiduciary responsibilities with respect to external and internal audits, compliance, risk management, special investigations, and other sources of verification and independent reassurance. The roles and responsibilities are outlined in the PSERS Audit, Compliance and Risk Committee Charter.

CHIEF AUDIT OFFICER ROLES AND RESPONSIBILITIES

Ethics and Professionalism

The Chief Audit Officer will ensure that internal auditors:

- Conform with the Global Internal Audit Standards, including the principles of Ethics and Professionalism: integrity, objectivity, competency, due professional care, and confidentiality.
- Understand, respect, meet, and contribute to the legitimate and ethical expectations of the organization and be able to recognize conduct that is contrary to those expectations.
- Encourage and promote an ethics-based culture in the organization.
- Report organizational behavior that is inconsistent with the organization's ethical expectations, as described in applicable policies and procedures.

Objectivity

The Chief Audit Officer will ensure that the Internal Audit Office remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of engagement selection, scope, procedures, frequency, timing, and communication. If the CAO determines that objectivity may be impaired in fact or appearance, the details of the impairment will be disclosed to appropriate parties.

Internal auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively such that they believe in their work product, do not compromise quality, and do not subordinate their judgment on audit matters to others, either in fact or appearance.

Internal auditors will have no direct operational responsibility or authority over any of the activities they review. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, or engage in other activities that may impair their judgment, including:

- Assessing specific operations for which they had responsibility within the previous year.
- Performing operational duties for PSERS or its affiliates.
- Initiating or approving transactions external to the internal audit function.
- Directing the activities of any Agency employee that is not employed by the internal audit function, except to the extent that such employees have been appropriately assigned to internal audit teams or to assist internal auditors.

Internal auditors will:

- Disclose impairments of independence or objectivity, in fact or appearance, to appropriate parties and at least annually, such as the CAO, ACR Committee, management, or others.
- Exhibit professional objectivity in gathering, evaluating, and communicating information.
- Make balanced assessments of all available and relevant facts and circumstances.
- Take necessary precautions to avoid conflicts of interest, bias, and undue influence.

Managing the Internal Audit Function

The CAO is delegated the authority to manage the IAO and has the responsibility to:

- At least annually, develop a flexible, risk-based internal audit plan that considers the input of the Board and executive management. Discuss the plan with the ACR Committee and executive management and submit the plan to the ACR Committee for review and approval.
- Prepare a budget (included in the Executive Office budget) that is complementary to the implementation of the audit plan.
- The CAO is authorized to hire, retain, train, and terminate internal audit staff, when necessary, to achieve the objectives of Internal Audit. The CAO will discuss the right mix in outsourcing/co-sourcing to complement IAO's staff with the ACR committee and the ACR committee will recommend approval.
- Communicate the impact of resource limitations on the internal audit plan to the ACR Committee and executive management.
- Review and adjust the internal audit plan, as necessary, in response to changes in the Agency's business, risks, operations, programs, systems, and controls.
- Communicate with the ACR Committee and executive management if there are significant interim changes to the internal audit plan.
- Ensure all meetings of the ACR Committee are attended by the CAO and/or staff to review the results of audit activities completed, in process, and planned.
- Ensure internal audit engagements are performed, documented, and communicated in accordance with the Global Internal Audit Standards.
- Report any fraudulent, unethical and/or improper activity to the ACR Committee Chair, members of the Committee, and the other members of the ACR Committee with directions from the Committee Chair.
- Assist in the investigation of suspected fraudulent activities within the organization, and notify the ARC Committee Chair, ACR Committee members, Executive Director and other Executive Management, as appropriate, of the results.
- Follow up on engagement findings and confirm the implementation of recommendations or action plans and communicate the results of internal audit services to the ACR Committee and executive management periodically and for each engagement as appropriate.

- Ensure the internal audit function collectively possesses or obtains the knowledge, skills, and other competencies and qualifications needed to meet the requirements of the Global Internal Audit Standards and fulfill the internal audit mandate.
- Identify and consider trends and emerging issues that could impact PSERS and communicate to the ACR Committee and executive management as appropriate.
- Consider emerging trends and successful practices in internal auditing.
- Establish and ensure adherence to methodologies designed to guide the internal audit function, e.g., IAO manual.
- Ensure adherence to PSERS' relevant policies and procedures unless such policies and procedures conflict with the internal audit charter or the Global Internal Audit Standards. Any such conflicts will be resolved or documented and communicated to the ACR Committee and executive management.
- Lead/participate in the selection of external audit firms. Coordinate/manage the contract(s) with any external audit firms and evaluate their performance. Report to the ACR Committee on all activities performed by the external audit firms.
- Coordinate activities and consider relying upon the work of other internal and external providers of assurance and advisory services. If the CAO cannot achieve an appropriate level of coordination, the issue must be communicated to executive management and if necessary escalated to the ACR Committee Chair, members of the ACR Committee for directions.
- Routinely validate effectiveness of the Enterprise Risk Management Program and the Compliance Program with applicable laws, rules, regulations and internal policies and procedures.
- Act as the liaison related to audits, investigations, or inquiries of the Auditor General's Office and other external audit groups, as requested.
- Assess periodically whether the purpose, authority, and responsibility, as defined in this Charter, continue to be adequate to enable the IAO to accomplish its mission, objectives and scope.
- Develop and report on audit related vital signs and metrics recommended by the ACR Committee.

Communication with the Board and Executive Management

The Chief Audit Officer will report periodically to the ACR Committee Chair, members of the ARC Committee and executive management regarding:

- The internal audit function's mandate.
- The internal audit plan and performance metrics.
- Significant revisions to the internal audit plan and budget.
- Potential impairments to independence, including relevant disclosures as applicable.
- Results from the quality assurance and improvement program, which include the internal audit function's conformance with The IIA's Global Internal Audit Standards and action

plans to address the internal audit function's deficiencies and opportunities for improvement.

- Significant risk exposures and control issues, including fraud risks, governance issues, and other areas of focus for the ACR Committee.
- Results of assurance and advisory services.
- Resource requirements.
- Guidance on identifying and setting reasonable risk tolerance levels
- Management's responses to risk that the internal audit function determines may be unacceptable or acceptance of a risk that is beyond PSERS' risk appetite.

Quality Assurance and Improvement Program

The Chief Audit Officer will develop, implement, and maintain a quality assurance and improvement program that covers all aspects of the Internal Audit Office. The program will include external and internal assessments of the internal audit function's conformance with the Global Internal Audit Standards, as well as performance measurement to assess the internal audit function's progress toward the achievement of its objectives and promotion of continuous improvement. The program also will assess, if applicable, compliance with laws and/or regulations relevant to internal auditing. Also, if applicable, the assessment will include plans to address the internal audit function's deficiencies and opportunities for improvement.

Annually, the Chief Audit Officer will communicate with the ACR Committee and executive management about the internal audit function's quality assurance and improvement program, including the results of internal assessments (ongoing monitoring and periodic self-assessments) and external assessments. External assessments will be conducted at least once every five years by a qualified, independent assessor or assessment team from outside PSERS; qualifications must include at least one assessor holding an active Certified Internal Auditor credential.

SCOPE AND TYPES OF INTERNAL AUDIT SERVICES

The scope of internal audit services covers the entire breadth of the organization, including all PSERS' activities, assets, and personnel. The scope of internal audit activities also encompasses but is not limited to objective examinations of evidence to provide independent assurance and advisory services to the Board and management on the adequacy and effectiveness of governance, risk management, and control processes for the Agency. Management is responsible for the operation and implementation of a system of enterprise risk management and an internal control system. The IAO's role is to provide an independent and objective assurance on the effectiveness of the enterprise risk management system and that the internal control system is operating effectively.

The objectives of assurance services are to provide formal, independent assurance to the Board, ACR Committee and management that the organization's assets are safeguarded, operating efficiencies are enhanced, and compliance is maintained with prescribed laws, rules, regulations,

PSERS policies and procedures. Assurance objectives also include independent assessment of the organization's governance, risk awareness, compliance and management, and control processes.

The objectives of advisory services, the nature and scope are agreed with management, are to provide assessments and advice for improving the organization's governance, enterprise risk management, compliance, and control. Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during advisory engagements. These opportunities will be communicated to the appropriate level of management.

Internal audit engagements may include evaluating whether:

- Risks relating to the achievement of PSERS' strategic goals and business objectives are appropriately identified and managed by effective internal controls.
- Actions of PSERS' officers, directors, management, employees, and contractors or other relevant parties comply with the Agency's policies, procedures, and applicable laws, regulations, and governance standards.
- The results of operations and programs are consistent with established goals and objectives.
- Significant financial, managerial, and operating information is accurate, reliable, and timely.
- Significant legislative or regulatory issues impacting the organization are recognized and addressed appropriately.
- Operations and programs are being carried out effectively and efficiently within the fiduciary standards. Resources are acquired economically, used efficiently, and adequately protected.
- Quality and continuous improvement are fostered in the organization's control process which includes ensuring that processes are consistent with industry best practices, using the best public and private examples as benchmarks.
- Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact the Agency.
- The integrity of information and the means used to identify, measure, analyze, classify, and report such information is reliable.
- Resources and assets are acquired economically, used efficiently, and protected adequately.
- Information technology controls including information system security controls are in place and are functioning effectively.
- Contractors, including third-party administrators, are meeting the objectives of the contracts while in conformance with applicable laws, rules, regulations, policies, procedures, and best practices.

Document Owner: PSERS Board – Audit, Compliance and Risk Committee

Document Author: PSERS Internal Audit Office

Summary of Changes:

Date	Version	Author	Summary
Dec. 18, 2017	1.0	IAO	<ul style="list-style-type: none">• Audit/Compliance Committee approved newly created IAO Charter
June 18, 2022	2.0	IAO	<ul style="list-style-type: none">• Updated Committee name to Audit, Compliance and Risk Committee• Updated Internal Auditor to Chief Audit Officer• Moved Relationship to the Risk Management and Internal Control Programs to the Responsibilities and Accountability Section
March 13, 2024	3.0	IAO	<ul style="list-style-type: none">• Aligned with the revised ACR Committee charter to include enterprise risk management and compliance function.• Updated IAO charter review period from two to three years.• Added additional responsibility for vital signs and metrics.
Dec. 4, 2024	4.0	IAO	<ul style="list-style-type: none">• Updated IAO Charter in compliance with the Global Internal Audit Standard