

MINUTES OF THE MEETING OF THE  
ADMINISTRATIVE AND AUDIT COMMITTEE OF THE BOARD OF TRUSTEES OF THE  
EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF HAWAII

JANUARY 31, 2024

CITY FINANCIAL TOWER  
201 MERCHANT STREET, SUITE 1200  
HONOLULU, HAWAII 96813

Trustees present: (City Financial Tower by teleconference)	Dr. Genevieve Ley, Chair (acting)* Dr. Catherine Chan, Chair (elected)* Mr. Vincent Barfield, Vice Chair (elected)*
Trustee absent:	Mr. Luis Salaveria
Staff present: (City Financial Tower by teleconference)	Mr. Thomas Williams, Executive Director* Ms. Kanoe Margol, Deputy Executive Director* Mr. Kona Mann, Chief Compliance Officer Mr. Bart Asato, Program Specialist Mr. James Greubel, Program Specialist Ms. Shanna Sakagawa, Program Specialist Ms. Kristin Varela, Chief Investment Officer* Ms. Dale Kehau Kanae, Recording Secretary* Ms. Lori Kim, Secretary* Ms. Andrea Gasper, Secretary*
Attorney present: (by teleconference)	Ms. Jenny Nakamoto, Deputy Attorney General* Ms. Lori Tanigawa, Deputy Attorney General* Ms. Elmira Tsang, Deputy Attorney General* Ms. Diane Wong, Deputy Attorney General*

\*Attended Executive Session

QUORUM/CALL TO ORDER

A quorum being present (Acting Chair Ley, Trustees Barfield, and Chan), Acting Chair Ley called the meeting of the Administrative and Audit Committee (Committee) of the Board of Trustees (Board) of the Employees' Retirement System of the State of Hawaii (ERS) to order at 3:14 p.m. and identified the Trustees present and had them confirm that they are the only ones present at their remote location and that no one else was able to listen in on their teleconference while attending the meeting.

On a motion made by Trustee Barfield, seconded by Chan, and unanimously carried, the Committee voted to hold a meeting allowing Trustees and members of the public to participate by interactive conference technology, pursuant to the HRS §92-3.7, with at least one meeting location open to the public that has audiovisual connection.

PUBLIC COMMENT

Acting Chair Ley called for public comment. There was no public present by teleconference or in person, therefore, no public comment. There was also no written public testimony received for this Committee meeting.

DISCUSSION AND ELECTION  
OF CHAIR AND VICE CHAIR

Acting Chair Ley presented for discussion, by the Committee, the election of the Chair and Vice Chair of the Administrative and Audit

OF THE ADMINISTRATIVE  
AND AUDIT COMMITTEE

Committee. Trustee Barfield nominated Acting Chair Ley as to remain as Chair, Trustee Chan nominated herself as Chair. Acting Chair Ley nominated Trustee Barfield as Vice Chair.

Trustee Barfield voted for Acting Chair Ley, and both Acting Chair Ley and Trustee Chan voted for Trustee Chan as Chair. Trustee Chan was elected as the new Chair. On a motion made by Trustee Ley, seconded by Trustee Chan, Trustee Barfield was elected as Vice Chair of the Administrative and Audit Committee.

Vice Chair Barfield presided over the remainder of the meeting as newly elected Chair Chan was not able to.

REVIEW AND DISCUSS THE  
ADMINISTRATIVE AND  
AUDIT COMMITTEE,  
INTERNAL AUDIT, AND  
ETHICS COMPLIANCE  
CHARTERS TO INCLUDE  
ADMINISTRATIVE AND  
AUDIT COMMITTEE  
PERFORMANCE

Vice Chair Barfield presented for review, discussion, and approval by the Committee, the Administrative and Audit Committee, Internal Audit, and Ethics and Compliance Charters (Charters).

Trustee Ley gave a recent history of the revisions to the Charters as she attended the last Committee meeting of January 3, 2024, stating that the Committee requested consistency between all three Charters as it related to its annual review. The Committee accepted the Charters pending revisions by ERS Staff and the Internal Auditors. Trustee Ley further stated that the Charter revisions were also discussed and accepted by the Board at their January 8, 2024, meeting pending revisions, however, no changes were presented in writing. The Committee is now formally presenting the revisions made by ERS staff and the Internal Auditors for acceptance and to be recommended to the Governance Policy Committee and then to the Board for final approval.

On a motion made by Chair Chan, seconded by Trustee Ley, and unanimously carried, the Committee accepted the Administrative and Audit Committee Charter as presented.

On a motion made by Trustee Ley, seconded by Chair Chan, and unanimously carried the Committee accepted the Internal Audit and Ethics and Compliance Charters as presented.

All three Charters will be presented for acceptance by the Governance Policy Committee and then for final approval by the Board. (The Charters are attached to these minutes for clarification.)

PROPOSED OBJECTIVES FOR  
2024

REVIEW 2023 INTERNAL  
AUDIT PLAN RESULTS  
SUMMARY, AND 2024  
INTERNAL AUDIT PLAN  
UPDATE PROCESS AS OF  
FEBRUARY 2023, AS  
REPORTED BY KMH LLP  
ON OCTOBER 10, 2023

Trustee Ley discussed and presented for the Committee's information the 2023 Internal Audit Plan Results Summary, and 2024 Internal Audit Plan Update Process as of February 2023, as reported by KMH LLP on October 10, 2023. Trustee Ley shared that this information summarizes what the Committee did and what the Committee can expect in 2024.

Trustee Ley also stated that the Committee did not provide their 2023 Committee Performance Evaluation as a part of the Charter review and that this information should sufficiently show that they performed well and as expected.

Vice Chair Barfield noted that based on the information provided, the Committee was very active and provided a broad set of responsibilities.

REVIEW HAWAII  
ADMINISTRATIVE RULES  
§6-24, ELECTION OF  
MEMBERS AND  
RETIRANT OF THE  
SYSTEM TO THE BOARD  
OF TRUSTEES  
GOVERNING THE  
ELECTED TRUSTEES  
NOMINATION PROCESS;  
FOR APPROPRIATE  
ACTION

Deputy Executive Director Kanoë Margol shared with the Committee that KMH LLP will be providing an update after the completion of their next project.

Trustee Ley discussed and requested that the Committee pursue having ERS staff update the overall nomination process. In particular, the collection of signatures and providing the last 4 digits of their social security numbers. Trustee Ley stated that the Hawaii Administrative Rules (HAR) already allows for electronic voting. Vice Chair Barfield suggested that a Board member and ERS staff member start to work together to proceed on the updates. Trustee Ley and Chair Chan both volunteered and suggested Program Specialist (PS) Bart Asato work together on updating the process starting with drafting a plan on the next steps to be taken.

Executive Director (ED) Thomas Williams shared with the Committee that forms for signatures can be made available on-line and that e-signatures are acceptable, however, signature forms still need to be submitted and certified by the petitioner. ED Williams further shared that an alternative to using the 4-digits of the social security number could be to utilize their ERS member number. ED Williams stated that ERS staff have started researching vendors that provide services for electronic voting and will update the HAR as needed.

The Committee requested that ERS staff start the process of proceeding to make the necessary changes as suggested and will update the Board at the next Board meeting.

COMPLIANCE SUPPORT  
STAFF REPORT AND UPDATE

Chief Compliance Officer (CCO) Kona Mann provided an oral report to the Committee on the Compliance Support Staff Report and Update and discussed in summary:

Internal Audit Compliance and Risk Management and Findings, Enterprise Risk Management (ERM) (Initiatives, Framework and Policies), Governance Risk and Compliance Platform.

An ERM Request for Proposal (RFP) is to be issued within the next couple of weeks, process of consultant and selection, and system integrated training within ERS to be able to use effectively.

The Committee requested ERS have a risk profile framework prior to hiring a consultant to assure that the necessary leadership, resources, capacity, etc. are in place to integrate any policies. CCO Mann shared with the Committee that the ERM Policy and Framework is being drafted to be finalized by mid-February for discussion by management prior to consultant selection, where conversations of resources, capacity, etc. can be addressed.

CCO Mann is still working on the compliance of mission, vision, values statements and all policies to be finished by end of February, then educate and train ERS staff.

APPROVAL OF MINUTES  
- JANUARY 3, 2024

On a motion made by Trustee Ley, seconded by Chair Chan, and unanimously carried, the Committee approved the minutes of the January 3, 2024, meeting as presented.

PUBLIC COMMENT

Vice Chair Barfield called for public comment. There was no public present by teleconference or in person, therefore, no public comment.

(Vice Chair Barfield identified attendees of the Executive Session, Committee members Chair Chan, Vice Chair Barfield, and Trustee Ley, and ERS staff, Executive Director Thomas Williams, Deputy Executive Director Kanoe Margol, Chief Investment Officer Kristin Varela, Recording Secretary Dale Kehau Kanae and Secretary Andrea Gasper and Lori Kim; Deputy Attorneys General Jenny Nakamoto, Lori Tanigawa, Elmira Tsang, and Diane Wong.

Vice Chair Barfield provided the reason to enter into Executive Session:

Executive Session, pursuant to HRS §92-5(a)(8), to deliberate and make a decision on the approval of Executive Session Minutes which are confidential under State law.)

#### ENTER EXECUTIVE SESSION

On a motion made by Trustee Ley, seconded by Chair Chan, and unanimously carried, the Committee entered into Executive Session at 3:57 p.m.

(Vice Chair Barfield requested, and all attendees confirmed, that no other persons were in their rooms or able to listen in on their audio or audiovisual connection while they were on the teleconference. Board Secretary Dale Kehau Kanae also confirmed that no unauthorized persons were in the conference room or able to listen in by audio or audiovisual connection while on the teleconference. Attendees are noted with an asterisk on these minutes and listed on the Executive Session Minutes.)

(Public participation concluded by ending the teleconference link.)

- Pursuant to HRS §92-5 (a)(8), to review and approve Executive Session Minutes of January 3, 2024.

EXECUTIVE SESSION  
PURSUANT TO HRS §92-5(a)(8),  
TO REVIEW AND APPROVE  
EXECUTIVE SESSION MINUTES  
OF JANUARY 3, 2024

#### EXIT EXECUTIVE SESSION

On a motion made by Trustee Ley, seconded by Chair Chan, and unanimously carried, the Committee exited Executive Session at 4:03 p.m.

Vice Chair Barfield announced that while in Executive Session, the Committee discussed approval of the Executive Session Minutes and staff changes.

#### ADJOURNMENT

On a motion made by Chair Chan, seconded by Trustee Ley, and unanimously carried, Vice Chair Barfield adjourned the meeting at 4:04 p.m.

#### REDACTED SIGNATURE

Thomas Williams  
Executive Director

TW:dkik



**Employees' Retirement System of the State of Hawaii**  
**BOARD OF TRUSTEES**  
**ADMINISTRATIVE & AUDIT COMMITTEE CHARTER**

---

**I. PURPOSE**

The Administrative & Audit Committee (“Committee”) of the Employees’ Retirement System (“ERS”) of the State of Hawaii is a committee of the Board of Trustees (“Board”). Its primary function is to assist the Board in fulfilling its oversight responsibilities relating to:

- A. The integrity of the ERS’s financial statements, accounting and financial reporting processes including internal and external audits;
- B. The ERS’s compliance with legal and regulatory requirements;
- C. The qualifications, independence and the performance of the ERS’s Internal and External Auditors;
- D. Monitoring the performance of the systems of internal controls established by Management and the Board;
- E. The business practices and ethical standards of the ERS;
- F. The review and monitoring of the administration of the ERS; and
- G. The review and monitoring of the Compliance Program.

The Committee provides an avenue of open and free communication between the Board, the Internal Auditors, the External Auditors, the Chief Compliance Officer, and Management of the ERS.

**II. COMMITTEE MEMBERSHIP**

- A. The membership of the Committee shall consist of at least three members of the Board.
- B. The Board members of the Committee shall be appointed annually by the Board Chair. Committee appointments can be changed at the discretion of the Board Chair at any time. In the event of a vacancy (due to member resignation, removal, or death), the Board Chair will appoint a replacement to serve the remainder of the term.



**Employees' Retirement System of the State of Hawaii**  
**BOARD OF TRUSTEES**  
**ADMINISTRATIVE & AUDIT COMMITTEE CHARTER**

---

- C. The members of the Committee shall be responsible for electing its Chair and Vice Chair.

**III. MEETINGS**

- A. The Committee must meet at least three (3) times per year or more frequently as circumstances require, with prior notice and publication of the agenda as provided by law.
- B. The Committee may ask members, ERS Management, advisors, and others to attend Committee meetings to provide pertinent information as necessary.

**IV. AUTHORITY**

The Committee shall have the power to conduct or authorize investigations into any matters within the Committee's scope of responsibilities. In the conduct of any investigation, the Committee shall have the authority to seek information it requires from ERS employees, Management, and external parties; and to engage advisors, or otherwise obtain independent legal, accounting, consulting, or other professional services it requires, at the expense of the ERS, with the approval of the Board.

**V. RESPONSIBILITIES**

The Committee provides oversight of various ERS functions: Administration, Risk Assessment, Internal Audits, External Audits, and Others. In fulfilling its oversight responsibilities, Committee members need to maintain an independent stance. Members of the Committee shall be considered independent if they have no relationship to the ERS that may interfere with the exercise of their fiduciary responsibilities.



**Employees' Retirement System of the State of Hawaii**  
**BOARD OF TRUSTEES**  
**ADMINISTRATIVE & AUDIT COMMITTEE CHARTER**

---

It is the duty of the Committee to report regularly to the Board with respect to any issues that arise concerning:

- A. The quality or integrity of the ERS's financial statements;
- B. The ERS's compliance with legal or regulatory requirements;
- C. The performance and independence of the ERS's External Auditors;
- D. The performance of the internal audit function;
- E. The allegations of serious suspected misconduct;
- F. Or any other matter within the scope of the Committee's function.

In carrying out its oversight responsibilities, the Committee's practices/procedures should remain flexible in order to best react to changing conditions and assure the Board that the risk assessment process, the accounting and financial reporting processes, internal controls, and internal and external auditing are in accordance with all related requirements and are of the highest quality.

Oversight Responsibilities Regarding Administration:

- A. Annually review the ERS strategic goals and objectives adopted by the Board and if appropriate, recommend any changes.
- B. Monitor Administration's implementation of these strategic goals and objectives.
- C. Provide direction to the Executive Director (ED) and Deputy Executive Director (DED) on priorities and actions to successfully execute the responsibilities of the Administrative Branch.
- D. Monitor compliance with administrative policies.
- E. Review and monitor the operating budget and provide recommendations to the full Board as necessary.

Oversight Responsibilities Regarding Risk Assessment:

- A. Inquire of Management, the Internal Auditors, and the External Auditors about significant risks or exposures.



**Employees' Retirement System of the State of Hawaii**  
**BOARD OF TRUSTEES**  
**ADMINISTRATIVE & AUDIT COMMITTEE CHARTER**

---

- B. Meet with the necessary parties to discuss the results of periodic risk assessments and obtain a clear understanding of the risk assessment process.
- C. Assess the steps Management has taken to minimize significant risks or exposures to the ERS.

Oversight Responsibilities Regarding Internal Audits:

- A. Where appropriate, oversee the procurement of internal auditing services and recommend to the Board:
  - 1. The Internal Auditor to be nominated;
  - 2. Approval of fees for the Internal Auditor; and
  - 3. The discharge of the Internal Auditor.
- B. Review the adequacy and effectiveness of the ERS's accounting and financial controls (including information technology and security controls) with:
  - 1. Personnel (from financial, accounting, and information systems);
  - 2. Internal and External Auditors; andelicit any recommendations to improve the system of internal controls or particular areas where new or more detailed controls or procedures are desirable.
- C. Obtain an understanding of any corrective actions to be taken with regard to controls and procedures.
- D. Recommend to the Board any co-sourcing or outsourcing internal audit services.
- E. Review the ERS Internal Audit Charter, including the independence and authority of the internal audit function, and its reporting obligations, qualifications, and staffing for the calendar year.
- F. Review the annual Internal Audit Plan (and all major changes to the plan) and recommend its approval to the Board.
- G. Review the reports and findings/recommendations of the Internal Auditors and the responses of the ERS Management, and monitors completion of Management's action plans.





**Employees' Retirement System of the State of Hawaii**  
**BOARD OF TRUSTEES**  
**ADMINISTRATIVE & AUDIT COMMITTEE CHARTER**

---

- H. Review a summary of major findings from completed internal audits and a progress report on the execution of the Internal Audit Plan and Management's implementation of action plans.
- I. Meet separately with the Chief Audit Executive<sup>1</sup> and/or Management to discuss any matters that the Committee, or these parties, believe should be discussed privately.
- J. Review the effectiveness of the internal audit functions, including compliance with the Institute of Internal Auditors Standards for the Professional Practice of Internal Auditing.
- K. Report the results of the Internal Audit Plan to the Board. At the invitation of the Committee, the Internal Auditors will attend Board meetings to assist in reporting the results of the Internal Audit Plan and to answer questions.

**Oversight Responsibilities Regarding External Audits:**

- A. Obtain a basic understanding of government accounting, financial reporting, auditing processes, and critical policies, and ensure that the financial leadership team is qualified and competent.
- B. The State Office of the Auditor is responsible for the procurement of external auditing services and determines:
  - 1. The External Auditor to be nominated;
  - 2. Approval of the audit fees of the External Auditor; and
  - 3. The discharge of the External Auditor.
- C. Review prior year comments from the Government Finance Officers Association (GFOA) in its determination of the ERS's compliance with the requirements for the Certificate of Achievement in Financial Reporting, where applicable.
- D. Review with Management and the External Auditor the draft financial statements to be filed with the GFOA.
- E. Assess the integrity of the annual financial statements and related disclosures, including significant accounting judgements and estimates.

---

<sup>1</sup> The Chief Audit Executive may be an individual employee or a firm contracted to outsource or co-source the internal audit function.



**Employees' Retirement System of the State of Hawaii**  
**BOARD OF TRUSTEES**  
**ADMINISTRATIVE & AUDIT COMMITTEE CHARTER**

---

- F. Review and examine the independence (including any potential conflict of interest) of the External Auditor, including a review of Management consulting services and related fees provided by the External Auditor.
- G. Review with the External Auditor the coordination of audit effort to assure completeness of coverage, reduction of redundant efforts, and the effective use of audit resources.
- H. Review, at least annually, with Management and/or the External Auditor:
  - 1. Scope of the proposed audit for the current fiscal year and the procedures to be utilized.
  - 2. The ERS's annual financial statements and related footnotes.
  - 3. The External Auditor's audit of the financial statements and audit report thereon.
  - 4. The adequacy of the ERS's internal financial controls.
  - 5. Any significant changes required in the External Auditor's scope and audit plan.
  - 6. Other matters related to the conduct of the audit, which are to be communicated to the Committee under Generally Accepted Government Auditing Standards, including audit adjustments made and passed.
  - 7. Judgments about the quality, not just the acceptability of accounting principles and the clarity of the financial disclosures.
  - 8. Any difficulties encountered in the course of the external audits, including any disputes with Management, restrictions on the scope of their work or access to required information.
- I. Consider and review with Management any significant findings during the fiscal year and recommendations of the External Auditor's and Management's responses thereto.
- J. Meet separately with the External Auditor and/or Management to discuss any matters the Committee, or these parties, believe should be discussed privately with the Committee.

**Employees' Retirement System of the State of Hawaii**  
**BOARD OF TRUSTEES**  
**ADMINISTRATIVE & AUDIT COMMITTEE CHARTER**

---

- K. Report the results of the annual external audit to the Board. At the invitation of the Committee, the External Auditor will attend Board meetings to assist in reporting the results of the annual audit and to answer questions.

Oversight Responsibilities Regarding the Ethics and Compliance Program:

- A. Annually review the goals and objectives adopted by the Board and, if appropriate, recommend any changes.
- B. Periodically review the Ethics and Compliance Program Charter and make revisions, if necessary.
- C. Periodically evaluate the program and exercise reasonable oversight with respect to the implementation and effectiveness of the program.

Other Oversight Responsibilities:

- A. Report Committee actions, including any investigative actions, to the Board with such recommendations as the Committee may deem appropriate.
- B. Monitor the implementation of procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls, auditing or other matters, including mechanisms for anonymous submission of related concerns by ERS employees or the appropriate bodies.
- C. Consult with the Attorney General on legal matters regarding financial transactions, fraud, or any other issue that could have a significant impact on the annual reports.
- D. Obtain any information and training needed to enhance the Committee members' understanding of the role of Internal and External Auditors, the risk management process, internal controls and a certain level of familiarity in government financial reporting standards and processes.
- E. Obtain the Board's approval of this Charter and, on an annual basis, evaluate the adequacy of this Charter and recommend any proposed changes to the Board for approval.



**Employees' Retirement System of the State of Hawaii**  
**BOARD OF TRUSTEES**  
**ADMINISTRATIVE & AUDIT COMMITTEE CHARTER**

---

- F. Confirm annually that the Committee has performed its responsibilities as outlined in this Charter.
- G. Coordinate with the Legislative Committee, Investment Committee, Governance Policy Committee, and ~~Compensation Review~~ Human Resources Committee, as deemed necessary.
- H. Perform such other functions as assigned by the Board.

**VI. LIMITATIONS OF THE ADMINISTRATIVE AND AUDIT COMMITTEE'S ROLE**

- A. It is not the duty of the Committee to plan or conduct audits or to determine that the ERS's financial statements are complete, accurate, and in accordance with Generally Accepted Accounting Principles. This is the responsibility of Management and the External Auditors.
- B. While the Committee is responsible for reviewing the ERS's policies and practices with respect to risk assessment and management, it is the responsibility of the Executive Director and Senior Management to determine the appropriate level of the ERS's exposure to risk.

*Adopted and Approved by the Board of Trustees: June 12, 2012, August 10, 2020, April 11, 2022, March 13, 2023*

*Accepted by the Governance Policy Committee: March 28, 2022, March 7, 2023*

*Revised and Accepted by the Administrative & Audit Committee: July 21, 2020, February 9, 2022, February 22, 2023, January 31, 2024*



# Employees' Retirement System of the State of Hawaii

## BOARD OF TRUSTEES

### INTERNAL AUDIT CHARTER

---

#### **I. INTRODUCTION**

Internal auditing is an independent, objective assurance and consulting activity<sup>1</sup> designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

#### **II. ROLE OF INTERNAL AUDIT**

The Internal Audit function of the Employees' Retirement System ("ERS") is established by the ERS Board of Trustees ("Board") and its responsibilities are defined in this charter which is approved by the Board. The Chief Audit Executive ("CAE"), which may be an individual employee or a firm contracted to outsource or co-source the internal audit function, reports functionally to the ERS Administrative & Audit Committee ("Committee") and administratively to the ERS Executive Director ("ED") or designee. Approval from the Board is required for the hiring, compensation, removal, or replacement of the CAE.

The objectives of Internal Audit are to assist management and employees of the ERS in the effective discharge of their responsibilities by providing them with analyses, appraisals, recommendations, counsel, and information concerning the activities reviewed and to promote effective internal controls at a reasonable cost.

---

<sup>1</sup> As defined by the Institute of Internal Auditors, an *assurance* activity is an examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the organization, while *consulting* refers to advisory and related client service activities intended to add value and improve an organization's processes.



**Employees' Retirement System of the State of Hawaii  
BOARD OF TRUSTEES  
INTERNAL AUDIT CHARTER**

---

**III. AUTHORITY**

The CAE and the Internal Audit staff are authorized to:

- A. Review all areas of the ERS;
- B. Have full, free, and unrestricted access to all of the ERS's activities, records, physical property, and personnel necessary to complete their work;
- C. Have full, free, and unrestricted access to the Board, Committee, ED, Deputy ED, Chief Investment Officer, Branch Chiefs, and all members of management;
- D. Allocate resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish audit objectives; and
- E. Obtain the necessary assistance of personnel in units of the ERS where they perform audits, as well as other specialized services from within or outside the ERS.

The CAE and the Internal Audit staff are not authorized to:

- F. Perform any operational duties for the ERS;
- G. Initiate or approve accounting transactions external to the internal audit function; nor
- H. Direct the activities of any ERS employee not employed by the internal audit function, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist the internal auditors.

**IV. INDEPENDENCE & OBJECTIVITY**

Internal auditors have no direct responsibility or any authority over any of the activities or operations that they review. They should not develop and install procedures, prepare records, or engage in activities that would normally be reviewed by internal auditors.

Internal Audit's objectivity is not adversely affected, however, by recommending standards of controls to be applied in developing systems and procedures, or by evaluating existing



**Employees' Retirement System of the State of Hawaii  
BOARD OF TRUSTEES  
INTERNAL AUDIT CHARTER**

---

or planned financial and operating systems and related procedures, and making recommendations for modification and improvements thereto in order to improve controls and/or enhance operational effectiveness.

**V. SCOPE OF WORK**

The scope of work of the Internal Audit function is to determine whether the ERS's network of risk management, control, and governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure:

- Risks are appropriately identified and managed.
- Interaction with the various governance groups occurs as needed.
- Significant financial, managerial, and operating information is accurate, reliable, and timely.
- Employee actions are in compliance with policies, standards, procedures, and applicable laws and regulations.
- Resources are acquired economically, used efficiently, and adequately protected.
- Programs, plans, and objectives are achieved.
- Quality and continuous improvement are fostered in the ERS's control process.
- Significant legislative or regulatory issues impacting the ERS are recognized and addressed properly.

Opportunities for improving management control, process efficiency, and the ERS's image may be identified during audits. They will be communicated to the appropriate level of management.



**Employees' Retirement System of the State of Hawaii  
BOARD OF TRUSTEES  
INTERNAL AUDIT CHARTER**

---

**VI. RESPONSIBILITIES**

Internal Audit is responsible for the following activities:

Standards

- A. The CAE is responsible for ensuring that all activities of the internal audit function are carried out in compliance with the Institute of Internal Auditors' ("IIA") mandatory guidance including the "Definition of Internal Auditing," the "Code of Ethics," and applicable standards found in the "International Standards for the Professional Practice of Internal Auditing."
- B. Conduct a periodic risk assessment for the ERS and present the results to the Committee.
- C. Develop a flexible annual Internal Audit Plan using an appropriate risk-based methodology, which considers risks or control concerns identified by management, and submit the plan to the Committee and the Board for review and approval.
- D. Implement the annual Internal Audit Plan, as approved, including, and as appropriate, any special tasks or projects requested by management, the Committee, and the Board.

Ethics

- E. Review the adequacy of the ERS's adopted code of conduct activities, including the process to receive, retain, and treat complaints received on accounting and auditing matters.
- F. Monitor management's process for ensuring compliance with Hawaii Revised Statutes – Chapter 84, Standards of Conduct ("State Ethics Code").





**Employees' Retirement System of the State of Hawaii**  
**BOARD OF TRUSTEES**  
**INTERNAL AUDIT CHARTER**

---

Monitoring & Follow-Up

- G. Evaluate any plans to correct reported conditions for satisfactory improvement of the business process.
- H. Provide adequate follow-up to ensure corrective action is taken and evaluate its effectiveness before recommending closure of an issue.
- I. Monitor and evaluate the effectiveness of the organization's risk management processes.

Reporting

- J. Prepare and issue a written report following the conclusion of each audit and follow-up audit. This report shall include significant findings, recommendations to management, and management's action plan. A copy of the report will be forwarded to the Committee, ED, Deputy ED, Chief Compliance Officer, and appropriate members of management.
- K. Inform and advise management and the Committee as to significant deficiencies or other substantive issues noted in the course of its activities.
- L. Provide periodic reports on Internal Audit's progress on implementing the annual Internal Audit Plan, including management's progress on addressing previously reported matters, the impact of resource limitations, and significant interim changes.
- M. On a regular basis, the CAE will meet separately with the Committee to discuss any matters that is deemed necessary by the Committee or Internal Audit.

Other

- N. Conduct special examinations at the request of management or the Committee.
- O. Perform consulting services, beyond internal auditing assurance services, to assist management in meeting its objectives. Examples may include facilitation, consultation on internal control improvement initiatives, training, and advisory services.



**Employees' Retirement System of the State of Hawaii**  
**BOARD OF TRUSTEES**  
**INTERNAL AUDIT CHARTER**

---

- P. Assist in the investigation of significant suspected fraudulent activities within the organization and notify management and the Committee of the results.
- Q. Evaluate and assess significant merging/consolidating functions and new or changing services, processes, operations, and control processes coincident with their development, implementation, and/or expansion.
- R. Keep the Committee informed of emerging trends and successful practices in internal auditing.
- S. Review this Internal Audit Charter on an an ~~periodic~~-annual basis to ensure the purpose, authority, and responsibilities of Internal Audit continue to be adequate in accomplishing its objectives. Modify as appropriate and submit to the Committee and ED for review and approval.

*Adopted and Approved by the Board of Trustees: June 12, 2012, April 11, 2022, March 13, 2023*

*Accepted by the Governance Policy Committee: March 28, 2022, March 7, 2023*

*Revised and Accepted by the Administrative & Audit Committee: June 9, 2020, February 22, 2023, January 31, 2024*



**Employees' Retirement System of the State of Hawaii**  
**BOARD OF TRUSTEES**  
**ETHICS & COMPLIANCE CHARTER**

---

**I. INTRODUCTION**

The Employees' Retirement System ("ERS") Ethics and Compliance function is an independent monitoring, advisory, review, and reporting activity established within ERS to assist the organization in fulfilling its mission, vision, and fiduciary responsibilities by complying with laws, regulations, and ERS policies, for which oversight has been assigned. The function strives to ensure, promote and support an organizational culture that builds ethics and compliance awareness into the daily business processes for ERS. ERS's Compliance Program will accomplish this mission by monitoring business activities, policies and procedures, and by establishing an infrastructure that provides additional assurance to management that program areas are in compliance.

The Chief Compliance Officer ("CCO") is authorized to engage in independent reviews and activities for the development and implementation of a comprehensive system of operational controls to prevent illegal, unethical, or improper conduct and to implement compliance policies and procedures relating to standards of ethics and conduct for ERS' Board, employees, and vendors.

**II. ROLES & RESPONSIBILITIES**

Under the direction of the Executive Director ("ED") and oversight of the Board, the CCO:

- A. Pursuant to the Ethics and Compliance Program Charter, manages day-to-day operation of the compliance program;
- B. Monitor and assess the Policy Management Framework and oversee the completion of the Policy Lifecycle;
- C. Assesses and audits ERS' controls and compliance with all applicable laws, statutes, administrative rules, regulations and best practices outlined in policies;



**Employees' Retirement System of the State of Hawaii**  
**BOARD OF TRUSTEES**  
**ETHICS & COMPLIANCE CHARTER**

---

- D. Collaborates with other divisions to implement compliance policies and procedures and to direct compliance issues to appropriate channels for investigation and resolution;
- E. Collaborates with the Information Technology Branch Chief to build a strategic security program and coordinates all phases of security projects from requirement definition to design, architecture, implementation, testing, support, and maintenance;
- F. Develops and periodically reviews and updates standards of ethics and conduct to ensure that continuing effective guidance is provided to the Board, management, and employees;
- G. Coordinates with the Department of the Attorney General on legal matters so that ERS may faithfully execute its duties and responsibilities;
- H. Coordinate with the Internal Auditor to monitor and provide independent oversight over the implementation of the approved annual Internal Audit Plan;
- I. Coordinates with management, the Committee, and the Board on any special tasks or projects aligned with the long-term interests of ERS;
- J. Ensures that compliance issues and concerns within the organization are being appropriately evaluated, investigated, and resolved;
- K. Coordinate audit efforts with those of the ERS's external auditors and other regulatory agencies;
- L. Responds to alleged violations of rules, regulations, policies, procedures, and standards of ethics and conduct by evaluating and, if necessary, recommending the initiation of investigative procedures;
- M. Develops and oversees a system for uniform handling of such violations;
- N. Identifies potential areas of compliance vulnerability and risk;
- O. Develops/implements corrective action plans for resolution of problematic issues and provides general guidance on how to avoid or deal with similar situations in the future;



**Employees' Retirement System of the State of Hawaii**  
**BOARD OF TRUSTEES**  
**ETHICS & COMPLIANCE CHARTER**

---

- P. Works in coordination with management and the Branch Chiefs to develop, maintain, and test the disaster recovery, business continuity, risk management and access control needs of the organization;
- Q. Provides reports as directed or requested to keep the Board, Administrative ~~and~~& Audit Committee, and management informed of the operation and progress of compliance efforts;
- R. Ensures proper reporting of violations or potential violations to duly authorized enforcement agencies as appropriate and/or required; and
- S. Works with the Board, Administrative ~~and~~& Audit Committee, Internal Auditor, Department of the Attorney General, and management to develop an effective compliance training program for Board Members, managers, and employees, including appropriate introductory training for new employees.

In carrying out these responsibilities, the CCO shall:

- A. Ensure objectivity and independence;
- B. Remain free of actual or perceived conflicts of interest;
- C. Discharge professional responsibilities with due care, competence, and diligence;.
- D. Have access to all functions, records, property, and personnel necessary to complete responsibilities; and
- E. Have full and free access to the Board and the Administrative & Audit Committee.

### **III. CHARTER REVIEW & HISTORY**

The Administrative & Audit Committee shall, on behalf of the Board, ~~shall~~ review this Charter at least ~~every three years~~ annually to ensure it remains relevant and appropriate.

*Adopted and Approved by the Board of Trustees: March 13, 2023*

*Accepted by the Governance Policy Committee: March 7, 2023*

*Introduced and Accepted by the Administrative & Audit Committee: February 22, 2023, January 31, 2024*