

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

FEBRUARY 18, 2025

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

Trustees present: (City Financial Tower by teleconference)	Dr. Catherine Chan, Chair* Mr. Vincent Barfield, Vice Chair* Dr. Genevieve Ley* Mr. David Louie*
Trustee absent:	Mr. Luis Salaveria
Staff present: (City Financial Tower by teleconference)	Mr. Thomas Williams, Executive Director* Ms. Gail Strohl, Deputy Executive Director* Mr. Kona Mann, Chief Compliance Officer* Mr. James Greubel, Program Specialist Ms. Kristin Varela, Chief Investment Officer* Ms. Lori Kobayashi, Retirement Benefits Branch Manager* Mr. Keith Miyamoto, Information Services Branch Manager* Ms. Dale Kehau Kanae, Recording Secretary/Administrative Assistant* Ms. Lori Kim, Administrative Assistant* Ms. Andrea Gasper, Administrative Assistant*
Attorneys 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*
Guests present: (by teleconference)	Mr. Peter Hanashiro, KMH LLP* Mr. Tyson Suehiro, KMH LLP* Mr. Alfred Ko, RSM US LLP*

*Attended Executive Session

QUORUM/CALL TO ORDER

A quorum being present (Chair Chan, Vice Chair Barfield, and Trustee Ley), Chair Chan 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 2:00 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. Each of the Trustees present confirmed same. Chair Chan reminded the Committee to please be sure that they are visible on their video cameras and that they remain on while the meeting is in session. Trustee Louie also attended the meeting.

PUBLIC COMMENT

Chair Chan 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

Chair Chan presented for discussion by the Committee, the election Chair and Vice Chair of the Administrative and Audit Committee.

OF THE ADMINISTRATIVE
AND AUDIT COMMITTEE

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

INTERNAL AUDIT UPDATE
REPORT BY KMH LLP ON
THE CURRENT STATUS OF
ACTIVITIES COMPLETED
DURING Q4, 2024, AND AN
UPDATE ON THE
COMPLETION STATUS OF
MANAGEMENT ACTION
PLANS FOR PAST INTERNAL
AUDIT OBSERVATIONS AND
RECOMMENDATIONS

Trustee Ley nominated and re-elected Chair Chan and Vice Chair Barfield.

On a motion made by Trustee Ley, seconded by Vice Chair Barfield, and unanimously carried, the Committee re-elected Chair Chan and Vice Chair Barfield to the Administrative and Audit Committee.

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

The Committee reviewed and discussed the revisions as presented of the Administrative & Audit Committee, and Internal Audit Charters. Although there were no noted revisions presented for the Ethics & Compliance Charter, the Committee requested the following revisions:

II. ROLES AND RESPONSIBILITIES

Under the direction of the Executive Director (“ED”) and involvement of the Leadership Team¹, and oversight of the Board, the CCO: ...

¹ The Leadership Team is comprised of the Deputy Executive Director, Branch Chiefs, Chief Investment Officer, and Deputy Chief Investment Officer.

On a motion made by Vice Chair Barfield, seconded by Chair Ley, and unanimously carried, the Committee accepted the Administrative & Audit Committee, Internal Audit, and Ethics and Compliance Charters as presented with the noted and requested revisions. The Charters will be presented to the Board for approval at its next meeting. (The Charters are attached to these minutes for clarification.)

KMH LLP’s Peter Hanashiro and Tyson Suehiro attended the meeting in person and RSM US LLP’s Alfred Ko attended the meeting by teleconference and presented oral and written reports to the Committee of KMH LLP’s Internal Audit Update Report and Risk Assessment Re-Evaluation and Proposed Two-Year Internal Audit Plan and discussed in part, and summary:

INTERNAL AUDIT UPDATE REPORT EXECUTIVE SUMMARY

Administrative and Other Matters

Status on Current Projects

- Virtual Chief Information Security Officer (vCISO)
- Investment Manger Selection and Evaluation Review
- Contracting & Procurement Review
- Risk Assessment Re-Evaluation and Two-Year Internal Audit Plan

GLOBAL INTERNAL AUDIT STANDARDS SUMMARY

2024 INTERNAL AUDIT PLAN RESULTS SUMMARY

MANAGEMENT ACTION DASHBOARD

MANAGEMENT ACTION PLANS – COMPLETION STATUS

CUMULATIVE OBSERVATION ANALYSIS

ISSUED REPORTS FINDING STATUS

RISK ASSESSMENT RE-EVALUATION AND PROPOSED TWO-YEAR INTERNAL AUDIT PLAN REPORT BY KMH LLP. THE RE-EVALUATION AND PLAN CONTAIN PROPOSED ASSURANCE, ADVISORY, AND OTHER PROJECTS FOR 2025 AND 2026

COMPLIANCE SUPPORT STAFF QUARTERLY UPDATE REPORT ON THE IMPLEMENTATION OF ERS' COMPLIANCE PROGRAM, GOVERNANCE, RISK, AND COMPLIANCE PLATFORM, AND RISK STRATEGY

There was no action required of the Committee for this agenda item.

RISK ASSESSMENT RE-EVALUATION AND PROPOSED TWO-YEAR INTERNAL AUDIT PLAN
EXECUTIVE SUMMARY

PROPOSED TWO-YEAR INTERNAL AUDIT PLAN
Proposed Audit Plan – 2025 and 2026

PROPOSED TWO-YEAR INTERNAL AUDIT PLAN SCHEDULE
2025 and 2026 Proposed Internal Audit Plan Schedule

- 2024 Carryover Projects
- Assurance Projects
- Advisory & Other Projects

The Committee requested, as mentioned at a previous meeting, that KMH LLP include for HIGH-risk ratings, a reference to the actual audit rating and whether or not an audit was done, as well as what has been done with regard to the internal audit and how the functions were rated. Reference the table on pg. 16-18 of the report. KMH LLP will incorporate into that table for the next report, the most recent project issued, what the evaluation was, and the date of that report.

The Committee requested that executive leadership be responsible to notify the Committee and Board of any risks, especially HIGH risks, in advance of ratings provided by the internal auditors for 2025 and 2026.

On a motion made by Vice Chair Barfield, seconded by Trustee Ley, and unanimously carried, the Committee accepted KMH LLP's Risk Assessment Re-Evaluation and Proposed Two-Year Internal Audit Plan Report and will be presenting it to the Board for approval at its next meeting.

Chief Compliance Officer (CCO) Kona Mann provided an oral and written report to the Committee on the Implementation of ERS' Compliance Program, Governance, Risk, and Compliance Platform, and Risk Strategy and discussed in summary:

EXECUTIVE SUMMARY
Key Highlights
Next Steps

ERS COMPLIANCE PROGRAM
Strategy
Risk Management
Culture
Accountability

The Committee again requested, as mentioned at a previous meeting, a dashboard clearly explaining the risks, how it affects the Branches within the ERS organization, and a current status of how it's being managed, with possible solutions, and showing the different levels of risks. The Committee requested executive leadership identify the top 10 to 20 risks.

This quarterly report was provided for the Committee as an update and no action was required.

UPDATE ON EMPLOYER
REPORTING OF PAYROLL
INFORMATION REQUIRED
BY ACT 87, SLH 2015

Program Specialist (PS) James Greubel and CCO Mann presented an oral report to the Committee on an Update on the Employer Reporting of Payroll Information Required by Act 87, SLH 2015 and discussed a history of past activities as of 2024, previously shared at the Board meeting of January 13, 2025.

PS Greubel shared with the Committee that ERS is currently reviewing its reporting requirements and related processing procedures, and developing diagnostic reports so that appropriate controls may be established with the contractor, KMH LLP in the analysis of the employer reporting data. Due to the time and resources required to analyze the reporting data, provide subsequent notice and response time, the ERS anticipates that no employers would be subject to the pre-payment of contributions penalty due to failing to report data in the required format in Fiscal Year 2025.

CCO Mann shared with the Committee that ERS staff are working with a team from KMH LLP who is contracted for three years plus two additional years on this reporting requirements.

There was no action required of the Committee for this agenda item.

PROPOSED TIMETABLE
OUTLINING THE PROCESS OF
THE 2026 TRUSTEE(S)
ELECTION FOR A GENERAL
EMPLOYEE AND A
RETIRANT

Deputy Executive Director (DED) Gail Strohl presented an oral report to the Committee on a Proposed Timetable Outlining the Process of the 2026 Trustee(s) Election for a General Employee and a Retirant.

DED Strohl shared with the Committee that an election will be held for two Trustee seats, a general and a retirant, as Trustees Bennett Yap and Chair Kane's terms will be ending on January 1, 2026. DED Strohl noted some of the proposed timetable schedule for 2025 stating that a notice will be posted in the next Holomua in March, a request for quotations for a contractor to handle the election service to be sent out April 25th, nomination papers must be received by June 13th, ballots to be mailed out September 5th, ballots to be tallied October 21-24, and results to be presented at the Board meeting of November 10th. A final proposed timetable will be presented to the Board at its next meeting.

No action was required of the Committee, this was provided for information.

It was noted that staff are still working on updating the Hawaii Revised Statutes regarding procedures relating to the Trustees election process, specifically nominations and electronic voting.

APPROVAL OF MINUTES
- OCTOBER 23, 2024

On a motion made by Vice Chair Barfield, seconded by Trustee Ley, and unanimously carried, the Committee approved the minutes of the October 23, 2024, meeting as presented.

PUBLIC COMMENT

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

(Chair Chan identified all the participants in Executive Session, the Board, ERS Staff, Deputy Attorneys General, and Guests are identified with an asterisk on these minutes and listed on the Executive Session Minutes.

Chair Chan provided the reason to enter into Executive Session: Executive Session, pursuant to HRS §92-5(a)(4), (6), and (8), to consider and consult with the Board's attorneys on questions and

issues pertaining to the Board’s powers, duties, privileges, immunities, and liabilities, and to consider sensitive matters related to an Update on Cyber Security; and to make a decision on the approval of Executive Session Minutes of October 23, 2024, which are confidential under State law.)

ENTER EXECUTIVE SESSION

On a motion made by Trustee Ley, seconded by Vice Chair Barfield, and unanimously carried, the Committee entered into Executive Session at 3:28 p.m.

(Chair Chan 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 Administrative Assistant 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)(4) and (6), to consider and consult with the Board’s attorneys on questions and issues pertaining to the Board’s powers, duties, privileges, immunities, and liabilities, and to consider sensitive matters related to Cyber Security Updates.
- Pursuant to HRS §92-5 (a)(8), to review and approve Executive Session Minutes of October 23, 2024.

EXECUTIVE SESSION, PURSUANT TO HRS §92-5(a)(4) AND (6), TO CONSIDER AND CONSULT WITH THE BOARD’S ATTORNEYS ON QUESTIONS AND ISSUES PERTAINING TO THE BOARD’S POWERS, DUTIES, PRIVILEGES, IMMUNITIES, AND LIABILITIES, AND TO CONSIDER SENSITIVE MATTERS RELATED TO CYBER SECURITY UPDATES

EXECUTIVE SESSION
PURSUANT TO HRS §92-5(a)(8),
TO REVIEW AND APPROVE
EXECUTIVE SESSION MINUTES
OF OCTOBER 23, 2024

EXIT EXECUTIVE SESSION

On a motion made by Trustee Ley, seconded by Vice Chair Barfield, and unanimously carried, the Committee exited Executive Session at 3:49 p.m.

Chair Chan announced that while in Executive Session, the Committee discussed matters related to Cyber Security Updates, and approval of the Executive Session Minutes of October 23, 2024.

ADJOURNMENT

On a motion made by Trustee Ley, seconded by Vice Chair Barfield, and unanimously carried, Chair Chan adjourned the meeting at 3:50 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, and recommend its approval to the Board.
- 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. Support the Chief Audit Executive through regular, direct communications.
- IJ. Meet separately with the Chief Audit Executive¹ and/or Management to discuss any matters that the Committee, or these parties, believe should be discussed privately.
- JK. Review the effectiveness of the internal audit functions, including compliance alignment with the Institute of Internal Auditors' Global International Audit Standards for the Professional Practice of Internal Auditing.
- KL. 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.

¹ 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

- E. Assess the integrity of the annual financial statements and related disclosures, including significant accounting judgements and estimates.
- 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 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, March 11, 2024, March 10, 2025

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, February 18, 2025



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

I. **INTRODUCTION**

Internal auditing is an independent, risk-based, objective assurance and ~~consulting~~ advisory activity¹ designed to create, protect, and sustain 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.

The Internal audit function is most effective when:

- Internal auditing is performed by competent professionals in alignment with the Institute of Internal Auditor's Global Internal Audit Standards™, which are set in the public interest.
- The internal audit function is independently positioned with direct accountability to the Administrative & Audit Committee and Board of Trustees.
- Internal auditors are free from undue influence and committed to making objective assessments.

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

¹ 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-an advisory~~ activity refers to ~~advisory consulting~~ 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

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.

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. Internal auditors are accountable for confidentiality and safeguarding records and information;
- 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.



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

IV. INDEPENDENCE & OBJECTIVITY

The CAE will ensure that the internal audit function 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 CAE 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 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 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-internal audit activities encompasses, but is not limited to, objective examinations of evidence to provide independent assurance and advisory services to ERS and



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

management on the adequacy and effectiveness 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.
- Operations are consistent with established goals and objectives.
- Operations are being carried out effectively, efficiently, ethically, and equitably.
- 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.

VI. **RESPONSIBILITIES**

Internal Audit is responsible for the following activities:



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

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."~~ Ensure internal audit engagements are performed, documented, and communicated in alignment with the Global Internal Audit Standards and laws and/or regulations.
- 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~~ Biennially develop a two-year risk-based internal audit plan, which considers risks or control concerns identified by management, and submit the plan to the Committee and the Board for review and approval. Review and adjust the internal audit plan with appropriate approval by the Committee, as necessary.
- 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 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,

March 11, 2024, March 10, 2025

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, February 18, 2025



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 involvement of the Leadership Team¹, 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;

¹ The Leadership Team is comprised of the Deputy Executive Director, Branch Chiefs, Chief Investment Officer, and Deputy Chief Investment Officer.



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

- C. Assesses and audits ERS' controls and compliance with all applicable laws, statutes, administrative rules, regulations and best practices outlined in policies;
- 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 & 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 & 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, review this Charter at least annually to ensure it remains relevant and appropriate.

Adopted and Approved by the Board of Trustees: March 13, 2023, March 11, 2024, March 10, 2025
Accepted by the Governance Policy Committee: March 7, 2023
Introduced and Accepted by the Administrative & Audit Committee: February 22, 2023, January 31, 2024, February 18, 2025