

Texas Municipal Retirement System

Charter for the Finance & Audit Committee

This charter has been created and adopted by the Board of Trustees (Board) of the Texas Municipal Retirement System (System).

I. Purpose

The primary purpose of the Finance & Audit Committee (Audit Committee or Committee) is to assist the Board in fulfilling its fiduciary responsibilities with respect to:

- a. accounting policies and reporting practices,
- b. the systems of internal controls and risk management,
- c. the internal and external audit processes,
- d. the process for monitoring compliance with laws and regulations and the Board and TMRS Staff ethics policies, and
- e. any special investigations or assignments.

II. Composition

A. To the extent feasible, members of the Committee shall be selected who have a working familiarity with basic finance and accounting practices, to be able to understand and make informed decisions regarding issues raised by the internal and external auditors. The Committee may retain special legal, accounting or other consultants or experts it considers necessary in the performance of its duties.

B. The Audit Committee will be composed of the following:

- Three (3) members of the Board of Trustees, appointed by the Board Chair

C. Appointments by the Board Chair are subject to Board approval and the Board Chair will appoint the Audit Committee Chair and Vice-Chair. In case of the absence, death, resignation, disability, removal, or disqualification of the Audit Committee Chair, the Vice-Chair shall perform the duties of the Chair until the Chair shall resume his or her office or a successor Chair has been appointed. Members of the Committee will generally serve one-year terms but may be reappointed. The TMRS Board Chair will review the composition of the Committee each December and will make appointments or reappointments to be effective in January. The TMRS Board Chair will fill any vacancies, as needed, with Board approval at its next meeting. Interim appointments are permitted to serve immediately, pending Board approval.

D. The following Resource Team will attend and participate in Audit Committee meetings at the pleasure of the Committee:

- Executive Director
- Director of Finance
- Internal Auditor

E. The Audit Committee Chair will appoint a member of TMRS staff to serve as Secretary to the Committee.

III. Meetings

A. The Audit Committee shall meet quarterly, but has authority to convene additional meetings, as circumstances require. All meetings will be open to the public, and as such, meeting agendas and locations will be posted as required by the Texas Open Meetings Act. A quorum of the Committee shall consist of two members. Unless otherwise specified in this charter, concurrence of at least two members is required to adopt recommendations or take other Committee action.

B. The Committee may hold a meeting by telephone conference call only if an emergency or public necessity exists and the convening at one location of a quorum of the Committee is difficult or impossible. An emergency or public necessity exists if immediate action is necessary because there is a threat to public health and safety or due to an unforeseeable situation. A telephone conference call meeting must comply with the requirements of Government Code Section 551.125

C. The Audit Committee Chair and TMRS Staff will develop the meeting agendas. Meeting agendas will be provided in advance to members and the Resource Team, along with appropriate briefing materials. The Committee will report on its activities to the Board through the minutes and special presentations as necessary.

D. Committee members are expected to attend all meetings. The Committee may invite members of management, auditors or others to attend meetings and provide pertinent information, as necessary.

E. Closed Session

1. Subject to the requirements of the Texas Open Meetings Act, the internal auditor or the external auditor may make a request to the Audit Committee Chair to meet in Closed Session with the Committee if there are significant matters that need to be addressed involving the office of the Executive Director or any other part of the organization.

2. The Committee may meet in Closed Session concerning personnel matters such as the hiring or dismissal of the internal auditor or other personnel matters being investigated by the Committee.

3. The Committee may meet in Closed Session with its legal counsel to discuss pending or contemplated litigation, or to receive legal counsel's advice on other legal matters.

4. At such Closed Session meetings the Committee may have present, at its request, members of staff, legal counsel, consultants, or such other advisers it deems necessary.

IV. Responsibilities and Duties

To fulfill its responsibilities, the Audit Committee will carry out the following duties:

A. Financial Reporting and Internal Control

1. Inquire of management and the external auditors about significant accounting and reporting issues, including complex or unusual transactions and any highly judgmental areas, as well as any recent professional and regulatory pronouncements, and understand their impact on the financial statements.

2. Consider the effectiveness of the System's internal control over quarterly and annual financial reporting, including information technology security and control. Inquire of management and the internal and external auditors about fiscal health, financial status, significant risks or exposures, specifically including the risk of fraud, and assess steps management has taken to minimize such risk to the System.

3. Review the System's quarterly financial statements for the Trust and Expense Funds.

B. Operating Budget

1. Receive quarterly status report from management regarding the current Operating Budget and discuss any significant budget expenditures and variances from the adopted Operating Budget.

2. Review draft operating budget and budget priorities (generally in October and November of each calendar year), prior to submission for the Board's acceptance at its December Board meeting.

C. Auditing Oversight

1. External Audit

a. Review the independent auditors' audit plan and proposed audit fee, and discuss the scope, staffing, reliance upon management and the System's internal auditor, and general audit approach.

b. Review the System's annual audited financial statements prior to their distribution and/or inclusion in the Comprehensive Annual Financial Report (CAFR). This review shall include discussion with management and the independent auditors, of any significant issues regarding accounting principles,

practices and judgments. Note that the independent auditor will be required to present the audit opinion and any required communications (in accordance with generally accepted auditing standards) to the full Board.

c. Review all significant written communications between the independent auditors and management, such as any management letter or schedule of unadjusted differences.

d. Review with management and the independent auditors matters required to be discussed by Statement on Auditing Standards (SAS) No. 61, Communication With Audit Committees (AICPA, Professional Standards, vol. 1, AU sec. 380), as amended;

e. Review and recommend to the Board, any nonaudit services to be provided by the independent auditor.

f. Review performance of the independent auditor on an annual basis. As part of this review, obtain and review a report by the independent auditor describing the firm's internal control procedures and any material issues raised by the most recent internal quality-control review (peer review). Recommend to the Board the appointment of the independent auditors or approve any discharge of auditors when circumstances warrant.

g. Subsequent to every 5th year audit, or more often if needed, prepare Request for Qualifications (RFQ) or Request for Proposal (RFP) for audit services. Review responses and make recommendation to Board for approval.

2. Internal Audit

a. Review the annual internal audit plan.

b. Review internal audit reports and ensure that recommended improvements and changes are properly implemented.

c. Review performance of the internal auditor on an annual basis, as well as the effectiveness of the internal audit function.

d. Review and concur on the appointment, replacement, reassignment, or dismissal of the Internal Auditor. Action under this paragraph will require the concurrence of all members of the Committee.

D. Enterprise Risk Management and Compliance

1. Review the System's enterprise risk management process (ERM) and management's annual status reports.

2. Review the System's compliance monitoring process and management's annual status reports. Inquire of management and legal counsel about the status of compliance with laws, regulations and Board policies.

3. Review reporting by the Board and required System personnel in accordance with the System's Code of Ethics. The Committee shall investigate any perceived or actual conflicts of interest and report findings to the Board.[This area of responsibility needs to be developed along with the work that counsel and staff already have in process and in harmony with the state ethics reporting requirements and any recommendations from the Ennis Knupp report that the Board wishes to adopt.]

E. Other Responsibilities

1. Complaint Handling

a. Review the procedures for the receipt, retention, and treatment of complaints received by the System regarding accounting, internal accounting controls, auditing matters, or suspected fraud that may be submitted by any party internal or external to the organization. Review management's complaint tracking matrix. (Complaints received, current status, and resolution if one has been reached.)

b. Review procedures for the confidential, anonymous submission by the System's employees of concerns regarding questionable accounting or auditing matters, or suspected fraud. Review a summary of submissions that have been received, the current status, and the resolution if one has been reached.

2. Actuarial Agreement

a. Review performance of the System's actuary on an annual basis.

b. Prepare RFQ or RFP for actuarial services every 5-10 years, as determined appropriate by the Board. Review responses and make recommendation to Board for approval.

c. Review performance of the System's depository banking services on an annual basis.

3. Banking

a. Prepare RFQ or RFP for depository bank services every 5 years. Review responses and make recommendation to Board for approval.

4. Building

a. Review significant real estate or construction finance and budget issues related to System owned or leased facilities.

5. Investigations

1. Institute and oversee special investigations, as needed.

6. Other

- a. The committee will consult with TMRS staff as provided in the TMRS Compensation Administration Guidelines and will perform any other activities consistent with this Charter that the Board deems appropriate.

V. Charter Review and History

- A. This charter will be reviewed annually to ensure that it remains relevant and appropriate.

The Board adopted this charter on April 27, 2007.

Modifications/changes to this charter are as follows:

Date:

Change made: