



Audit Committee Charter

This Charter has been adopted by resolution of the Board of Trustees (Board) of the Texas Municipal Retirement System ("System" or "TMRS").

I. Purpose

The Audit Committee ("Audit Committee" or "Committee") is a Board committee of the Texas Municipal Retirement System ("TMRS" or the "System") created to advise and assist the Board in fulfilling its fiduciary responsibilities with respect to the adequacy of TMRS initiatives for:

- fraud prevention and ethics
- governance structure
- risk management
- internal control framework
- oversight of the internal audit activity, external auditors, and other providers of assurance
- financial statements and public accountability reporting
- investigations

The Committee is an advisory committee to the Board and does not have delegated authority to act on behalf of the Board unless, and then only to the extent, expressly stated in this Charter.

II. Authority

The Audit Committee's authority comes from Texas Government Code, Section 855.107 ("TMRS Act") and from the Board. The TMRS Act:

- A. Requires the Board annually to have the TMRS accounts audited by a certified public accountant.
- B. Permits the Board or a Committee of the Board to initiate or commission an audit or investigation of TMRS activities, functions, or operations.
- C. Provides that audit working papers are confidential and excepted from disclosure requirements of the Texas Public Information Act.

- D. Provides that an audit report becomes public information when received by the Board in its final form, unless made confidential under other law.

III. Composition

- A. *Members.* The Committee will be composed of two (2) members of the Board, named by the Board Chair, subject to Board approval. 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 auditor. The Committee may retain special legal, accounting or other consultants or experts it considers necessary in the performance of its duties.
- B. *Terms*
- i. Members of the Committee will generally serve one-year terms but may be reappointed.
 - ii. The TMRS Board Chair will review the composition of the Committee with the Board each December and will make appointments or reappointments, subject to Board approval, to be effective in January.
 - iii. The TMRS Board Chair will fill any vacancies, as needed, with Board approval sought at its next meeting.
 - iv. Interim appointments are permitted to serve immediately, pending Board approval.
- C. *Resources*
- i. The following Resource Team of TMRS staff ("Staff") may attend and participate in Audit Committee meetings at the pleasure of the Committee:
 - the Executive Director;
 - the Internal Auditor; and
 - the Chief Legal Officer and/or Fiduciary Counsel, as needed.
 - ii. The Audit Committee Chair will appoint a member of the TMRS staff to serve as Secretary to the Committee.

IV. Meetings

- A. It is anticipated that the Audit Committee will meet quarterly; but the Audit Committee shall have the authority to convene fewer or more meetings, as circumstances require. A quorum of the Committee shall consist of two

- members. Concurrence of two members is required to adopt recommendations to the Board or take other Committee action. Unless otherwise specified by the Committee, meetings are not open to the public.
- B. Subject to applicable requirements of the Texas Open Meetings Act ("TOMA"), the Committee may hold meetings in person or by telephone or video conference call. It is the intent of the Board that this Committee is an advisory committee to the Board, with less than a quorum of Board members participating.
 - C. The Committee Chair and Staff will develop the meeting agendas. Meeting agendas will be provided in advance to Committee members and the Resource Team, along with appropriate briefing materials.
 - D. Minutes of each meeting will be prepared.
 - E. The Committee will report on its activities to the Board through the Committee minutes and special presentations as necessary. Members of the Resource Team may also provide updates more frequently, including email updates, to the Board on Committee activities.
 - F. Committee members are expected to attend all meetings in person or via telephone or video conference calls. The Committee may invite additional members of TMRS staff, experts, consultants or others to attend meetings and provide pertinent information, as necessary.
 - G. Closed Session
 - i. The internal auditor may make a request to the Audit Committee Chair to meet in Closed Session with the Committee (i.e. with Committee members only) if there are significant matters that need to be addressed involving the office of the Executive Director or any other part of the organization.
 - ii. The Committee may meet in Closed Session concerning personnel matters such as the hiring, dismissal, and performance of the internal auditor.
 - iii. 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.
 - iv. 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.

V. Responsibilities and Duties

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

A. Fraud Prevention and Ethics

The Committee will provide oversight of:

- i. TMRS antifraud programs and controls in place to identify potential fraud and ensure investigations are undertaken if fraud is detected
- ii. The mechanism established by management to establish and maintain high ethical standards for all managers and staff of TMRS

B. Governance Structure

To obtain reasonable assurance with respect to TMRS' governance process, the Committee may review and provide advice on the governance process established and maintained within TMRS and the procedures in place to ensure they are operating as intended.

C. Risk Management

The Committee will:

- i. Provide input for and review TMRS's annual risk assessment
- ii. Review and provide advice on the risk management processes established and maintained by management

D. Internal Control Framework

To obtain reasonable assurance with respect to the adequacy and effectiveness of TMRS controls, the Committee will:

- i. Receive reports on and consider the effectiveness of TMRS' control framework
- ii. Review the effectiveness of the system for monitoring compliance with laws and regulations

E. Oversight of Internal Audit Activity

The Committee will:

- i. Review and recommend to the Board for its approval, the annual internal audit plan.
- ii. Review the internal auditor's work plan and receive regular updates on the status of ongoing audits.
- iii. Review draft and final internal audit reports and receive updates on the implementation of those recommended improvements and changes approved by the Board.

- iv. Obtain and review the quality assessment review of the Internal Audit Department at least every five years.
- v. Review performance and compensation of the internal auditor, as well as the effectiveness of the internal audit function annually and make recommendations as needed to the Board, including, if warranted, compensation adjustments for the internal auditor.
- vi. Review and recommend to the Board the appointment, replacement, reassignment, or dismissal of the internal auditor.
- vii. Review internal audit's staffing and resource needs and recommend changes as needed to the Board.

F. Oversight of External Audit and Other Assurance Providers

The Committee will:

- i. Make recommendations to the Board about the appointment, retention, or discharge of external auditors to perform the independent financial audit, technology audits, or similar audit services
- ii. Meet as necessary with the external auditor to review the auditors' proposed scope and approach, including coordination of audit effort with the internal audit activity
- iii. Report to the Board on significant findings, recommendations, and management's response
- iv. Evaluate as necessary the performance of TMRS external auditors

G. Investigations

The Committee will:

- i. Institute, oversee, and receive updates on special investigations, as needed, and recommend action items, if any, to the Board for approval.
- ii. Institute and receive updates on special assignments, as needed, and recommend action items, if any, to the Board for approval.

H. Other Responsibilities

In addition, the Committee will:

- i. Perform other activities related to this Charter as requested by the Board
- ii. Provide an open avenue of communication between internal auditors, external auditors, and the Board.
- iii. Review and approve meeting minutes.

- iv. Regularly report to the Board on Committee activities, issues, and related recommendations

VI. Charter Review and History

This Charter will be reviewed at least every four years.

The Board adopted the initial Internal Audit Committee Charter on March 21, 2014.

Modifications/changes to this Charter are as follows:

The Board adopted this Charter on March 25, 2021, to be effective immediately.