

MPERA Internal Audit Charter

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I. MISSION

The mission of MPERA's Internal Auditor is to provide independent and objective assurance designed to add value and improve the agency's operations. It assists the agency in accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control, and governance processes.

- Provide a wide range of quality independent internal auditing services for the Audit Committee and Executive Management.
- Perform independent assessments of the systems of risk management, internal controls and operating efficiency, guided by professional standards.
- Support MPERA's efforts to achieve their objectives through independent auditing services.

II. OBJECTIVES AND SCOPE

Auditing Objectives. The objectives of MPERA's auditing services are to provide independent assurance to the Audit Committee and management that the agency's assets are safeguarded, operating efficiency is enhanced, and compliance is maintained with prescribed laws, rules, and Board and MPERA policies.

Scope. The scope of work of the Internal Auditor is to determine whether MPERA's network of risk management, internal control, and governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure:

- Programs are operating within the highest fiduciary standards and are directed toward the requirements defined in the Federal and State constitutions, laws, rules, and Board and MPERA policies and procedures.
- Programs and processes are in line with industry best practices.
- Significant legislative or regulatory issues impacting the agency are recognized and addressed appropriately.
- Operations, processes and programs are consistent with established missions, objectives and goals and determine whether they are being carried out as planned.
- Existing policies and procedures are appropriate and updated.
- Risks within and outside of the agency are appropriately identified and managed.
- Employers appropriately enroll employees, accurately report member earnings, and appropriately report other employee data.
- Significant financial, managerial, and operating information is accurate, reliable, and timely.
- Quality service and continuous improvement are fostered in the organization's control process.
- Contractors, including third-party administrators, are meeting the objectives of the contracts, while in conformance with applicable laws, regulations, policies, procedures and best practices.
- Responsibilities and activities of the external financial statement auditors are coordinated with those of the internal auditor in order to provide continuity of audit efforts and to avoid duplication of efforts.

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- Responsibilities and activities are coordinated with any other external auditors engaged by the organization for audit and/or attest services.
- Quality of performance of the external financial statement auditor and any other auditors engaged by the organization is reviewed.
- Access for auditors and investigators of the State and Federal Governments is provided as appropriate.
- Specific operations, processes or programs are reviewed at the request of the Executive Director & Management – as approved by the Audit Committee.

Opportunities for improving member service, management of risks, internal control, governance, and MPERA's effectiveness and image may be identified during audits. This information will be communicated to appropriate levels of Management.

III. AUTHORITY

MPERA's Internal Audit Department was established pursuant to Montana Operations Manual (MOM) Volume II, Chapter 9900. This Charter is approved by, and all future amendments to it are to be approved by, the Executive Director. This Charter shall be reviewed at least every three years and updated as required by the Internal Auditor. The Internal Auditor reports quarterly to the Audit Committee and reports administratively to the Executive Director. The Internal Auditor is hired, evaluated, retained and terminated by the Executive Director.

The Executive Director retains the right to approve the annual audit plan. The Internal Auditor shall present the audit plan to the Audit Committee annually; and update the Committee on the plan's progress during the quarterly meetings. The Internal Auditor, with the guidance and input of the Executive Director, is authorized to set project frequencies, select audit subjects, determine scopes of work, and apply the techniques necessary to accomplish the audit objectives.

The Internal Auditor is not authorized to perform operational duties for MPERA. The Internal Auditor is not authorized to initiate or approve accounting transactions. The Internal Auditor is not authorized to direct the activities of any MPERA's employee, except to the extent such employees have been appropriately assigned to auditing team or to otherwise assist the internal auditor.

IV. ACCESS

The Internal Auditor, as appropriate, is granted authority for full, free and unrestricted access to all of MPERA's functions, records, files and information systems, personnel, contractors, and any other item relevant to the function, process or department under review. All contracts with vendors shall contain MPERA's audit language enabling the internal auditor to have access to relevant records and information. All of the employees of MPERA are required to assist the Internal Auditor in fulfilling his/her audit functions and fiduciary duties.

The Internal Auditor shall have free and unrestricted access to the Chairman of the Audit Committee, the Audit Committee, and the Chairman and members of the Board. The Internal Auditor shall also have free and unrestricted access to the Executive Director, Management and all personnel, contractors and vendors of MPERA, and employers, members, retirees and beneficiaries of MPERA.

Documents and information given to the Internal Auditor shall be handled in the same prudent and confidential manner as by those employees normally accountable for them. The Internal Auditor shall ensure safeguarding of confidential information.

V. INDEPENDENCE

Organizational Placement. To provide for the independence of the Internal Auditor, its personnel report to the Executive Director and the Audit Committee in the manner outlined in the above section on Authority. The

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Internal Auditor shall freely discuss audit policies, audit findings and recommendations, audit follow-up, guidance issues and other matters as necessary. The reporting relationships of the Internal Auditor should be reviewed periodically.

Potential Impairment of Independence. The Internal Auditor should discuss any potential issues regarding impairment of independence and/or conflicts of interest and their mitigation(s) with the Executive Director as necessary.

VI. RESPONSIBILITIES AND ACCOUNTABILITY

The Internal Auditor is responsible for the following in order to meet the mission, objectives and scope of this Charter.

1. Conduct an annual risk-assessment and produce a flexible audit plan that will accomplish the mission, objectives and scope of this Charter. This plan shall in part be based upon risks and control concerns identified by Management. This plan will be periodically updated as necessary.
2. Implement the annual audit plan, as approved, including, as appropriate, any plan amendments, special tasks or projects requested by Management and the Audit Committee.
3. Perform a periodic comprehensive evaluation of risk management and internal controls performed by management (See Section IX) per applicable laws and/or policies. Assist management in the internal control assessment required by Section 404 of the Sarbanes Oxley Act of 2002, SEC Final Rules, and any amendments.
4. 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.
5. Conduct periodic follow-up reviews to evaluate the adequacy of Management's corrective actions.
6. Issue quarterly reports to the Audit Committee and Management summarizing results of audit activities, and summarizing the status of follow-up activities.
7. Assess periodically whether the purpose, authority and responsibility, as defined in this Charter, continue to be adequate to enable the Internal Auditor to accomplish its mission, objectives and scope. The result of this periodic assessment should be communicated to the Audit Committee and the Executive Director.
8. Attend all Audit Committee meetings.
9. Inform the Audit Committee of emerging trends and successful practices in internal auditing.
10. Assist in the investigation of significant suspected fraudulent activities within MPERA and notify the Audit Committee, the Executive Director and other Management, as appropriate, of the results.
11. Consult with Management, as requested, on potential policy and procedure changes.
12. Participate, in an advisory capacity, in the planning, design, development, and implementation and modification phases of major information related systems to determine whether:
 - a. adequate controls are incorporated in the systems;
 - b. adequate risk management techniques have been utilized;
 - c. thorough systems testing is performed at appropriate stages;
 - d. systems documentation is complete and accurate; and
 - e. the intended purpose and objectives of the system implementation or modifications have been met.
13. Participate in professional audit organizations by attending meetings and networking with other professionals. Network with internal audit staff of other public pension systems to learn and exchange best

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practices information. Participate in other professional organizations related to the mission of MPERA. These organizations may be involved in benefits, accounting or operations, for example.

14. Review MPERA's ethics policy periodically.

VII. PROFESSIONAL STANDARDS

The Internal Audit Department shall use as guidance but will not rely on the following professional standards. These professional standards include, but are not limited to, the following:

- International Standards for the Professional Practice of Internal Auditing (ISPPA) and the Code of Ethics of the Institute of Internal Auditors (IIA). The current versions of these documents are part of this Charter and are appended thereto.
- American Institute of Certified Public Accountants (AICPA) Professional Standards and Code of Ethics, as applicable.
- Generally Accepted Government Auditing Standards (GAGAS) from the United States General Accounting Office (GAO), as applicable.
- Other professional standards, such as those of the Institute of Management Accountants (IMA) and the Association of Certified Fraud Examiners (ACFE), as applicable.

VIII. RELATIONSHIP TO THE RISK MANAGEMENT AND INTERNAL CONTROL PROGRAMS

Management is responsible for implementing the system of risk management. The Internal Auditor will aid management by evaluating risk management during each audit and through consulting activities. The Internal Auditor will periodically conduct a risk assessment of internal controls and employer audits with the goal of formulating an audit plan. Information gathered during the risk assessment may be shared with management.

Management is responsible for implementing the system of internal control. The Internal Auditor will aid management by evaluating internal controls during each audit.

IX. PROCUREMENT OF EXPERTISE OUTSIDE OF THE INTERNAL AUDIT DEPARTMENT

The Internal Auditor may occasionally need to obtain expertise of persons. This expertise may be obtained within MPERA through appropriate arrangements with management. When obtaining this expertise, care must be taken to avoid conflicts of interest within MPERA that could damage the quality of the audit work performed and/or conclusions obtained. Expertise may also be obtained from outside MPERA through contracts. In such cases, the contract should contain appropriate provisions regarding the nature of the services provided and professional standards to be applied. The Audit Committee should be informed about the use of all external consultants obtained.


X. RELATIONSHIP TO PREVENTION, DETECTION AND CORRECTION ACTIVITIES


The Internal Auditor strives to participate in the initial stages of major projects so that risks can be appropriately managed and internal controls instituted in the design phase in order to prevent problems and minimize the costs. MPERA recognizes that it is more expensive to detect and correct problems than it is to prevent them in the initial stages of a project.

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XI. SIGNATURE SECTION

MPERA's Internal Audit Charter was adopted by the Executive Director on September 26, 2012, and transmitted to the Audit Committee. This Internal Audit Charter is effective this day and is hereby signed by the following persons who have authority and responsibilities under this Charter.

 9/26/12
Hollie Koehler, Internal Auditor Date

 9-26-12
Roxanne M. Minnehan, Executive Director Date