
ADVISORY AUDIT COMMITTEE

Purpose and Scope of Authority

The Advisory Audit Committee (Committee) is established to provide advice to the Comptroller of the State of New York in his roles as Administrative Head of the New York State and Local Employees' Retirement System and the New York State and Local Police and Fire Retirement System (collectively, "the Retirement System") and Trustee of the New York State Common Retirement Fund (CRF or the Fund"), which holds and invests the assets of the Retirement System for the exclusive benefit of members, retirees and beneficiaries of the Retirement System. The Audit Committee will serve the Comptroller in an advisory capacity only, and all information received or distributed by it will be deemed confidential and not for external use.

To fulfill its advisory function to the Comptroller, the Committee will carry out the following roles:

External Auditor

- Review the process for selecting the external auditors.
- Review the external auditors' audit plan and engagement letter.
- Review the annual audited financial statements of the Retirement System, including the impact of recent regulatory and professional pronouncements.
- Review with management and the external auditors all matters pertaining to the Retirement System required to be communicated to the committee under generally accepted auditing standards.
- Understand the scope of the external auditors' review of internal control over financial reporting, and obtain reports on significant findings and recommendations pertaining to the Retirement System, together with management's responses.

Internal Audit

- Review the Office of Internal Audit's annual audit plan, charter, activities, staffing, organizational reporting relationship, and reports resulting from its audit engagements pertaining to the Retirement System or the Fund.
- Review, with the Chief Audit Executive, any significant scope restrictions pertaining to the Retirement System or the Fund that are encountered by the Office of Internal Audit.
- Review the Quality Assurance Review reports that opine on the Office of Internal Audit's compliance with professional auditing standards.
- Develop comments and suggestions for the Comptroller's consideration based on information and reports prepared by the Office of Internal Audit; provided, however, the Comptroller maintains full authority regarding the activities of the Office of Internal Audit, and will take those actions he considers appropriate concerning any comments or suggestions offered by the Committee.

Compliance

- Review the findings of any examinations by regulatory agencies, and any auditor observations pertaining to the Retirement System or the Fund.
- Review internal and external auditors' evaluations concerning communication of ethical standards of the Retirement System and the Fund to staff and the monitoring of compliance therewith.
- Review internal and external auditors' evaluations of the effectiveness of the Retirement System and the Fund for monitoring compliance with laws and regulations.
- Review any findings or reports provided to the Committee, as appropriate, by the Director of Compliance regarding the effectiveness of the Fund's Compliance Program.

Composition

The Committee will be comprised of no less than three and no more than seven members as determined by the Comptroller. Members will serve for the term of office of the Comptroller, except if required to resign in the circumstances described in Policies Applicable to Committee Members, below.

The Comptroller will appoint a Chair, who will serve for such term as the Comptroller may determine.

Criteria for Selection of Committee Members

One member of the Committee will reflect the interests of public employees and one member will reflect the interests of public employers. Each Committee member will be both financially literate and unaffiliated. At least one member will be a financial expert.

Unaffiliated Person will mean any person other than: (1) the Comptroller or a family member of the Comptroller, (2) an officer or employee of OSC, (3) an individual or entity doing business with OSC or the Retirement System, or (4) an individual or entity that has a substantial interest in an entity doing business with OSC or the Fund.

As used herein, financially literate will mean that the member possesses sufficient financial knowledge to ensure that the economic condition of the Fund is understood by the Committee and accurately reflected in the financial reports. Financial literacy should include:

- A general understanding of generally accepted accounting principles, governmental accounting standards and financial statements;
- Familiarity with the checks and balances that internal controls and corporate governance processes should provide, including an understanding of internal controls and procedures related to financial reporting;
- The ability to understand the process of evaluating outside audit firms and monitoring their independence and performance;
- An understanding of cash flows and the importance of relating the Fund's cash position to its financial results; and
- An understanding of Committee functions.

For the purposes of this charter, financial expert will have the same meaning as set forth in the SEC Final Rules regarding Audit Committee Financial Experts under Section 407 of the Sarbanes-Oxley Act of 2002 and will mean a person with all of the five following attributes:

- An understanding of generally accepted accounting principles and financial statements;
- The ability to assess the general application of such principles in connection with the accounting for estimates, accruals and reserves;
- Experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the auditee's financial statements, or experience actively supervising one or more persons engaged in such activities;
- An understanding of internal controls and procedures for financial reporting; and
- An understanding of Audit Committee functions.

Under the Final Rules, and for the purposes of these Policies and Procedures, in order to qualify as a financial expert, a person must have acquired the above listed attributes through any one or more of the following:

- Education and experience as a principal financial officer, principal accounting officer, controller, public accountant or auditor or experience in one or more positions that involve the performance of similar functions;
- Experience actively supervising a principal financial officer, principal accounting officer, controller, public accountant, auditor or person performing similar functions;
- Experience overseeing or assessing the performance of companies or public accountants with respect to the preparation, auditing or evaluation of financial statements; or
- Other relevant experience; and, if other relevant experience is what qualifies the member, that experience must be described.

Process for Selection of Committee Members

Periodically, the Comptroller and the Executive Deputy Comptroller for the Retirement System (Executive Deputy Comptroller) or his or her designee will review the composition of the Committee to assess whether the number of members should be increased and whether there is a particular skill set or background that would strengthen the Committee in terms of fulfilling its duties.

The Executive Deputy Comptroller or his or her designee, along with senior staff of the Fund and the Retirement System, will seek suggestions for new Committee members based upon desired experience through outreach to the Committee and other advisory committees, among other sources.

Biographies and resumes of prospective members identified through this process or independently of this process will be considered by the Executive Deputy Comptroller to ascertain whether there is a current need on the Committee for an individual with those qualifications.

The Executive Deputy Comptroller and at least one member of the Committee will review potential candidates and will provide such candidates with a copy of the Policies Applicable to Committee Members. The Executive Deputy Comptroller will then identify candidates for membership on the Committee and will request that a background screening of those individuals be conducted by staff of Counsel to the Comptroller or the Division of Investigations.

Following completion of the screening process, the Executive Deputy Comptroller will make final recommendations for membership to the Comptroller. The Comptroller will interview the finalist candidates and will make all final appointments.

Meetings

The Committee will meet three times each year, or as frequently as circumstances dictate. To the extent feasible, meetings will be scheduled around the audit cycle as follows: (1) a Spring meeting will be held to review the external auditor's audit plan, including a detailed discussion of materiality levels, testing procedures and upcoming required communications; (2) a Summer meeting will be held to review the annual financial statements and the results of the external audit at which the outside auditors will present any audit findings and management comments, and (3) a Fall meeting will be held to review the Comprehensive Annual Financial Report for the Retirement System, which is required to be filed annually by September 30 with the Government Finance Officers Association for certification.

- All Committee members are expected to attend each meeting, in person or via tele- or videoconference.
- The Committee may meet periodically with management, the Chief Audit Executive, the Director of Compliance and the external auditor.
- Meeting agendas will be prepared and provided in advance to members, along with appropriate briefing materials.
- Meetings of the Committee are not subject to the Open Meetings Law.

Committee Actions

A majority of members for the Committee constitutes a quorum for the transaction of business.

Minutes

Minutes of Committee meetings will be taken by Retirement System staff. All members of the Committee will be provided with a copy of such minutes in draft for review. Copies of final minutes will be provided to the Committee and to the Comptroller for approval at the next meeting.

Any such minutes of Committee meetings and material provided to the Committee and reports or comments made by the Committee will be records of the internal deliberative process and proprietary and as a result will not be subject to disclosure under the Freedom of Information Law.

Quarterly Reports on Audit Progress

The Chief Audit Executive of the Retirement System will prepare and provide to the Committee and the Comptroller for review quarterly progress reports that, at a minimum, discuss:

- Audits of the Retirement System and the Fund scheduled to be conducted, along with the scope of the audits;
- Audits of the Retirement System and the Fund completed; and
- Significant audit findings and recommendations related to the Retirement System and the Fund.
- Policies Applicable to Committee Members
- Each Committee member will be provided with a copy of the Code of Ethics for the Advisory Council and Advisory Committees to the Comptroller at the time of his or her appointment.
- Each Committee member will be required to execute a written acknowledgement that he or she has received such policies and agrees to abide by them and that if he or she fails to abide by the policy, he or she may be asked by the Comptroller to resign from the Committee.
- The Executive Deputy Comptroller will provide each new Committee member with an orientation package describing the duties of the Committee and other relevant background information.
- Each Committee member will be provided with and will be required to participate periodically in fiduciary and ethics training.

Policies Applicable to Committee Members

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