

# Meeting of the ERS Board of Trustees Audit Committee

March 11, 2020



# Public Agenda Item #1

*Call Meeting of the ERS Board of Trustees  
Audit Committee to Order*

March 11, 2020

## Public Agenda Item #2

*Review and Approval of the Minutes to the December 10,  
2019 ERS Audit Committee Meeting - (**Action**)*

March 11, 2020

Questions?  
Action Item

# Public Agenda Item #3

## *Review of External Audit Reports*

March 11, 2020

Tony Chavez, Director of Internal Audit

# State Auditor's Office Financial Statement Opinion Audit

Tony Chavez, Director of Internal Audit

Michael Clayton, Audit Manager, State Auditor's Office

Kelley Ngaide, Project Manager, State Auditor's Office

# Fiscal Year 2019 CAFR Financial Statement Opinion Audit



- Two deliverables
  - Independent Auditor's Report
  - Report on Internal Controls

Reports are provided to the Legislative Audit Committee to summarize results.

# Audit of the Employees Retirement System's Fiscal Year 2019 Financial Statements

## State Auditor's Office Audit Team:

Michael Clayton, CPA, CISA, CFE, CIDA (Audit Manager)

Kelley Ngaide, CIA, CFE (Project Manager)





## Audit Objective and Scope

Issue an opinion on the Employees Retirement System's (System) fiscal year 2019 financial statements in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.





## Administrative and Other Matters

- The audit was conducted from September 3, 2019, through December 20, 2019.
- Auditors coordinated their work through the internal audit liaisons, but they also had direct access to records, employees, and external service providers.
- The State Auditor's Office conducted this project, as it does all projects, with full independence; that is, the work was free of any personal, external, or organizational impairment.



## Report Deliverables

- Financial Statement Opinion – December 20, 2019
  - We issued an unmodified (clean) opinion for the Employees Retirement System’s fiscal year 2019 financial statements.
- Report on Internal Control Over Financial Reporting and on Compliance and Other Matters – December 20, 2019
  - This report is required for audits performed in accordance with generally accepted government auditing standards.
  - The majority of internal controls that we tested for the purpose of forming our opinions on the financial statements were operating effectively. However, auditors identified a significant error wherein the System incorrectly recorded an entry for its fiduciary funds. The System corrected the error before issuing its fiscal year 2019 financial statements.
- Report to the Legislative Audit Committee – January 13, 2020



Questions?

# Public Agenda Item #4

## *Review of Internal Audit Reports*

March 11, 2020

Tony Chavez, Director of Internal Audit

# IT Governance Review

Tony Chavez, Director of Internal Audit

Tressie Landry, Audit Manager, Internal Audit

Jonathan Puckett, Project Lead, Internal Audit

# IT Governance Review



## *Background*

**Project Objective:** To determine if policies and processes ensure the effective and efficient use of information technology to meet ERS strategic goals and objectives.

**Program Objective:** To understand the risks / controls used to achieve IT objectives to help ensure that they are aligned with business objectives.

# IT Governance Review

## *Background*



What is IT Governance?





# IT Governance Review



## *Background*

Best practices suggest IT Governance focus on:

- Aligning IT strategies with organizational objectives/goals
- Identifying and managing risk
- Optimizing IT investments to deliver value to the agency
- Defining, measuring, and reporting performance through meaningful metrics
- Managing IT resources effectively

# IT Governance Review

## Summary Results



- Overall, IT governance at ERS is adequately established to allow management to achieve stated goals and objectives.

### Best Practices:

- Aligning IT strategies to organizational goals
- Identifying and managing risk
- Optimizing IT investments
- Managing IT resources effectively
- Defining & reporting performance metrics

### ERS IT Governance Processes:

- Annual project planning & budget meetings
- Weekly directors meetings
- Meetings with IS BA's & division leadership
- Project manager meetings with IS BA's
- Data governance council meetings

# IT Governance Review



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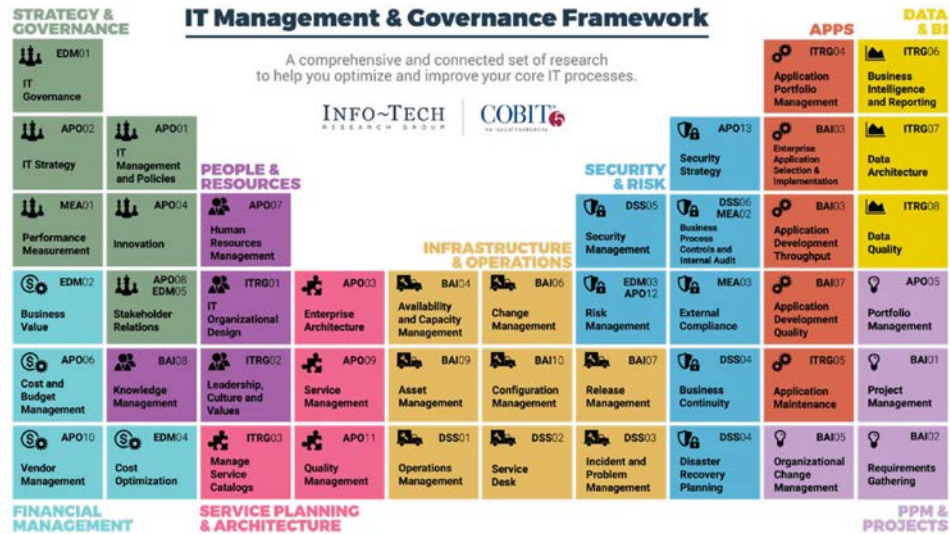


# IT Governance Review

## Summary Results



- **Improvement** – Identifying and improving communication of strategic metrics would provide insight into effectiveness of IT Governance



# IT Governance Review



## Summary Results

- **Improvement** – Identifying and improving communication of strategic metrics would provide insight into effectiveness of IT Governance
- Survey used to help narrow which metrics are most important to ERS
  - Participation (100%) in survey outlined below:

IT Governance Survey Responses		
Directors	Executive Office	IS Management
12	3	6

# IT Governance Review



## *Summary Results*

### Survey – IT governance key takeaways:

- Strategy – support each division to perform its best
- People & Resources – complete critical tasks with adequate resources
- Infrastructure – optimal tools accessible and minimal disruptions
- IT Service – resolve issues timely and prevent cybersecurity threats

# IT Governance Review



## *Recommendation*

- Use survey results to determine appropriate performance metrics and frequency of reporting
  - Metrics should include definitions, calculation methodologies, targets, and reporting frequencies.

Questions?

# Status of Audit Recommendations

Tony Chavez, Director of Internal Audit

Tressie Landry, Audit Manager, Internal Audit

# Status of Audit Recommendations



## Methodology

- Process owner self-assessment and information sharing
- Internal Audit review and evaluation

## Status Levels

- Implemented
- Partially Implemented
- No Action Taken
- Management Acceptance

*The chief audit executive must establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.*

*~Institute of Internal Auditors standard 2500.A1*

# Summary



Audit Engagement	Observation #	MAP Owner	MAP Status
Hedge Funds	2	Director of Hedge Funds	Implemented
Real Assets – Infrastructure	1	Director of Infrastructure	Implemented
Real Assets – Infrastructure	2	Director of Infrastructure	Implemented
HealthSelect of Texas <sup>®</sup> Denial Process	2	Assistant Director of Group Benefits	Implemented



# Real Assets - Infrastructure



## Observation 1 – Key information unavailable to support performance incentive benchmarks (Significant)

Recommendation	Implementation Actions
<ul style="list-style-type: none"><li>• Retain documentation</li><li>• Document factors for benchmarks</li><li>• Communicate basis for ICP target</li></ul>	<ul style="list-style-type: none"><li>• Documentation to support benchmarks and target retained</li><li>• Additional details included in ICP goal memo</li><li>• Change to performance metric</li></ul>

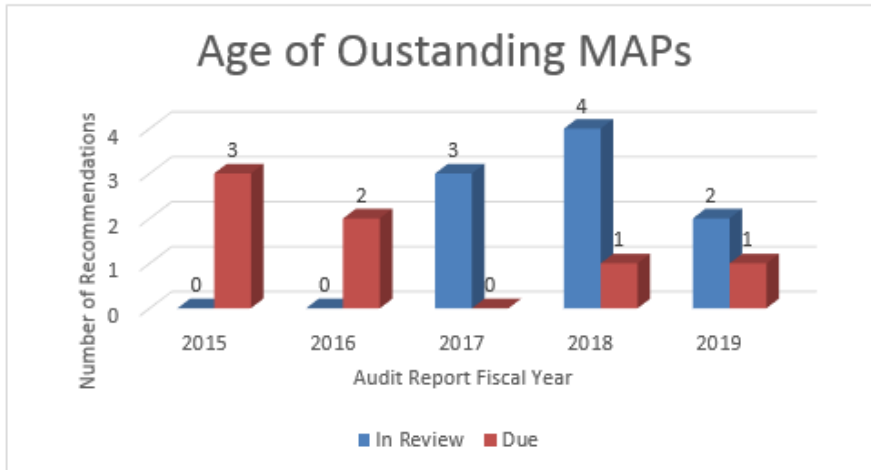
# Real Assets - Infrastructure



Observation 2 – Select investments included in the ICP goal calculation do not align with ERS’ Incentive Compensation Plan objectives (Significant)

Recommendation	Implementation Actions
<ul style="list-style-type: none"><li>Evaluate the inclusion of legacy investments</li></ul>	<ul style="list-style-type: none"><li>Plan Year 2020 goal memo excluded legacy investments</li></ul>

# Outstanding Recommendations



In review – audit staff have requested the status from program area

Due – audit staff has not yet contacted program staff for updated status

*Controls have been updated to align with changes in program activity.*

Questions?

## Public Agenda Item #5

### *Review of Internal Audit Administrative Items*

March 11, 2020

Tony Chavez, Director of Internal Audit

# Internal Audit Charter

Tony Chavez, Director of Internal Audit

Tressie Landry, Audit Manager

# Internal Audit Charter



- Purpose of the Internal Audit Charter
  - Establishes the governance and authority of the internal audit function
- Purpose of annual review
  - Inform and prompt discussion
  - Audit standard requirement
  - Reinforces roles and responsibilities to the agency

*The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.*

*~IIA standard 1000*

## Questions?

*(Not an action item unless there are proposed changes)*



## Public Agenda Item #6

### *Adjournment of the ERS Board of Trustees Audit Committee Meeting*

March 11, 2020