

Meeting of the ERS Board of Trustees Audit Committee

August 25, 2021



Public Agenda Item #1

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

August 25, 2021

Public Agenda Item #2

*Consideration of the Minutes to the March 10, 2021 ERS Audit
Committee Meeting – (Action)*

August 25, 2021

Questions?
Action Item

Public Agenda Item #3

Review of Internal Audit Reports

August 25, 2021

Tony Chavez, Director of Internal Audit

Audit of Qualified Domestic Relations Orders

Tony Chavez, Director of Internal Audit

Tressie Landry, Audit Manager

Jonathan Puckett, Project Lead

Qualified Domestic Relations Orders Audit

Strategic Alignment



Audit Objective: To determine if benefits are processed in accordance with legal orders following a divorce or legal separation.

Program Objective: To accurately review Domestic Relations Orders (DROs) and related documents to:

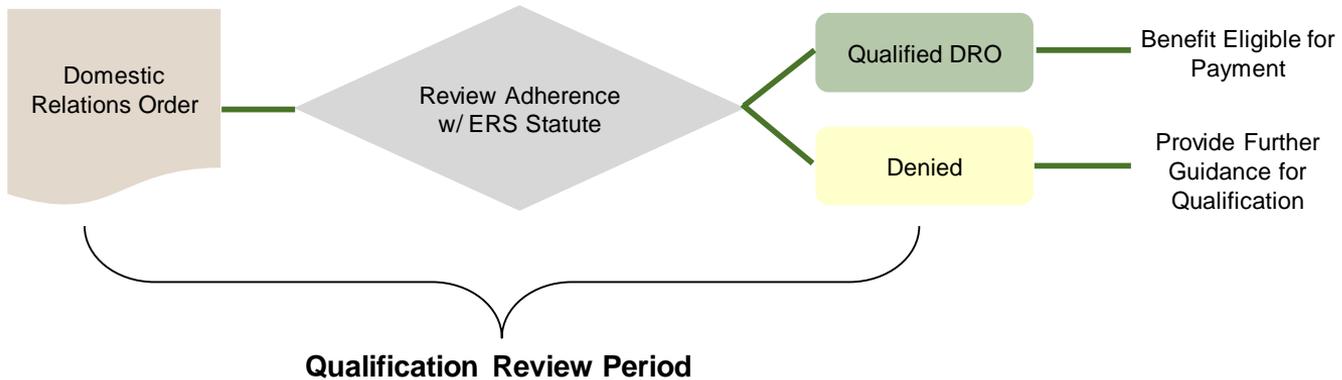
- Ensure they are qualified and comply with applicable laws and rules
- Calculate alternate payee and member/retiree portions, and pay accordingly

Qualified Domestic Relations Orders Audit

Background



Qualification Process – DROs

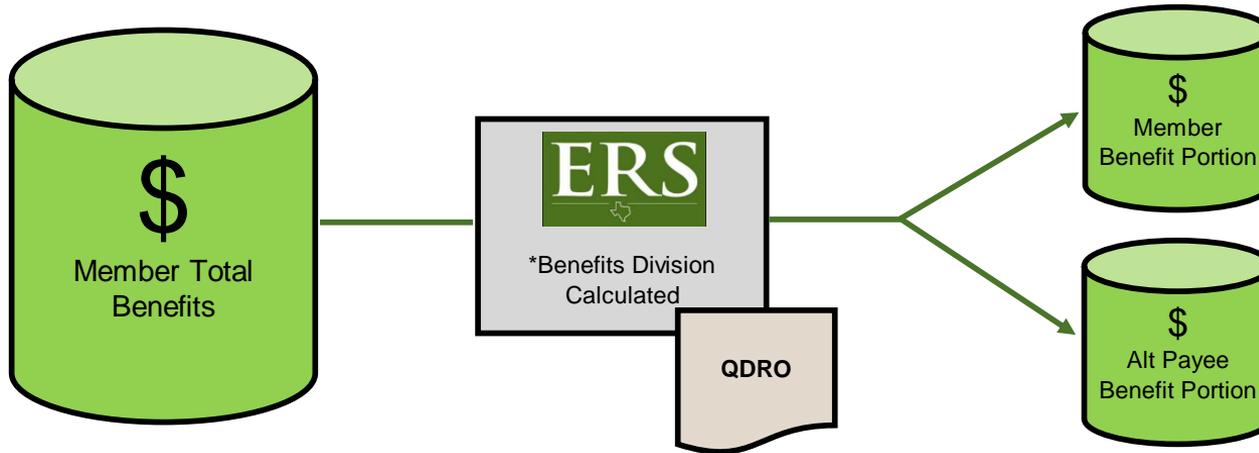


Qualified Domestic Relations Orders Audit

Background



Member benefits division – Qualified Domestic Relations Order (QDRO)

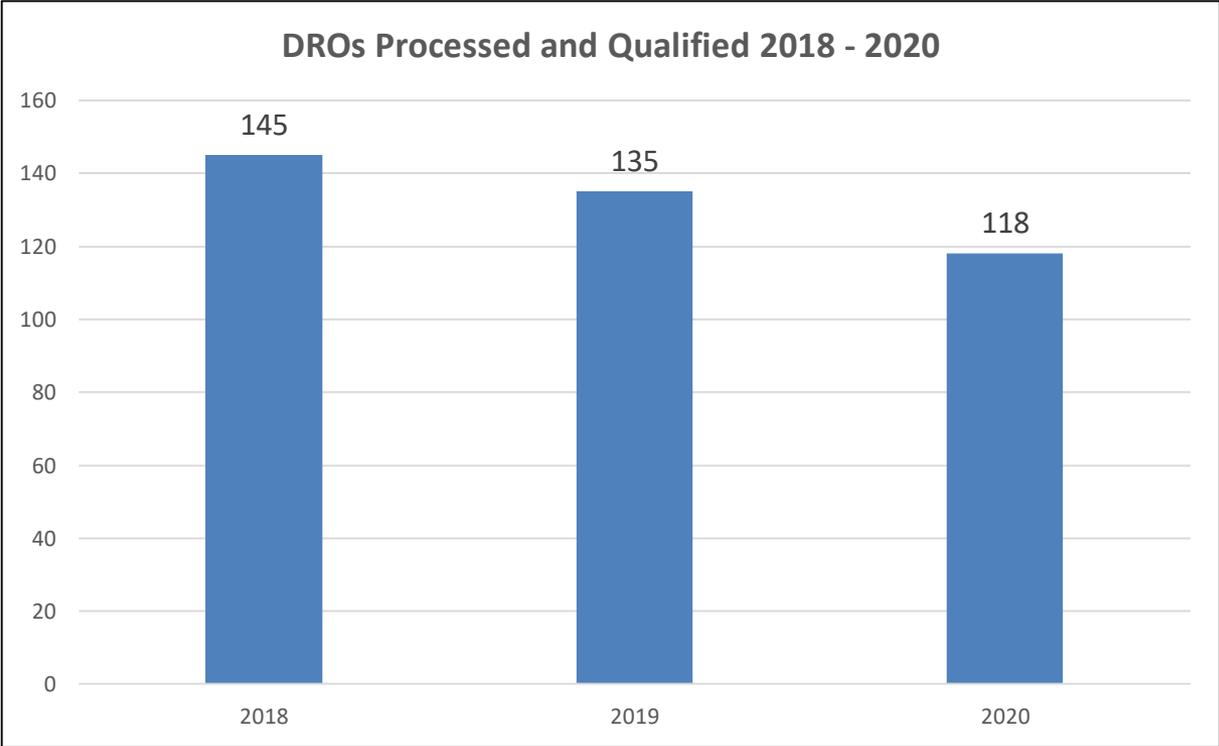


*Division of member total benefits is determined by the provisions of the QDRO, not ERS.

Qualified Domestic Relations Orders Audit



Background – Volume



Qualified Domestic Relations Orders Audit

Results



Overall Results: Internal controls help ensure benefits are processed in accordance with legal orders following a divorce or legal separation. **(Satisfactory)**

SCOPE AREA	SUB-OBJECTIVES	
Qualification	<ul style="list-style-type: none">• Are qualified domestic relations orders processed in accordance with laws and regulations?• Are affected parties provided adequate information to allow for qualification?• Are QDROs with pending payments prioritized for processing?	Satisfactory
Benefit Estimates and Payments	<ul style="list-style-type: none">• Are members provided complete and accurate details of their estimated QDRO related distribution?• Are QDRO related distributions properly determined?• Are QDRO related distributions remitted accurately?	Satisfactory

Qualified Domestic Relations Orders Audit



Observation 1 – Timeliness of DRO review

Observation 1: Establish timeliness targets for reviews (qualifications/denials) of domestic relations orders (DRO). (Moderate)

Inherent risks:

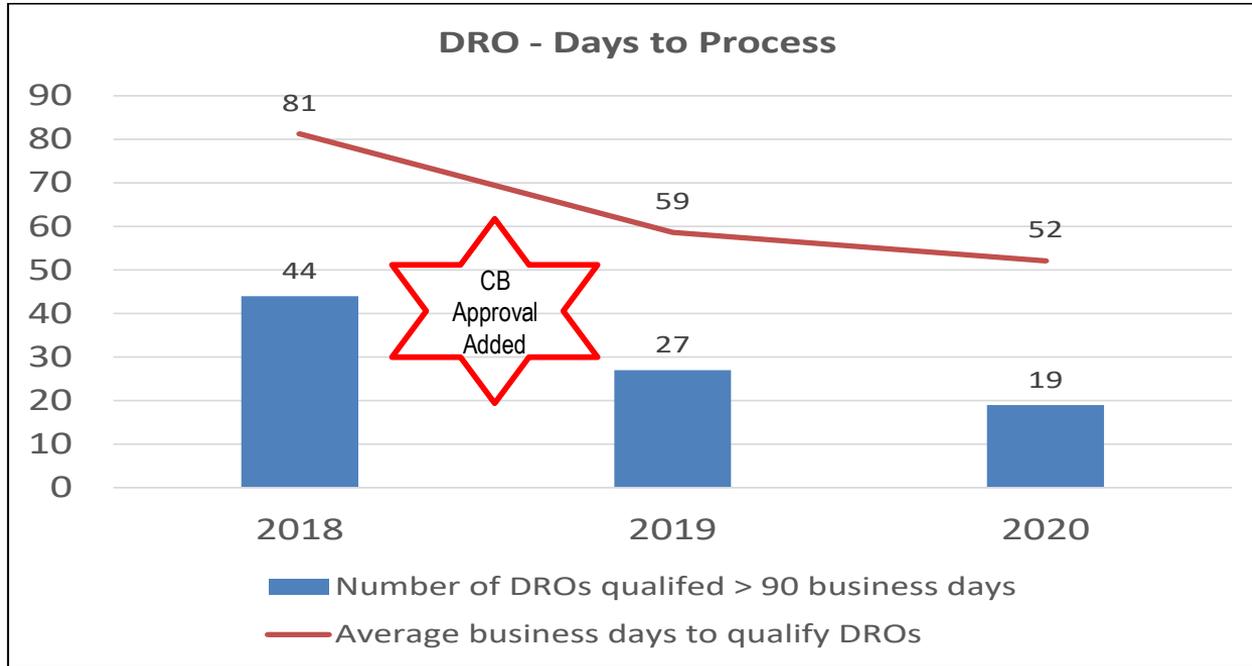
- No statutory requirement
- Stringent DRO language/provision requirements
- Cross-divisional approval process for complex DROs

Risk mitigation:

- Model QDRO template
- Retired member DROs prioritized for processing
- Delegation of DRO approval to Customer Benefits (CB)
- QDRO tracker and status updates

Qualified Domestic Relations Orders Audit

Observation 1 – Timeliness of DRO review



Qualified Domestic Relations Orders Audit



Observation 1 – Timeliness of DRO review

Contributing factors to observation:

- No internal target on timeliness
- Prioritization of outstanding DROs for active members unclear
- Competing priorities within Office of General Counsel
- Age of DRO (old versus new)

Qualified Domestic Relations Orders Audit

Observation 2 – Enhance manual calculation procedures



Observation 2: Refine procedures to enhance accuracy of manual calculations. (Moderate)

Inherent risks:

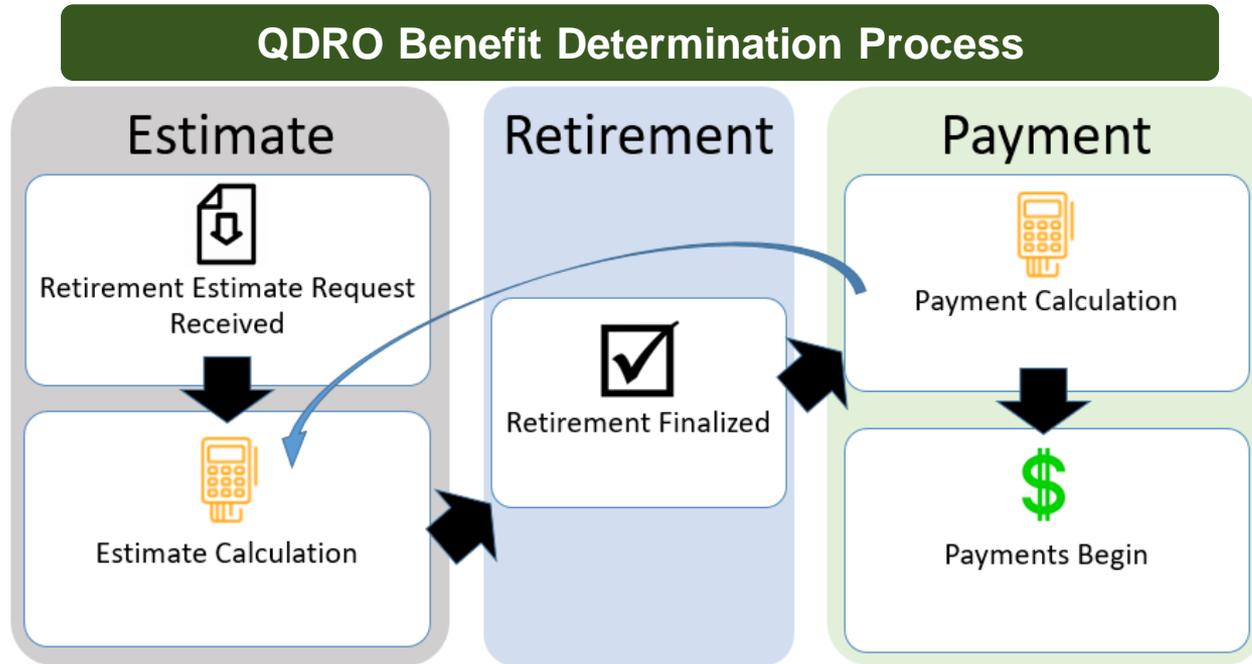
- Complex calculation
- Manual input error in calculation

Risk mitigation steps taken:

- Standardized calculation worksheet
- Additional calculation reviews added in 2020

Qualified Domestic Relations Orders Audit

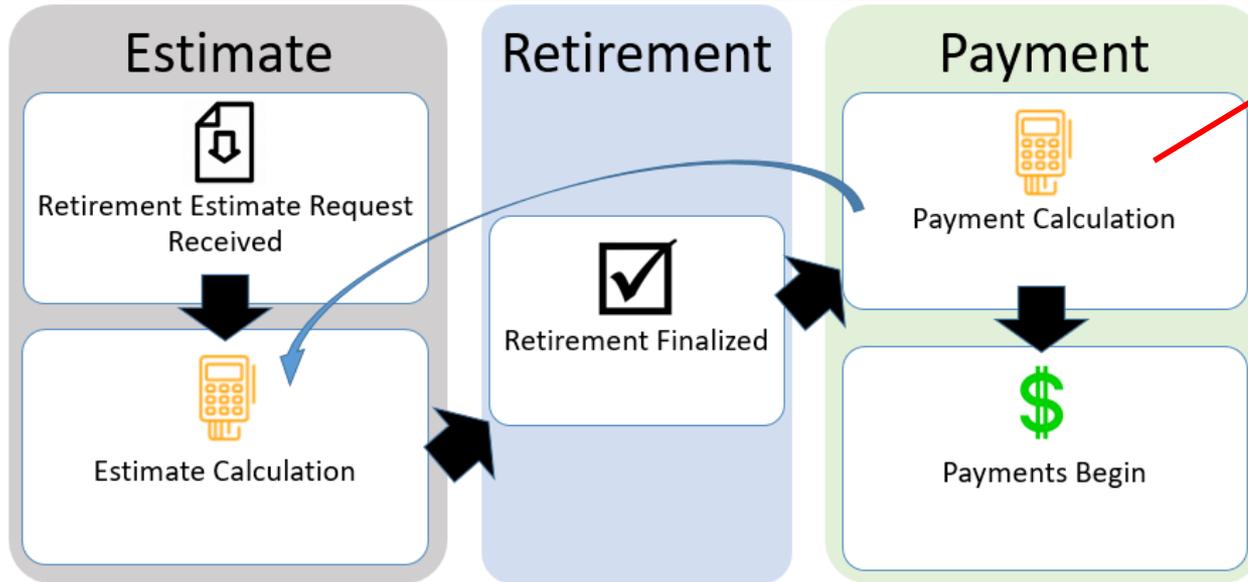
Observation 2 – Enhance manual calculation procedures



Qualified Domestic Relations Orders Audit

Observation 2 – Enhance manual calculation procedures

QDRO Benefit Determination Process



- 33 QDROs reviewed
- One payment calculation error
 - Underpayment of \$9,000 to alternate payee

Qualified Domestic Relations Orders Audit

Observation 2 – Enhance manual calculation procedures



Contributing factors to observation:

- No payment calculation review in place at the time (since added)
- Recalculation worksheets not maintained
- Calculation worksheets have more manual inputs than necessary

Questions?

Alternative Investment Funding

Tony Chavez, Director of Internal Audit

Tressie Landry, Audit Manager

Greg Magness, Project Lead

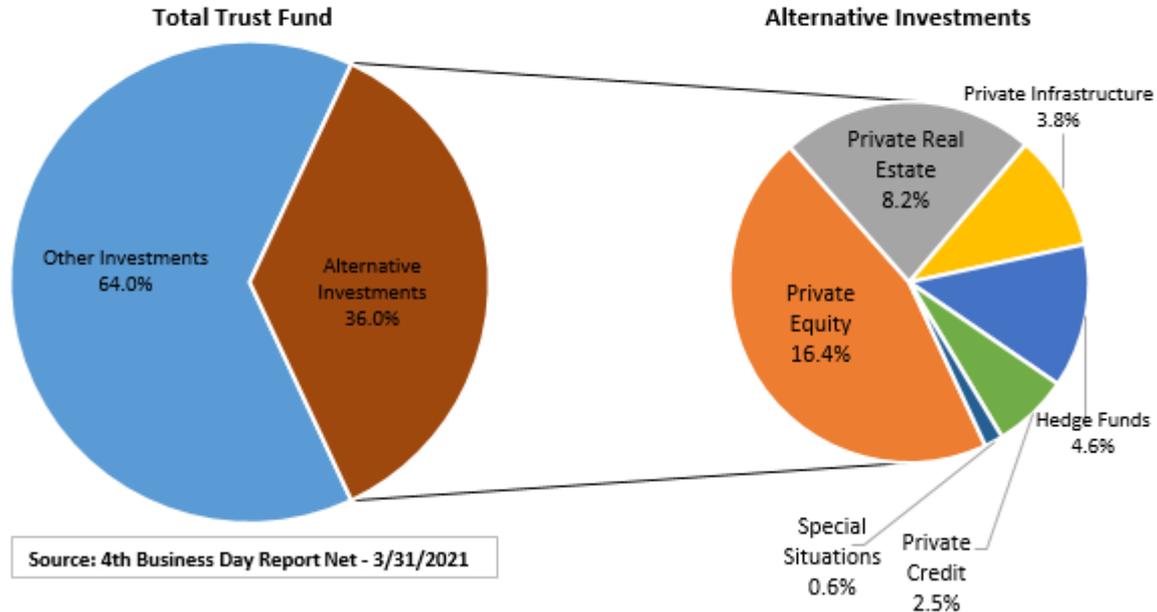
Alternative Investments: Objectives

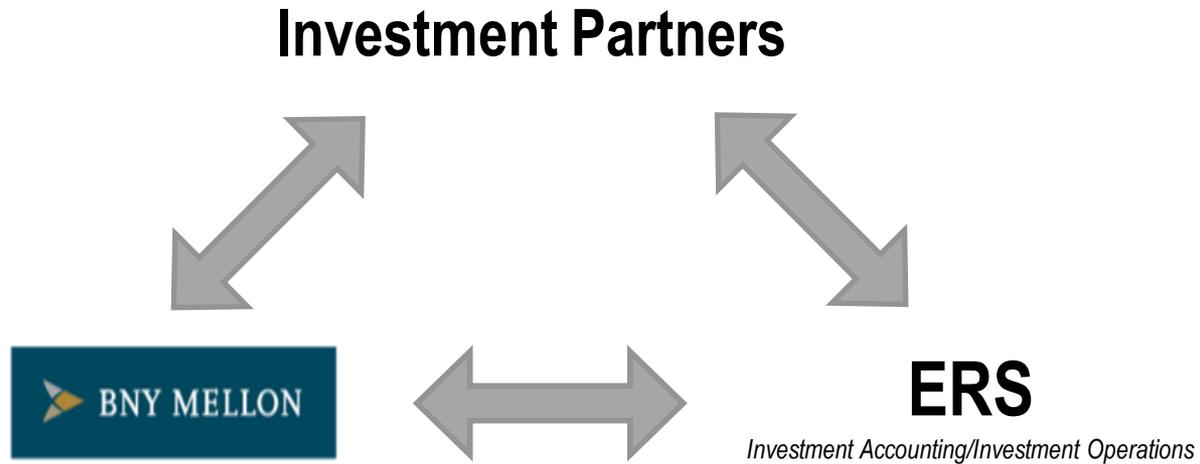


- **Audit Objective:** Determine if contributions and distributions of funds for ERS' alternative investments are properly processed and accounted for.
- **Program Objective:** To accurately account for all contributions and distributions of capital invested in Alternative Investments in which ERS participates.
- **Fiduciary Responsibility:** Exercise reasonable care consistent with the ERS' fiduciary duty, and maintain the integrity of the investment program. (Investment Policy)

Alternative Investments

Alternative Investments as part of Total Trust

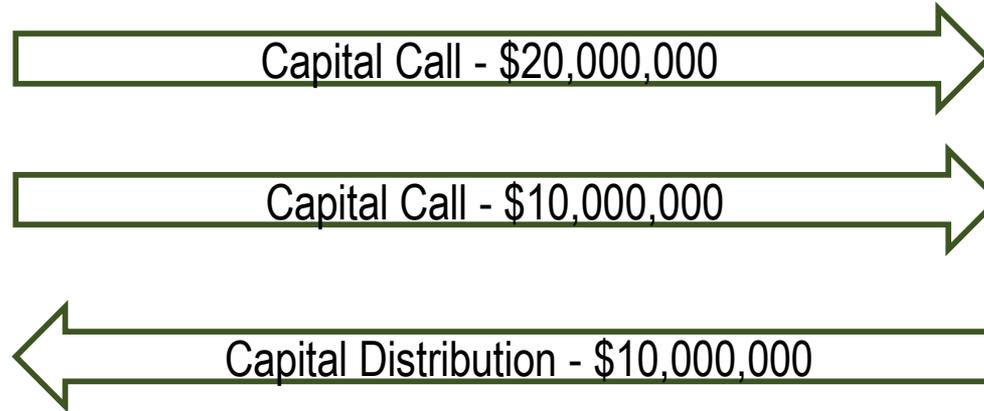




Total Commitment Example



ERS' Total Commitment - \$50,000,000

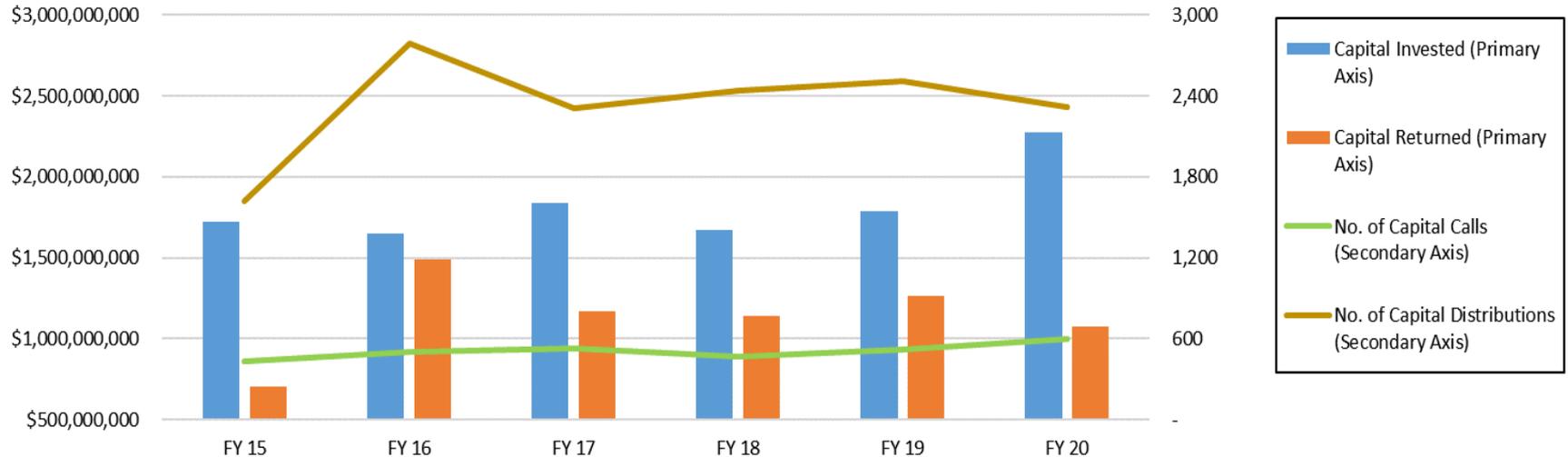


Called Capital: \$20,000,000
Unfunded Commitment: \$30,000,000

Alternative Investments Funding Activity



Alternative Investments - Capital Calls and Distributions



Alternative Investment Funding Audit

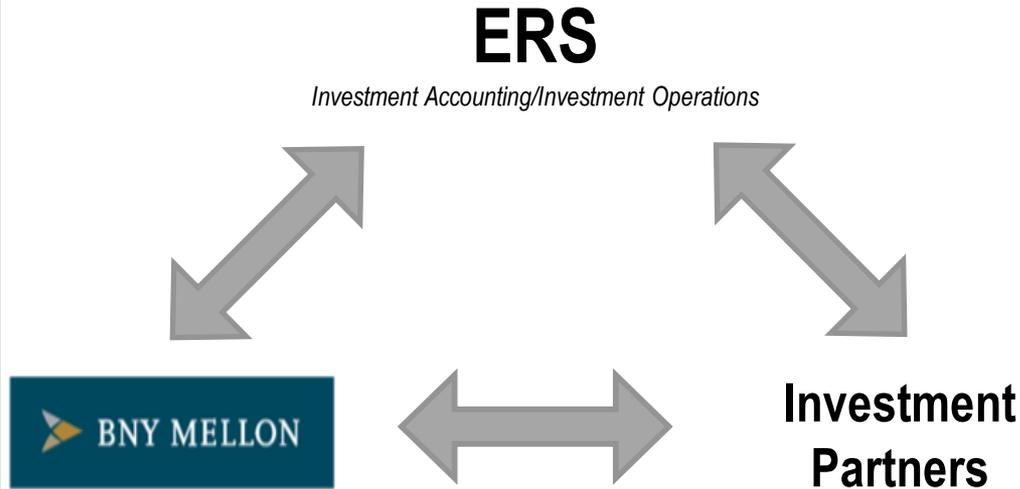
Overall Results



Overall Results: Internal controls ensure capital is processed properly and accurately accounted for across relevant financial systems and parties. **(Satisfactory)**

SCOPE AREA	SUB-OBJECTIVES	RESULTS/RATING
Processing	<ul style="list-style-type: none"> Are contributions submitted to eligible alternative investment/hedge fund? 	Satisfactory Controls are in place to ensure capital contributions are accurately processed, and wired to Funds in accordance with the contractual requirements, and that Total Commitment amounts are not exceeded.
	<ul style="list-style-type: none"> Are total contributions within agreed-upon limits (capital commitments)? 	
	<ul style="list-style-type: none"> Are capital contributions processed according to the contractual requirements? 	
Accounting	<ul style="list-style-type: none"> Are capital contributions/distributions accurately recorded in key financial/investment systems? 	Satisfactory Controls ensure capital contributions/distributions are accurately recorded in key financial/investment systems, and reflect capital contribution/distribution activity.
	<ul style="list-style-type: none"> Do fund balances accurately reflect capital contribution/distribution activity? 	

Process/Key Controls



Key Controls

- Multi-level review/approval of calls prior to release of funds
- Multiple reconciliations between financial systems/parties
- Reconciliation database to ensure performance and timeliness

Questions?

Status of Audit Recommendations

Tony Chavez, Director of Internal Audit

Tressie Landry, Audit Manager

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 #	Implementation Actions	MAP Status
Temporary Workers Contract Management (2019-02)	1	All criminal history checks are performed by ERS vendor. The <i>Temporary Worker Hiring Form</i> has been updated to enable Human Resources to determine proper background check	Implemented
Profit Share (2019-08)	1	Implemented through changing the reporting period to account for a full year of Hedge Fund profit share and continued reconciliations for Private Real Estate	Implemented

Summary



Audit Engagement	Observation #	Implementation Actions	MAP Status
Profit Share (2019-08)	2	Creation of an escalation process for variances in re-calculating profit share. Some preventative controls have yet to be established.	Partially Implemented
Survivor Benefits (2020-04)	1	Management analysis determined the need for 5 additional staff Mitigated by the ability of beneficiaries to assign certain benefits to pay funeral homes directly	Management Acceptance

Questions?

Public Agenda Item #4

Consideration of Internal Audit Administrative Items– (Action)

August 25, 2021

Tony Chavez, Director of Internal Audit

Internal Audit Proposed FY22 Annual Audit Plan *(Action)*

Tony Chavez, Director of Internal Audit

Tressie Landry, Audit Manager

Overall Approach

- Statute requires a risk-based annual audit plan be developed and approved by the Board of Trustees
- The Plan is designed to provide coverage of key program risks given the existing staff and approved budget
- Overall framework remains the same with continuous enhancement



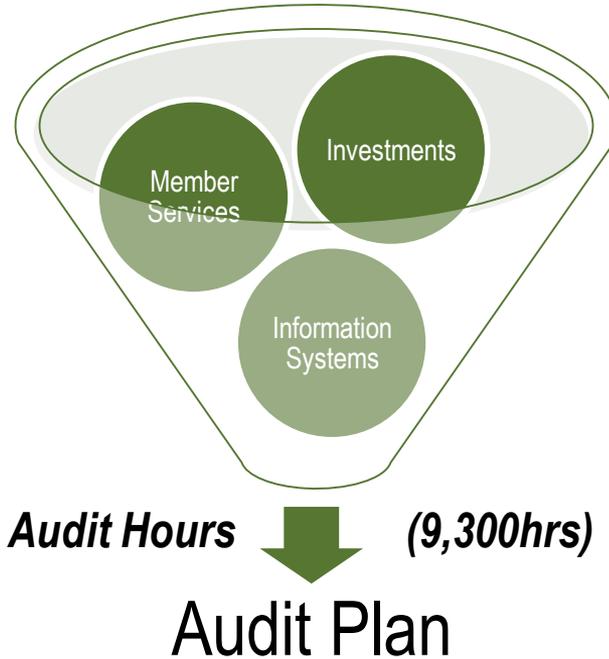
Risk Assessment Criteria

Core Business	Strategic	Operational	Financial	Regulatory
Investments	<ul style="list-style-type: none"> Stakeholder interest 	<ul style="list-style-type: none"> Investment complexity 	<ul style="list-style-type: none"> Percent of total fund balance 	<ul style="list-style-type: none"> Legislative interest Time since last audit
Member Services	<ul style="list-style-type: none"> Population served 	<ul style="list-style-type: none"> Transaction volume, staffing levels 	<ul style="list-style-type: none"> Total program expenditures 	
Information Technology	<ul style="list-style-type: none"> Criticality of system 	<ul style="list-style-type: none"> Internal/external data source 	<ul style="list-style-type: none"> Direct cost of system 	

Prioritization

- Time since last review
- Board and Executive Office input
- Division management input
- Stakeholders
- Engagements suggested by leading practices

Resource Planning



Proposed FY22 Audit Plan



CORE BUSINESS	ENGAGEMENT
INVESTMENTS	<ul style="list-style-type: none">• Private Real Estate ¹• Public Equity – Externally Managed
MEMBER SERVICES	<ul style="list-style-type: none">• Dental Insurance ¹• Agency Budgeting ²• ERS Performance Measure Management• Contact Center• Pension Forecasting¹• Financial Opinion Audit
INFORMATION SYSTEMS	<ul style="list-style-type: none">• Security Monitoring & Event Analysis (Cybersecurity) ¹• Cybersecurity Framework• Disaster Recovery
<ol style="list-style-type: none">1. Audit began in FY21 and carried forward to FY22 Audit Plan2. FY21 carryover, audit was not started	

Questions?
Action Item

Public Agenda Item #5

Adjournment of the ERS Board of Trustees Audit Committee Meeting

August 25, 2021