



Internal Audit Risk Assessment & Proposed FY 2017 Annual Audit Plan

AUGUST 1, 2016

FROM THE AUDIT DIRECTOR

We are pleased to submit the Internal Audit Risk Assessment and Proposed Internal Audit Plan (Plan) for Fiscal Year 2017.

The Texas Internal Auditing Act (Texas Government Code 2102) requires that a risk-based annual audit plan be developed and approved by the Board of Trustees. The Plan is designed to provide coverage of key risks, given the existing staff and approved budget. Key risks were determined based on a systemic approach incorporating management input, Internal Audit analysis and ERS' strategic objectives.

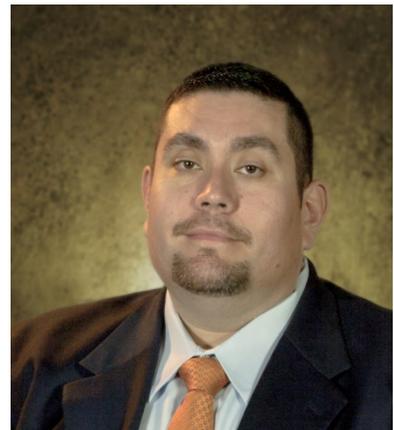
Continuous evaluation of the Plan, based on risks identified, timing of ERS' initiatives and staff availability could result in modifications to the Plan during the year. Amendments to the approved Audit Plan deemed significant will be coordinated with the Executive Director and submitted to the Audit Committee Chair for review and approval.

Anthony Chavez, CIA, CGAP, CRMA
Director, Internal Audit Division



APPROVED

**ERS Board of Trustees
August 16, 2016**



MISSION:

Internal Audit provides independent and objective assurance on the effectiveness of controls and operations to meet ERS' strategic direction.

STRATEGIC DIRECTIONS:

- ⇒ People
- ⇒ Performance
- ⇒ Professional Standards

PRINCIPLES:

- Integrity
- Objectivity
- Confidentiality
- Competency

FY 2017 PROPOSED ANNUAL INTERNAL AUDIT

CORE FUNCTION	ENGAGEMENT
OPERATIONS	<p>Ethics –To determine if the Ethics program provides reasonable assurance of compliance with applicable law, regulations and ERS . (AUDIT)</p> <p>Procurement Cards – To determine whether purchases were in accordance with policies and procedures regarding procurement card use. (AUDIT)</p> <p>Financial Opinion Audit—To opine on whether ERS’ fiscal year 2015 annual financial statements are free from material misstatement and in conformity with generally accepted accounting principles. (AUDIT)</p>
GROUP BENEFITS	<p>Contract Management-Health Select—To determine if contract administration over the HealthSelect insurance plan ensures member benefits are properly delivered and accurately paid. (AUDIT)</p>
RETIREMENT	<p>Revenue Processing-State Agency Contributions – To determine if contributions from state agencies were accurately collected and reported. (AUDIT)</p> <p>Standard Retirements –To determine if standard retirement benefits are processed in accordance with regulatory requirements and annuity payments are accurately calculated. (AUDIT)</p> <p>Pension Actuary – To determine if ERS’ consulting actuary’s methods and assumptions are reasonable and consistently applied. (AUDIT)</p>
INFORMATION SYSTEMS	<p>Privacy Incident Response –To determine if the privacy incident management program is effectively designed to identify and manage privacy events in an effective and timely manner. (AUDIT)</p>
INVESTMENTS	<p>Incentive Compensation—To determine if incentive compensation awards were calculated in compliance with ERS’ Incentive Compensation Plan. (AUDIT)</p> <p>Investment Governance – To determine if policies and processes to achieve investment objectives are aligned with Board expectations. (CONSULTING)</p> <p>Investment Compliance Procedures Review—To determine if quarterly investment compliance procedures continue to address key operational and regulatory investments risks. (CONSULTING)</p> <p>Investment Compliance – To report on compliance with ERS Investment Policy related to portfolio compliance, personal trading, proxy voting, and securities lending. (AGREED-UPON PROCEDURES)</p>

PROJECTS CARRIED-OVER FROM FY 2016 AUDIT PLAN

CORE FUNCTION	ENGAGEMENT
GROUP BENEFITS	Prescription Drug Program — <i>To determine if contract administration and oversight of the prescription drug program ensures member benefits are properly delivered.</i>
INVESTMENTS	Hedge Funds — <i>To determine whether the Hedge Fund investment program is effectively designed and operating to meet ERS' investment goals and objectives.</i>

FY 2017 CONTINGENCY PLAN

CORE FUNCTION	ENGAGEMENT
GROUP BENEFITS	HealthSelect Denial Process — <i>To determine if medical and drug denials were handled in accordance with master benefit plans.</i>
INVESTMENTS	Global Credit-High Yield — <i>To determine whether the Global Credit-High Yield investment program is effectively designed and operating to meet ERS' investment goals and objectives.</i>

Audit provides essential accountability and transparency over government programs. Given the current challenges facing governments and their programs, the oversight provided through audit activities is more critical than ever. Audits provide objective analysis and information needed to make decisions necessary to create a better future.

The Internal Audit Division's audit engagements are conducted in accordance with the United States Government Accountability Office's (GAO) Government Auditing Standards, the Institute of Internal Auditors' (IIA) International Professional Practices Framework, the Texas Internal Auditing Act (Texas Government Code, Chapter 2102) and Committee of Sponsoring Organizations of the Treadway Commission (COSO) 2013 Framework.



Source: COSO

Control Environment	Risk Assessment	Control Activities	Information and Communication	Monitoring Activities
1. Demonstrates commitment to integrity and ethical values.	6. Specifies suitable objectives.	10. Selects and develops control activities.	13. Uses relevant information.	16. Conducts ongoing and/or separate evaluations.
2. Exercises oversight responsibility.	7. Identifies and analyzes risk.	11. Selects and develops general controls over technology.	14. Communicates internally.	17. Evaluates and communicates deficiencies.
3. Establishes structure, authority, and responsibility.	8. Assesses fraud risk.	12. Deploys through policies and procedures.	15. Communicates externally.	
4. Demonstrates commitment to competence.	9. Identifies and analyzes significant change.			
5. Enforces accountability.				