

## Public Agenda Item #2b

Presentation, Discussion and Consideration of  
Audit Committee Agenda Items:

Internal Audit Reports

August 16, 2016

Tony Chavez, Director, Internal Audit Division

# Disability Retirement Audit

Tony Chavez, ERS Director, Internal Audit Division  
Jonathan Puckett, Internal Auditor

# Disability Retirement Audit



**Audit Objective:** *To determine if disability benefits are processed in accordance with regulatory requirements.*

**\$25.7 million** – Annual disability retirement payments

**2,300** – Total disability retirement beneficiaries

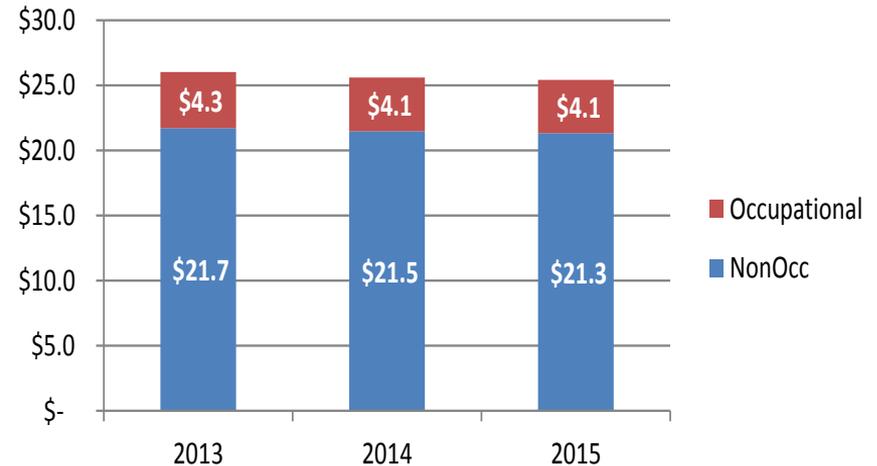
**65** – Yearly disability retirement approvals

**Key Process Areas:** Approvals and Monitoring

**Key controls:**

- Wage match process to help identify retirees who have returned to work
- ERS's medical board reviews all applications

**Total Disability Retirement Payments  
(In Millions)  
2013 - 2015**



# Disability Retirement Audit



Scope Area	Sub-Objective(s)	
Disability Retirement Monitoring	<ul style="list-style-type: none"> <li>• Are monitoring procedures operating effectively to determine if members no longer meet eligibility requirements after disability retirement has been approved?</li> </ul>	
Disability Retirement Eligibility	<ul style="list-style-type: none"> <li>• Are disability retirements granted for eligible members, according to regulatory requirements?</li> <li>• Are applicants provided information to appeal denied applications?</li> <li>• Are disability retirement annuity payments calculated correctly?</li> </ul>	
<b>Overall Assessment</b>		<b>Satisfactory</b>
Scope Area	Result	Rating
Disability Retirement Monitoring	1. Monitoring activities provide limited assurance for continued participation in disability program. (Moderate)	Needs Improvement
Disability Retirement Eligibility	2. Follow-up not performed on information in application packets that may impact eligibility. (Moderate)	Satisfactory

# Disability Retirement Audit



## Observation 1

- Monitoring controls do not include disability retirees who have returned to work out of state.
- Re-evaluation procedures provide limited assurance

## Observation 2

- For 3 of 30 application packets reviewed, departmental statements indicated that the applicant's last day physically at work was after the date the physician's statements were notarized

# Investment Compliance

## April 1 – June 30, 2015

Tony Chavez, Director, Internal Audit Division

Beth Gilbert, Internal Auditor

Jonathan Puckett, Internal Auditor

# Investment Compliance Procedures



## Proxy Voting –

- One vote did not include sufficient documented rationale for voting against ERS guidelines.

## Securities Lending –

- Program temporarily suspended in February 2016
- The last borrowed security returning at the beginning of April 2016
- Began lending EFT's only on April 22, 2016
- Program is currently running at a low utilization rate which caused audit flags for diversification limits throughout April, May and June 2016

## Status of Audit Recommendations

Tony Chavez, Director, Internal Audit Division  
Beth Gilbert, Internal Auditor

# Status of Audit Plan Recommendations



## ▶ Biannual

- January 1 to June 30
- July 1 to December 31

## ▶ Implementation Status Ratings

- Implemented
- Partially Implemented
- No Action Taken
- Executive Management Acceptance of Risk

## ▶ Methodology

- Management Self-Assessment
- Internal Audit review and analysis of supporting documentation
- Audit work not performed to verify the effectiveness of management actions implemented

# Status of Audit Recommendations



Audit Engagement	MAP Owner(s)	Implemented
Database Administration	Information Systems Division	1
Service Purchase Credit	Information Systems Division	1

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**100%**

Questions?