

Internal Audit Annual Report



October 2022

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I. Compliance with Texas Government Code, Section 2102.015: Posting the Internal Audit Plan, Internal Audit Annual Report, and Other Audit Information on the Internet Web site

House Bill 16 (83rd Legislature, Regular Session), signed by Governor Perry on June 14, 2013, amended the Internal Auditing Act to require state agencies and institutions of higher education, as defined in the bill, to post agency internal audit plans, internal audit annual reports, and any weaknesses or concerns resulting from the audit plan or annual report on the agencies' internet web site within 30 days after the audit plan and annual report are approved by the agencies' governing board or chief executive.

The Internal Audit Division meets the requirements by posting the approved documents at the following link: <https://ers.texas.gov/About-ERS/Reports-and-Studies/Reports-on-Overall-ERS-Operations-and-Financial-Management>

II. Internal Audit Plan for Fiscal Year 2022

Report Number	Title	Date	Status
2021-07	Private Real Estate Audit	12-2021	Report Issued
2021-03	Dental Insurance	12-2021	Report Issued
2022-01	Performance Measure Management	12-2021	Report Issued
FY22	Financial Opinion Audit	03-2022	Report Issued
FY22	Pension Forecasting	03-2022	Report Issued
2021-06	Security Monitoring & Event Analysis	03-2022	Report Issued
2022-02	Cyber Security Framework	03-2022	Report Issued
2022-03	Public Equity – Externally Managed	05-2022	Report Issued
2022-04	Administrative Budgeting Audit	05-2022	Report Issued
2022-05	Contact Center		Reporting
2022-06	Disaster Recovery		Reporting
	External Call Center*		Not started

*The Contact Center Audit was split into two audits and External Call Center carried forward to FY23 Audit Plan.

Deviations from the approved Fiscal Year 2022 Audit Plan

There were no deviations from the FY22 Audit Plan.

Monitoring agency contracts

Monitoring of agency contracts is performed through regular audits of programs and the procurement and contract monitoring processes. The Dental Insurance Audit (2021-03) and the Public Equity – Externally Managed Audit (2022-03) and focused on contract monitoring procedures.

III. Consulting Services and Nonaudit Services Completed

The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing* define consulting services as advisory in nature and at the specific request of an engagement client. The nature and scope of consulting engagements are subject to agreement with the engagement client.

Consulting Engagements

No consulting services were performed in FY22.

Service Organization Control (SOC) reports

In Fiscal Year 2022, Internal Audit reviewed Service Organization Control (SOC) reports for compliance with Statement on Standards for Attestation Engagements No. 18. Internal Audit did not perform review procedures to determine if the service organization control objectives, and the related control activities, are relevant to ERS nor did we perform procedures to identify any gaps in the service organizations control structure that may affect ERS' business objectives.

Deliverable	Service Area	Date
Memorandum	Dental PPO	3-2022
Memorandum	HealthSelect of Texas (Medical)	8-2022
Memorandum	HealthSelect of Texas Pharmacy Benefits	8-2022
Memorandum	Dependent Eligibility	8-2022
Memorandum	IT Co-location Services	5-2022

Allegations of Fraud, Waste, and Abuse

In Fiscal Year 2022, Internal Audit continued to assist in compiling, tracking, and coordinating, with the Chief Compliance and Ethics Officer, internal and external allegations of wrongdoing. Trends identified are reported to the Board of Trustees annually by the Chief Compliance Officer.

Informal Consulting

Internal Audit provided input and guidance as a subject matter expert related to risk and control self-assessments. Internal Audit did not develop or implement any specific control activities nor assume any management responsibility. No formal deliverable was prepared.

IV. External Quality Assurance Review (Peer Review)

November 2023
Tony Chavez
Internal Audit Director
Employee Retirement System of Texas

Dear Mr. Chavez,

We have completed a peer review of the Employee Retirement System of Texas for the period of fiscal year 2021 through 2023. In conducting our review, we followed the standards and guidelines contained in the Peer Review Manual published by the State Agency Internal Audit Forum (SAIAF).

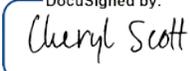
The Institute of Internal Auditors (IIA) *International Standards for the Professional Practices of Internal Auditing and Code of Ethics*, U.S. Government Accountability Office (GAO) *Government Auditing Standards*, and the Texas Internal Auditing Act (Texas Government Code, Chapter 2102) require that internal audit functions obtain external quality assurance reviews (peer reviews) to assess compliance with standards and the Act and to appraise the quality of their operations.

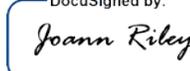
We reviewed the internal quality control system of your audit organization and conducted tests in order to determine if your internal quality control system operated to provide reasonable assurance of conformance with the IIA *Standards*, the GAO *Standards*, and the Texas Internal Auditing Act. Due to variances in individual performance and judgment, conformance does not imply adherence to standards in every case but does imply adherence in most situations.

Based on the information received and evaluated during this external quality assurance review, it is our opinion that the Employee Retirement System of Texas Internal Audit Department receives a rating "**Pass/Generally Conforms**" and is in compliance with the IIA Standards, the GAO Standards, and the Texas Internal Auditing Act. This opinion, which is the highest of the three possible ratings, means that policies, procedures, and practices are in place to implement the standards and requirements necessary for ensuring the independence, objectivity, and proficiency of the internal audit function.

We have prepared a separate letter providing details of our findings and recommendations for strengthening your internal quality control system.

The Employee Retirement System of Texas has reviewed the results of the work performed by the peer review team and accepted them to be an accurate representation of their operations. To the extent lawful, Employee Retirement System of Texas agrees to hold SAIAF and its officers and representatives harmless of any liability arising from the actions of the peer review team or issues resulting from the peer review.

DocuSigned by:

EDCFE66486CB497
Cheryl Scott, CPA, CISA
Texas Comptroller of Public Accounts

DocuSigned by:

C2C3A788D969428
Joann Riley, CIA
Office of the Attorney General

Full Peer Review Report

**Report on the External Quality Assurance Review of the
Employee Retirement System of Texas
Internal Audit Department**

November 2023



Performed by

Cheryl Scott

Director of Internal Audit

Texas Comptroller of Public Accounts

Joann Riley Internal

Auditor

Office of the Attorney General

**Performed in Accordance with the State
Agency Internal Audit Forum Peer Review
Policies and Procedures**

V. Internal Audit Plan for Fiscal Year 2023

Introduction

The Texas Internal Auditing Act (Texas Government Code 2102) requires that a risk-based annual audit plan (Internal Audit Plan or 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 Internal Audit Plan, based on risks identified, timing of ERS' initiatives, and staff availability may result in modifications to the Plan during the year. Significant modifications to the Plan will be coordinated with the Executive Director and submitted to the Audit Committee Chair for review and approval.

Audit Plan Approach

The annual internal audit plan is developed based on ERS' audit universe, stakeholder input, and an assessment of risk and exposures affecting ERS. Throughout the year, Internal Audit advances its understanding of ERS strategic objectives and initiatives through attendance at strategic planning meetings and division presentations/training. Auditors also gain an understanding of industry trends and current environmental risks through discussions with industry personnel, review of trade publications, and attending relevant external training. On a periodic basis the audit universe and associated risk measurement tools are updated to reflect current strategies and the direction of the agency.

ERS' audit universe is divided into three separate and distinct groupings to better assess and measure risks associated with core business objectives. The first group, Member Services (Retirement, Group Benefits, and Operations), relates to ERS' core business objectives of providing retirement and benefit programs to state employees, retirees, and their dependents. The second group, Information Technology, relates to providing information technology for supporting ERS' core business objectives. The third group, Investments, relates to the ERS goal of earning investment returns on a long-term basis to support ERS' member services.

For each auditable unit (program process or investment strategy), Internal Audit utilized risk criteria tailored for each audit universe, auditor professional judgement, and feedback from stakeholders to measure the inherent risk by impact and likelihood that it would affect ERS goals or objectives. This allowed Internal Audit to identify those areas that were high risk and impact to ERS' strategic directions to be carried forward to the Fiscal Year 2023 audit plan. In addition, key operational functions that were assessed lower risk ratings were also carried forward to the Fiscal Year 2023 audit plan because periodic review was deemed necessary and appropriate.

Internal Audit Plan

The Board of Trustees approved the Internal Audit Plan for Fiscal Year 2023 on August 24, 2022. The Internal Audit Plan consists of seven risk-based, value-adding activities for the fiscal year in addition to the two audit engagements carried over from Fiscal Year 2021.

The Internal Audit Division will provide the results of audit activities to the Audit Committee and Board of Trustees at the request of the Audit Committee Chair.

Approved Audit Plan for Fiscal Year 2023

Title	Type	Budgeted Hours
Global Credit – Internal High Yield Audit	Audit	1,000
Operational & Financial Due Diligence Audit	Audit	700
Contact Center Audit	Audit	200
External Call Center* Audit	Audit	500
Group Benefits Rate Development and Analysis Audit	Audit	800
Retirement Account Withdrawals Audit	Audit	500
Cloud Management Audit*	Audit	700
Ethics Audit	Audit	500
Business Continuity Audit	Audit	650
Financial Opinion Audit	Audit	200

*Audit includes a review of contract management practices

Contingency List

All activities rated as high risk were included on the FY23 Internal Audit Plan. No contingency list of audits was included.

VI. External Audit Services Procured in Fiscal Year 2022

Audit Engagement	Vendor
The Audit of ERS' Fiscal Year 2022 Financial Statements	CliftonLarsonAllen (CLA)
Schedule of Employer Allocation and the Collective Pension Amounts including: <ol style="list-style-type: none"> 1) Independent Auditor's Report and 2) Report on Internal Control Over Financial Reporting and on Compliance and Other Matters 	CliftonLarsonAllen (CLA)

VII. Reporting Suspected Fraud and Abuse

ERS has a responsibility to state employees, retirees, and the public to maintain the highest ethical standards when conducting business. Individuals are encouraged to report in good faith any suspected fraud, waste, abuse, or ethics policy violation in connection with programs administered by ERS.

ERS complies with the requirements of Article IX, *Section 7.09, Fraud Reporting, General Appropriations Act* (86th Legislature) by:

- Enforcing the ERS Fraud policy to minimize the impact of potential or actual fraudulent acts at ERS by deterring such activity or detecting it as early as possible
- Alerting all ERS employees that there are reporting mechanisms that are easy, safe and secure using:
 - ERS Public website
 - ERS Internal Connect Website (Intranet)
 - Direct contact with Internal Audit
 - State Auditor's Office Hotline
- Alerting the public that there are reporting mechanisms that are easy, safe, and secure using:
 - ERS Public website at <https://ers.texas.gov/About-ERS/Policies/Fraud-Policy>
 - Direct contact with the Director, Internal Audit Division or Chief Compliance and Ethics Officer
 - State Auditor's Office Fraud Hotline telephone number is listed on the ERS Public Website at <https://ers.texas.gov/Contact-ERS/Additional-Resources/Report-Fraud>

ERS complies with the requirements of Texas Government Code, Section 321.022 *Coordination of Investigations* by submitting *Reasonable Cause to Believe* report(s) to the State Auditor's Office if applicable. The Director of Internal Audit coordinates the *SAO Hotline Complaints* with the Texas State Auditor's Office designated contact.