

1. Meeting of the ERS Board of Trustees Audit Committee

August 21, 2019



Public Agenda Item #1.1

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

August 21, 2019

Public Agenda Item #2.1

*Review and Approval of the Minutes to the May 22, 2019
ERS Audit Committee Meeting - (Action)*

August 21, 2019

Questions?
Action Item

Public Agenda Item #3.1

Review of External Audit Reports

August 21, 2019

Tony Chavez, Director of Internal Audit

Audit of the Employees Retirement System's Fiscal Year 2018 Employer Pension and Other Post-employment Benefits Schedules

State Auditor's Office Audit Team:

Hillary Eckford, CIA, CFE (Audit Manager)

Kelley Ngaide, CIA, CFE (Project Manager)





Overall Conclusion

We issued unmodified (clean) opinions for the fiscal year 2018 Employees Retirement System's (System) Pension and Other Post-employment Benefits (OPEB) liability schedules.

Background

- Employers participating in the respective plans will need to recognize their portion of the reported pension and/or OPEB liability in the financial statements they produce.
- The System prepared the audited schedules to help participating employers comply with requirements of Governmental Accounting Standards Board (GASB) Statements No. 68 and No. 75. Employers may use the pension and OPEB liability schedules prepared by the System to aid them in determining their portion of the reported pension and/or OPEB liability.



Key Point

Material Weakness. The System had material errors in its Schedule of Collective OPEB Amounts for both the Deferred Outflows of Resources and Deferred Inflows of Resources amounts totaling \$7.54 billion. Those errors were corrected before the System finalized the Schedule.

Questions?

Public Agenda Item #3.2

Review of Internal Audit Reports

August 21, 2019

Tony Chavez, Director of Internal Audit

HealthSelect of Texas Contract Management Audit

Tony Chavez, Director of Internal Audit

Tressie Landry, Audit Manager, Internal Audit

Karen Norman, Internal Auditor



HealthSelect of Texas is a self-funded, network based health plan, meaning all costs are covered by the state and members

HealthSelect of Texas[®]

428,000 Participants

70,000+ Health Providers

Self-Funded

BCBSTX is the TPA

HealthSelect of Texas Management Audit

Summary Results



To determine if contract administration over the HealthSelect of Texas insurance plan ensures member benefits are properly delivered – *Audit Objective*

Overall Assessment	Satisfactory	
Scope Areas	Results	Rating
Monitoring Activities	Controls are working as intended	Satisfactory
Performance Management	Performance measures are not established to evaluate and monitor non-financial effectiveness Third-party review procedures should be improved to better align with non-financial program risks and objectives	Needs Improvement

HealthSelect of Texas Management Audit

Monitoring Activities



Monitoring Activities ensure the TPA is delivering services as contractually required



Operational meetings occurring



Cross divisional onsite visits

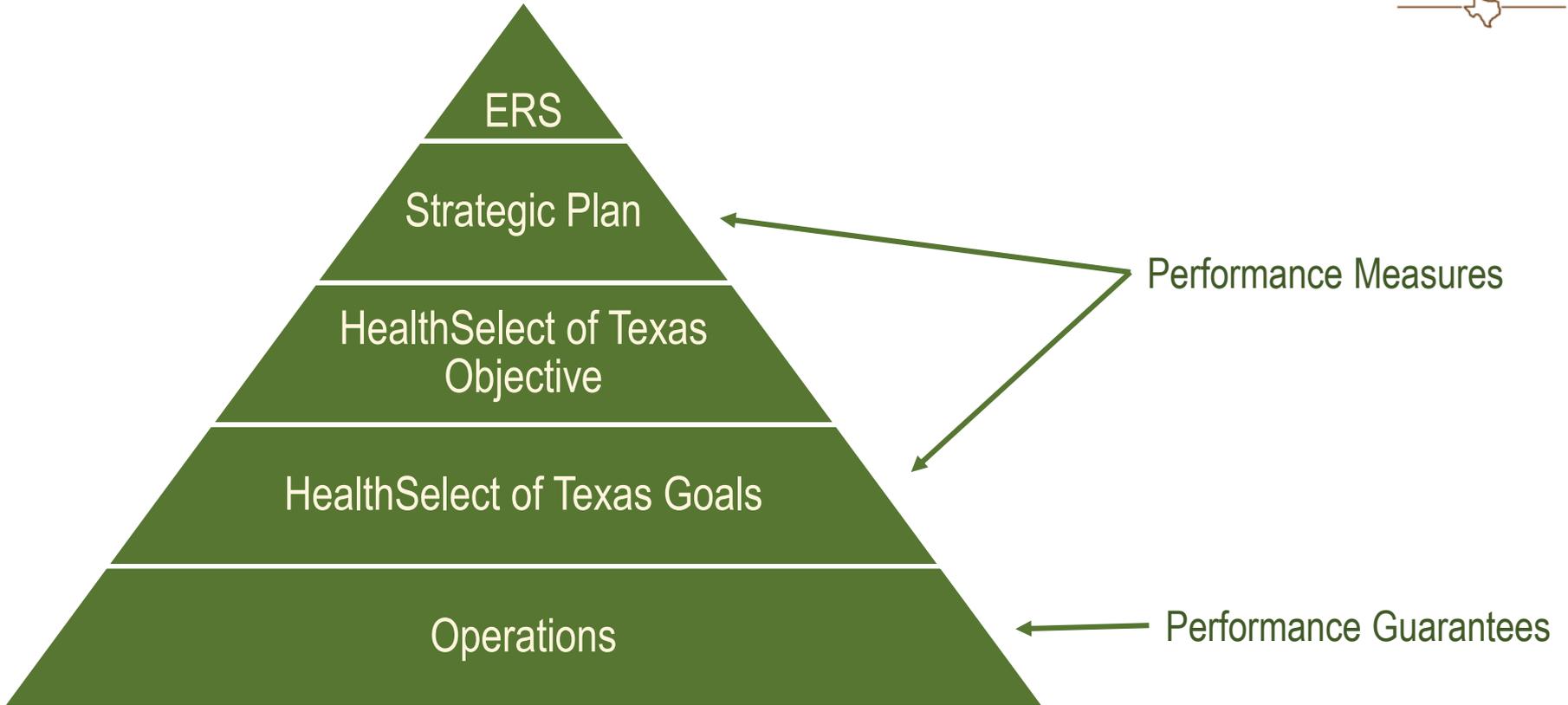


Performance Guarantees are self-reported monthly



Independent review of the TPAs processes for each Plan Year

Alignment: Daily Operations to ERS' Mission



HealthSelect^{TX} of Texas

Performance Measures

Focus on the Program
Goals & Objectives progress
Inform Stakeholders

Performance Guarantees

Focus on the TPA
Monitoring Activity
Contract Standards

Both are necessary

Performance Measures are strategic standards; *Performance Guarantees* are operational standards

HealthSelect of Texas Management Audit

Performance Measures and Performance Guarantees



LBB Report

Outcome and Efficiency Measures

- **Claims Processing**
- **Member Satisfaction**

ERS Strategic Plan

Sustain Competitive Group Benefits

- Claims processed In-Network
- Spent on health care claims
- Enrollment in condition mgmt. program
- **Member Satisfaction**

HealthSelect of Texas Goals

Non-Financial Goals

- Accessible, High-quality network
- **Customer Service**
- Communications
- Disease Management

Performance Guarantees

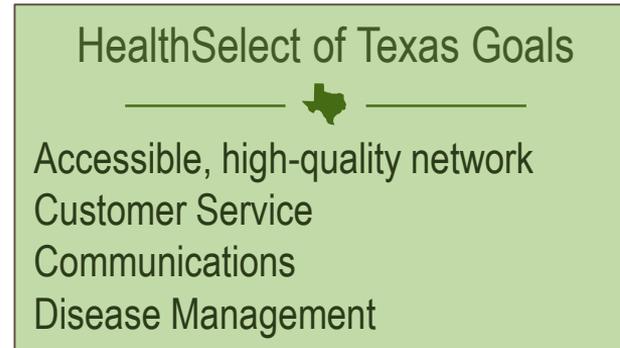
Business Critical Service

- File Processing
- System downtime
- Provider Turnover
- File Processing resolution
- ID Cards
- Notice of file processing errors
- Notice of changes
- **Claims Processing**
- **Member Satisfaction**
- Correspondence response
- Grievance & Appeals
- HealthSelect website downtime
- Call blockage
- Communication accuracy
- Annual enrollment
- Report submission

- **Member Satisfaction included in reporting**
- **No measures directly tied to HealthSelect of Texas Goals**

HealthSelect of Texas Management Audit

Observation #1 – Performance measures are not established

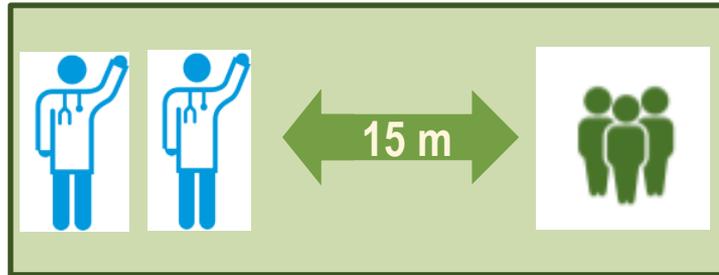


The goals of HealthSelect of Texas (the program) do not have performance measures

HealthSelect of Texas Management Audit



What is an Accessible, High-Quality Network?



Measuring Accessibility

- More stringent than TDI standards
- Evaluated during TPA selection
- Accessibility not in Monitoring activities

In urban areas, the network must have two PCP's, common specialties, and one general service hospital within 15 miles of each in-area participant's residence – *Accessibility Standard*

HealthSelect of Texas Management Audit

An Accessible, High-Quality Network



Measuring Ongoing Accessibility

- Not a risk in urban areas
- Relative strength of regions is not measured
- Does not measure or communicate the impact of work performed by staff

Geographic Area	HealthSelect Participants	Reported PCPs	Accessibility Percentage
A	42,944	561	100%
B	26,182	688	100%
C	23,905	308	100%
D	15,715	219	100%
E	12,040	744	100%
F	5,584	433	100%

Source: 2016 TPA Procurement

HealthSelect of Texas Management Audit

Principles of an Accessible, High-Quality Network



Accessibility

Accessibility Measures

Driving Distance
Appointment Waiting times



Adequacy

Adequacy Measures

PCP-to-Participant Ratio
Specialist-to-Participant Ratio
Participant Geography

HealthSelect of Texas Management Audit

HealthSelect of Texas Communication



What is Presented

Strategic Initiatives

- Emergency Room
- Changing the Script
- Virtual Visits

Performance Guarantees

HealthSelect of Texas Goals

- Accessible, high-quality network
- Customer Service
- Disease Management
- Communications

HealthSelect of Texas Management Audit

HealthSelect of Texas Communication



Information Available

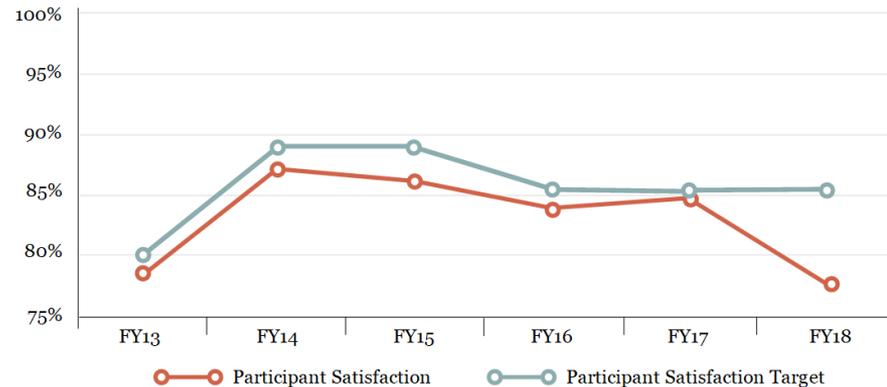
Strategic Plan

- Participant Satisfaction
- In-Network Utilization
- Condition Management

Adequacy & Accessibility

Multiple Period View

Participant Satisfaction



Source: ABEST (Note: FY18 satisfaction results were reported to be 80% but not updated in ABEST)

HealthSelect of Texas Management Audit

Observation #1 - Recommendations



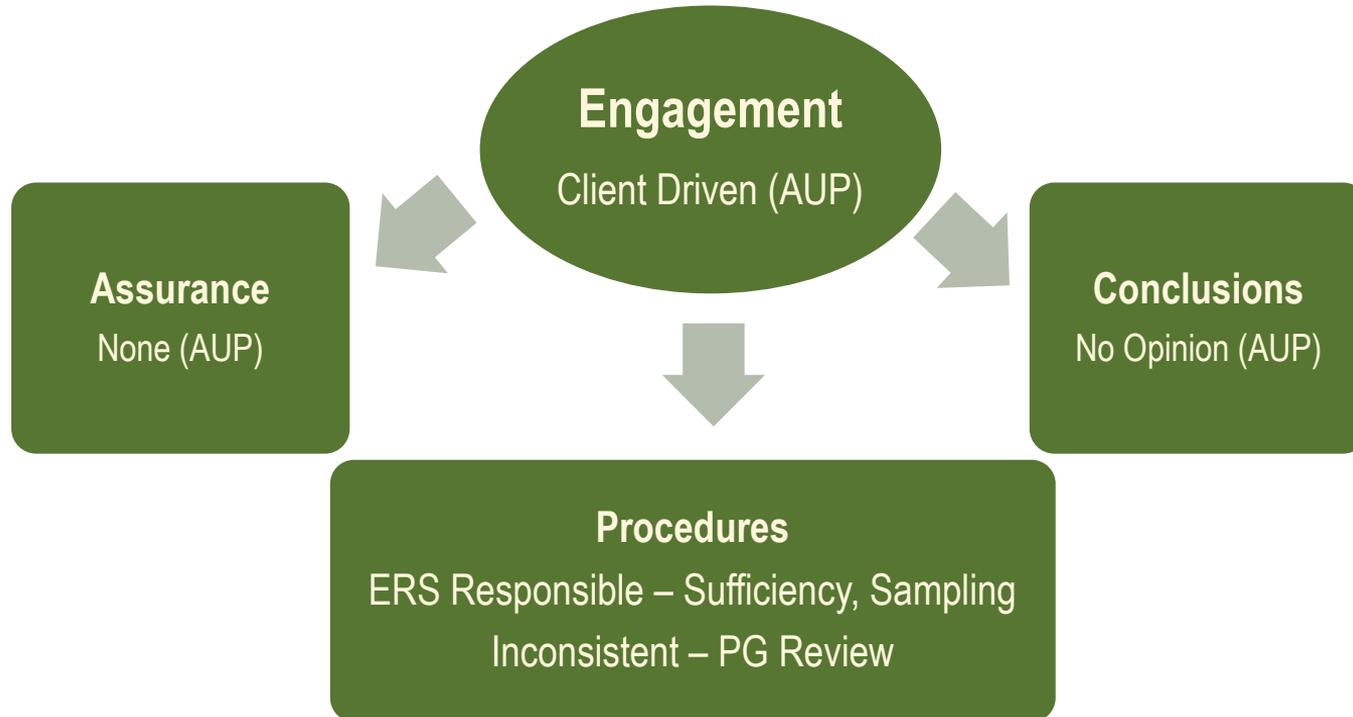
Establish Performance Measures for the HealthSelect of Texas program

- Identify Key Program Areas
- Develop KPIs
- Establish Performance Measures
- Define Methodology
- Communicate Measures



HealthSelect of Texas Management Audit

Observation #2: Review purpose should be improved



HealthSelect of Texas Management Audit

Observation #2 - Recommendation



Management should reevaluate the purpose and timing of the review

Clarify

Purpose of the Review
Engagement Type = Assurance
Level

Coordinate

Risk Assessment
Tailored Procedures
Identify Efficiencies

Communicate

Expected Start/End
Changes Implemented
Presenting Results

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

Summary



Audit Engagement	Observation #	MAP Owner	MAP Status
Benefits Coordinator Training Program	1	Coordinated between: <ul style="list-style-type: none">• BCASSIST staff• Insurance Benefits Processing Manager• Insurance Enrollment & Reconciliation Supervisor	Partially Implemented

Questions?

Public Agenda Item #3.3

*Review and Consideration of Audit Administrative Items:
Internal Audit Proposed Fiscal Year 2020 Annual Audit Plan –
(Action)*

August 21, 2019

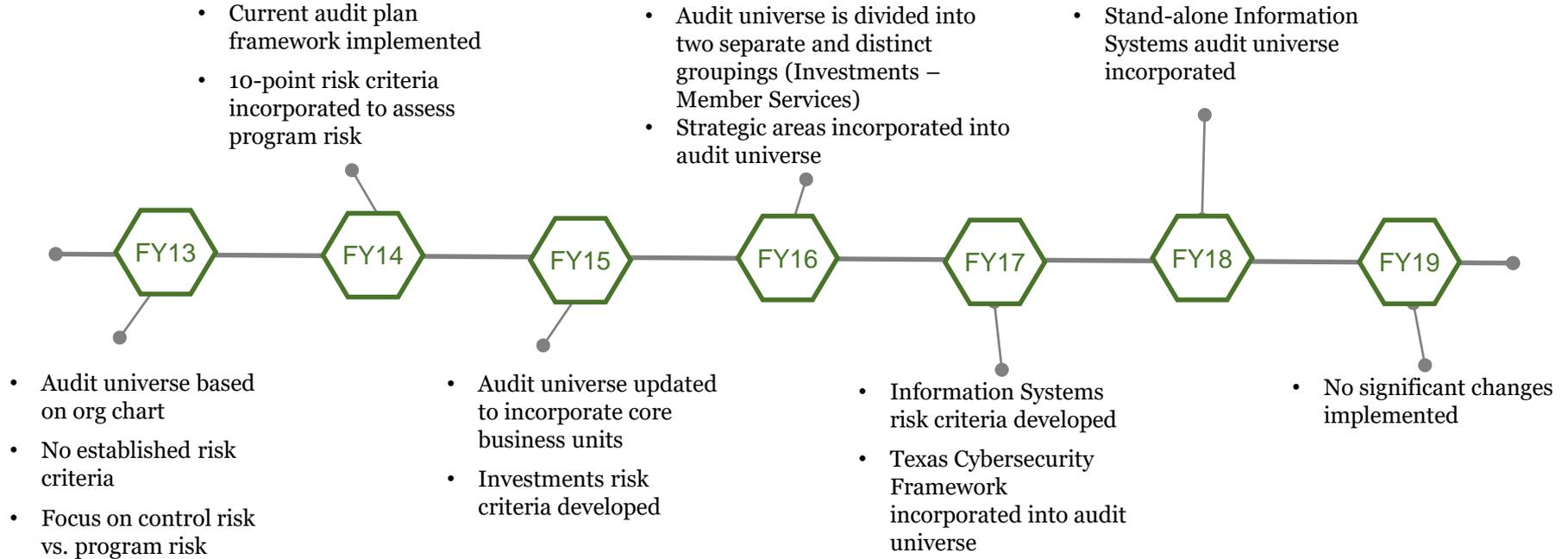
Tony Chavez, Director of Internal Audit
Tressie Landry, Audit Manager, Internal Audit

Proposed FY20 Audit Plan

- 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



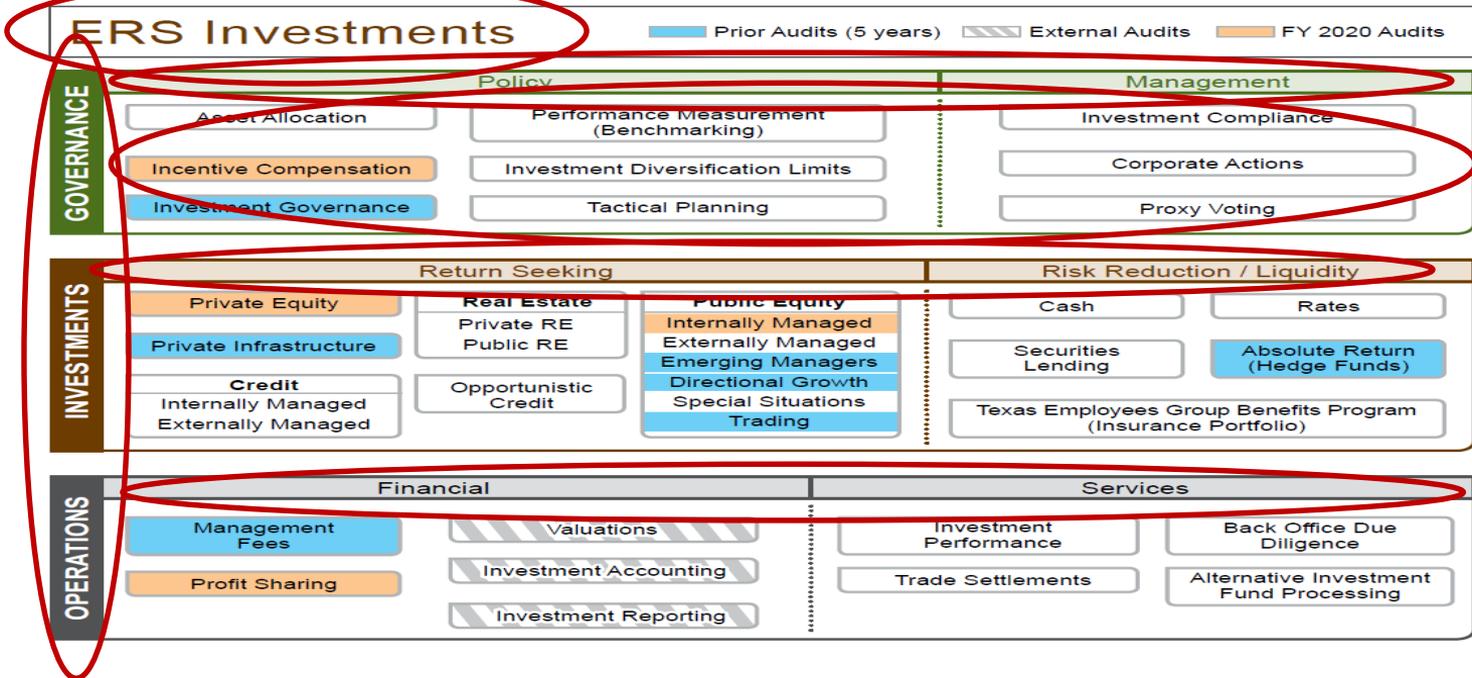
Proposed FY20 Audit Plan



Proposed FY20 Audit Plan



Core Business → Strategic Area → Functional Area → Program



Proposed FY20 Audit Plan

Assess



INVESTMENTS RISK CRITERIA

Strategic (15%) - Asset allocation/diversification; new investment types and/or increase in allocation; flaw in underlying benchmark; capital risk

Valuation (15%) - Percent of total fund balance; frequency of valuation; valuation high subjective; frequency of transactions for underlying security

Compliance (10%) - Number and type of regulatory requirements; potential loss of autonomy/stewardship; increased regulatory sanctions/penalties; loss of funding; level of regulation

Implementation (10%) - Policy may not be implemented properly; new process/procedures; highly complex and/or non-traditional investment type; limited investment opportunities

Management (15%) - Level of skills and expertise to manage asset class; use of external management to assist with investment strategy; staff size/turnover; established knowledge skills and abilities for the position

Public Image/Exposure (10%) - High legislative interest or concern; negative image associated with investment asset class function; bad prior press

Liquidity (10%) - No readily available market prices; asset can not be readily converted to cash at prevailing or assumed process

Legal (5%) - Partnership with external party; ownership and rights based on agreement; legal custody maintained outside ERS

Fraud Susceptibility (5%) - Misrepresentation of financial/performance statements; potential for conflict of interest; opportunity for personal gain, misuse/misappropriation; amount of contact with investment partners; incentive for compensation

Previous Audit Results and Management Action Plans (5%) - Mitigation of previous risks; time since last audit observations in last audit

Proposed FY20 Audit Plan



RISK	INVESTMENT RISK ATTRIBUTES	MEMBER SERVICES RISK ATTRIBUTES	INFORMATION SERVICES RISK ATTRIBUTES
STRATEGIC (Directive)	<ul style="list-style-type: none"> • Board/Management initiative • Asset allocation targets and ranges • Tactical planning and positioning (over/under weight) • High tracking error volatility • Legislative interest • Public perception • Investment literacy (complexity) 	<ul style="list-style-type: none"> • Criticality to achieving mission • Board/Management initiative • Reputation loss if goals not achieved • Size of population served • Criticality of service/program provided • Legislative interest • Public perception 	<ul style="list-style-type: none"> • Criticality data/system in achieving mission • Level of system availability required to achieve mission • System delivery direct to members • Reputation loss if goals not achieved • Size of population served • Legislative interest
OPERATIONAL (Implementation)	<ul style="list-style-type: none"> • Asset class maturity • Complexity of investment strategy • Market accessibility to meet tactical plans • Investment risk management complexity • Required expertise • Staffing levels/Turnover • Level of external management • Opportunity for personal gain, misuse/misappropriation; 	<ul style="list-style-type: none"> • Service/Program complexity and maturity • Transaction volume • Required expertise • Staffing levels/Turnover • Level of external management in delivery services • Opportunity for personal gain, misuse/misappropriation 	<ul style="list-style-type: none"> • System complexity and maturity • Required confidentiality of data/transactions • Transaction volume • Level of data ownership • Data origination (internal vs. external) • Staffing levels/turnover
FINANCIAL (Dollars)	<ul style="list-style-type: none"> • Percent of total fund balance • Frequency of valuation (market price) • Utilization of leverage as part of investment strategy • Liquidity • Risk for material financial misstatement • Corresponding incentive compensation 	<ul style="list-style-type: none"> • Total program expenditures • Level of cost oversight of expenditures (direct payment vs. pass-through) • Market cost conditions and trends • Cost transparency • Risk for material financial misstatement 	<ul style="list-style-type: none"> • Total direct cost of information system • Total cost for related program • Risk for material financial misstatement
REGULATORY (Mandates)	<ul style="list-style-type: none"> • Volume and complexity of regulatory requirements • Level of negative public perception from non-compliance • Potential loss of autonomy/stewardship from non-compliance • Severity of fines from non-compliance • Time since last audit • Prior audit observations • Potential for conflict of interest 		

Proposed FY20 Audit Plan



Investments Heat Map Functional Area

Functional Area	Strategic	Operational	Financial	Regulatory	Total Risk
Financial	13	19	16	19	67
Return-Seeking	15	19	13	15	63
Policy	20	19	9	14	62
Management	8	15	8	20	52
Risk Reduction / Liquidity	12	10	11	15	48
Services	10	11	10	10	41

Member Services Heat Map Functional Area

Functional Area	Strategic	Operational	Financial	Regulatory	Total Risk
Program Management	20	16	18	15	69
Financial	15	16	13	14	59
Retirement	12	15	11	16	54
Group Benefits	13	13	12	13	51
Governance	15	11	8	16	50
Support Services	11	13	8	9	42

Proposed FY20 Audit Plan

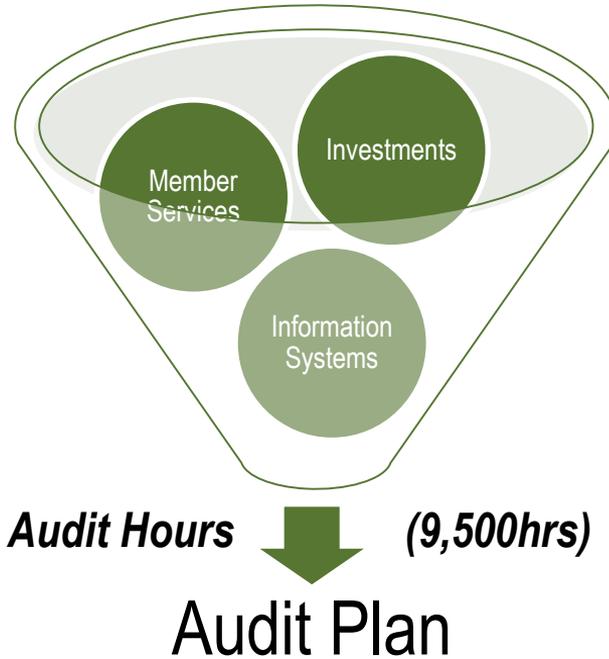
Prioritize



- Time since last review
- Board Input/Discussions
- Engagements suggested by leading practices
- Industry trends
- Division management input
- Legislative interest

Proposed FY20 Audit Plan

Resource

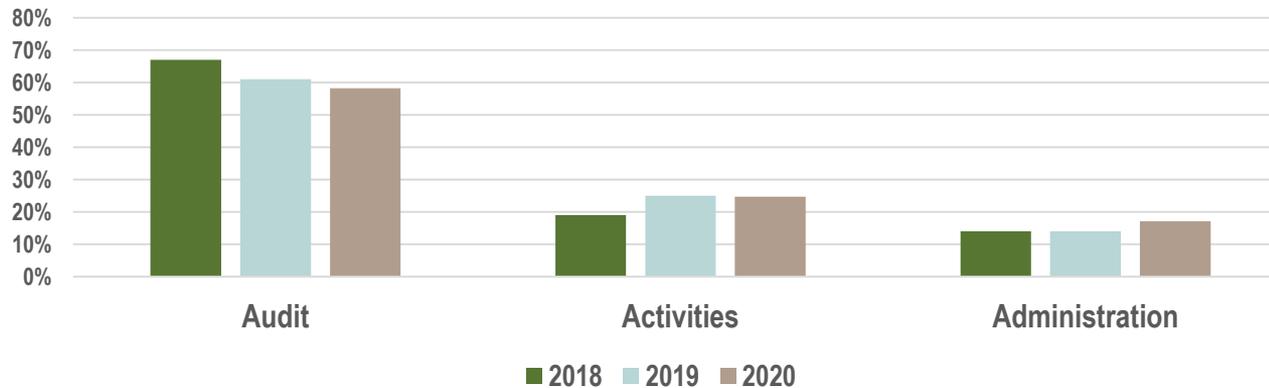


Proposed FY20 Audit Plan

Resource



Audit Hour Allocation



Audit Activities

- Peer Review
- Quality Assurance Program
- Audit Plan Development
- Annual Internal Audit Report

Administration

- Two solicitations (Opinion and Actuary Audit)
- Training (Minimum 40 hours per person)

Proposed FY20 Audit Plan

Resource



Audit Effort → Project Hours

Standard	Advanced	Complex
<ul style="list-style-type: none">• Normal business operations• General understanding and acumen already possessed• Specific and objective criteria (statute, best practices) clearly established and implemented• Minor problem-solving techniques required to address issues• Little to no data analysis required	<ul style="list-style-type: none">• Advanced business operations• Moderate research required to improve business acumen• Specific criteria established with some latitude for interpretation• Moderate problem-solving techniques required to address issues• Data analysis required to assist with conclusions	<ul style="list-style-type: none">• Technical business operations• Significant research required to improve business acumen• Subjective and ambiguous criteria• Advanced problem-solving techniques required to address issues• Substantial data analysis required to reach meaningful conclusions• Large scope

Proposed FY20 Audit Plan

Execute



CORE BUSINESS	ENGAGEMENT
INVESTMENTS	Profit Sharing*
	Private Equity*
	Incentive Compensation
	Internal Public Equity
MEMBER SERVICES	Deferred Compensation Program (Texa\$aver)
	Insurance Forecasting
	Survivor Benefits
INFORMATION SYSTEMS	IT Governance* (<i>Consulting</i>)
	PS Pension IT Controls
MULTIPLE	Financial Opinion Audit
* Carry-over FY19 Audit Plan	

Questions?
Action Item

Public Agenda Item #3.4

Review of Audit Administrative Items: Annual Internal Audit Independence Assessment

August 21, 2019

Tony Chavez, Director of Internal Audit
Tressie Landry, Audit Manager, Internal Audit

Auditor Independence Criteria



Texas Government Code requires adherence to:

- Standards for the Professional Practice of Internal Auditing
- Generally Accepted Government Auditing Standards (GAGAS)

Independence—The freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner.

(Source: The Institute of Internal Auditors)

Independence Assessment



GAGAS conceptual framework for independence:

- a) Identify threats to independence;
- b) Evaluate the significance of the threats identified;
- c) Apply safeguards as necessary to eliminate the threats or reduce them to an acceptable level

Types of Threats to Independence

- Self-interest threat
- Self-review threat
- Bias threat
- Familiarity threat
- Undue influence threat
- Management participation threat
- Structural threat

Source: GAGAS

Independence Assessment Results



- Auditor Independence (individual) – staff free from impairments to independence
- Organizational independence – audit function is free from interference
- Non-Audit Services – safeguards are in place to prevent non-audit services from impacting independence

Questions?

Public Agenda Item #4.1

Executive Session –

In accordance with Section 551.089, Texas Government Code, the Board of Trustees will meet in executive session to discuss: (1) security assessments or deployments relating to information resources technology; (2) network security information as described by Section 2059.055(b); or (3) the deployment, or specific occasions for implementation, of security personnel, critical infrastructure, or security devices and/or (4) a security audit. Thereafter the Board may consider appropriate action in open session

August 21, 2019

Public Agenda Item #5.1

Adjournment of the ERS Board of Trustees Audit Committee Meeting

August 21, 2019

Public Agenda Item #5.2

Recess of the ERS Board of Trustees

Following a temporary recess, the Board of Trustees will reconvene its meeting with the Investment Advisory Committee to take up the following Joint Board of Trustees and Investment Advisory Committee agenda items.

August 21, 2019