

1. Meeting of the ERS Board of Trustees Audit Committee

May 22, 2019



Public Agenda Item #1.1

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

May 22, 2019

Public Agenda Item #2.1

*Review and Approval of the Minutes to the March 6, 2019 ERS
Audit Committee Meeting – (Action)*

May 22, 2019

Questions?
Action Item

Public Agenda Item #3.1

Review of Internal Audit Reports

May 22, 2019

Tony Chavez, Director, Internal Audit Division

Client Reconciliation (Consulting)

Tony Chavez, Director, Internal Audit Division

Tressie Landry, Manager, Internal Audit

Greg Magness, Project Lead, Internal Audit

Consulting Engagement – Key Partners



Key Stakeholders:	Porter Wilson, Executive Director Catherine Terrell, Deputy Executive Director Machelle Pharr, Chief Financial Officer Robin Hardaway, Director, Customer Benefits
Process Owners:	Christi Davis, Assistant Director, Customer Benefits Division Nick Osborn, Manager, Financial System Support, Finance Division Irene Torres, Supervisor, Client Reconciliation, Finance Division
Project Objective:	To assist in identifying process improvements related to accounting of member contributions.
Business Objective:	To ensure the accuracy of member data within ERS' PeopleSoft Pension system (ERS OnLine).

Consulting Engagement



- Applicable Standards
 - All Generally Accepted Government Auditing Standards (GAGAS) as they relate to independence were addressed
 - Consulting standards of the Institute of Internal Auditors' International Professional Practices Framework
- The work performed during this project does not constitute an audit
 - Control framework design was assessed, but not tested
 - No ratings are made
 - No follow-up on findings or Management Action Plan

Member Retirement Data



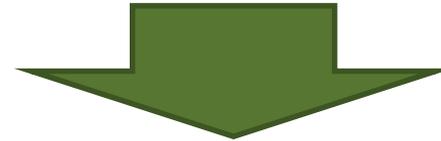
PeopleSoft Pension/ERS OnLine

- Pensionable Earnings
- Service Credits



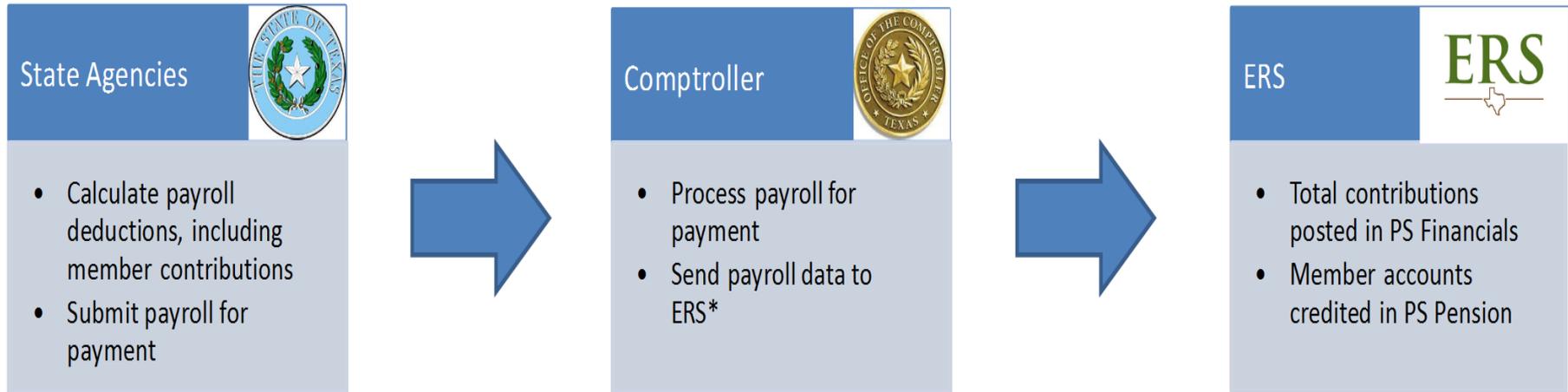
- Establish Eligibility for Retirement
- Establish Eligibility for Insurance
- Calculate Retirement Annuity

- Member Contribution
- Interest Earned



- Retirement Account Withdrawal

State Payroll Processing



* Note: Some organizations report their member data directly to ERS.

Control Framework



		Application Controls	Payroll Processing	Monitoring Controls
CB	Customer Benefit (Data Owner)	Develop edit checks used to validate data in payroll files	Coordinate with IS on receipt of payroll and accounting files from Comptroller	Coordinate with IS and FSS on projects related to accuracy of member account
Finance	Client Reconciliation		Research contributions/accounts identified by Application and Monitoring controls Request corrections to member files Validate corrections and ensure account accuracy	
	Financial Systems Support		Process corrections to member accounts in PS Pension Process corrections to financial data in PS Financials	Generate queries and reports to monitor accuracy of member accounts in PS Pension
	General Accounting			Reconcile PS Pension file and PS Financials files to ensure completeness
IS	Information Systems	Activate edit checks used to validate data in payroll files	Coordinate receipt of payroll and accounting files from Comptroller	Apply corrections requiring program changes (Data Fixes) Make application programming changes

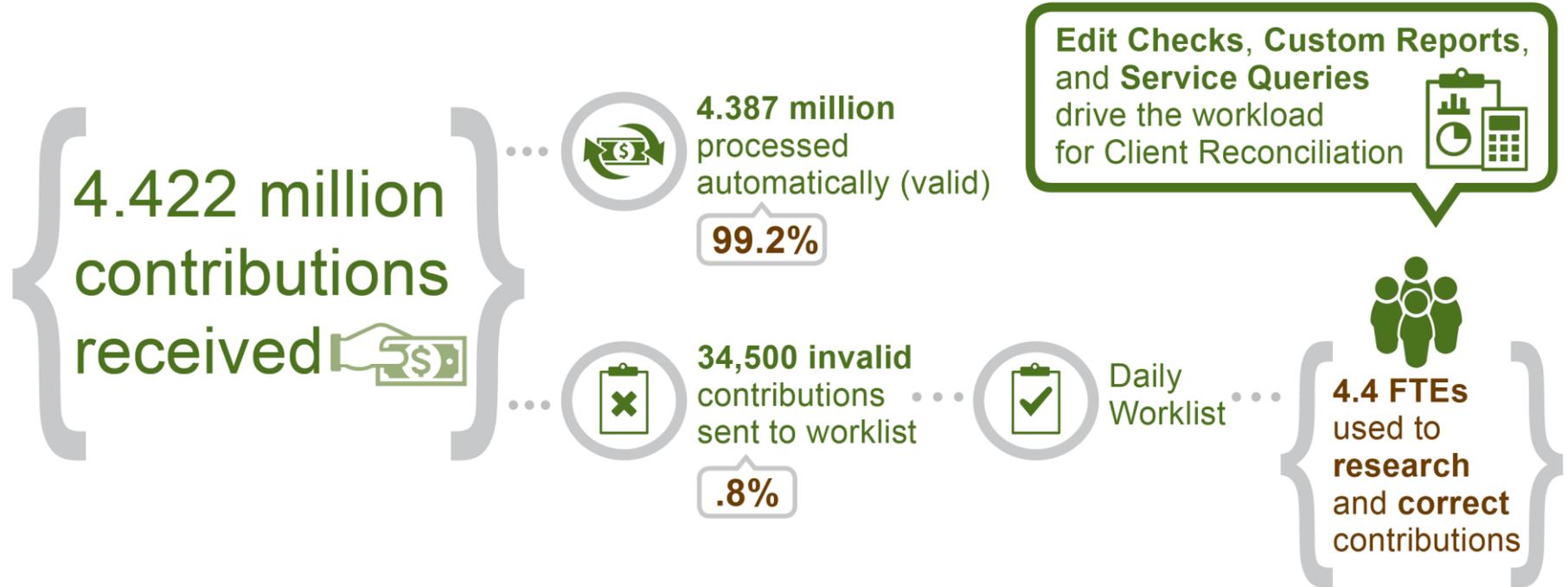
Application Controls



Application Controls -
Controls that are incorporated into computer applications to achieve validity, completeness, accuracy, and confidentiality of transactions and data during application processing.

- **Edit Checks** – Prevent bad data from being processed into PS Pension
- **Custom Reports** – Identify accounts that need to be monitored
- **Service Queries** – Identify accounts that may have been affected by a known system issue.

FY 2018 Member Contributions



Periodic Evaluation of Automated Controls



Application Controls determine:

- Contributions processed as Valid,
- Workload for the Analysts of Client Reconciliation.

Periodic review would ensure completeness and may enhance efficiency.

Recommendation

Establish process to periodically review PS Pension application controls to determine if they are working as intended when developed.

Control Framework



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			Request corrections to member files	
			Validate corrections and ensure account accuracy	
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Formalize Cross-Divisional Communications



Recommendation

- With multiple divisions performing activities to process member contributions and maintain member data, established communication needs to be formalized, especially in three areas:
 - Effectiveness of Controls
 - Workload
 - Data Governance

Questions?

Temporary Worker Contract Management Audit

Tony Chavez, Director – Internal Audit

Tressie Landry, Audit Manager

Jonathan Puckett, Project Lead

Temp Worker Contract Management Audit



Background

- **Audit Objective** - To determine if contract management of temporary staff vendors ensures compliance with laws, rules and regulations governing contract employment.
- **Scope Areas (sub-objectives)**
 - On-boarding
 - Ongoing Management
- **Audit Scope**
 - Internal control activities in place to meet audit objectives from January 2018 to December 2018

Temp Worker Contract Management Audit



Background

“Temporary worker” and “consultant” are defined by HR internal policy / procedures as:

Temporary Worker

- Works under ERS manager’s supervision
- May work alongside ERS employees to complete project
- Is told what to do, how to do it, and when it needs to be done
- Submits weekly / monthly timesheet for approval

Consultant

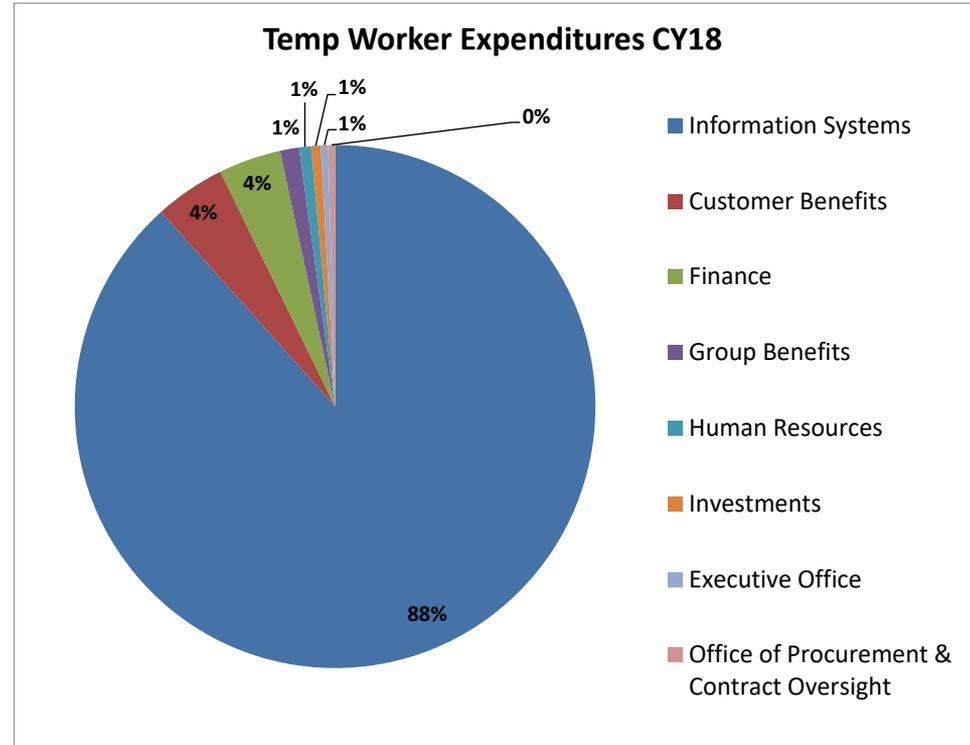
- Analyzes the problem and decides how to solve it
- Often uses methods or tools that the client hasn’t even thought of
- Self-directed
- Does whatever it takes to deliver the solution that meets the client’s needs
- ERS pays by project or service

Temp Worker Contract Management Audit



Background

- Total temporary worker expenditures in CY18 was \$4.4m on 78 staff.
- Information Systems and Customer Benefits are the top two divisions on spend and number of temp workers.
- Information Systems spent \$3.8m on 45 temporary workers for their specialty skills needed for projects.
- Customer Benefits spent \$191K on 14 temporary workers, mostly for their temp to hire program in the Contact Center.



Temp Worker Contract Management Audit Results



OVERALL ASSESSMENT

Satisfactory

Scope Area	Results	Rating
On-boarding	1. Control owners not aware of Information Security guidelines for additional screening of temporary workers	Satisfactory
Ongoing Management	Controls are in place to provide reasonable assurance that objectives are met	Satisfactory

Temp Worker Contract Management Audit

Contract Management Activities



- Onboarding:
 - obtaining criminal history background checks for all temporary workers
 - Health Insurance Portability and Accountability Act (HIPAA) training
 - security awareness training
- Ongoing Management:
 - addressing any temporary worker or contract issues with the vendor
 - reviewing vendor invoices for accuracy
 - ensuring temporary worker access to systems is removed after termination

Temp Worker Contract Management Audit

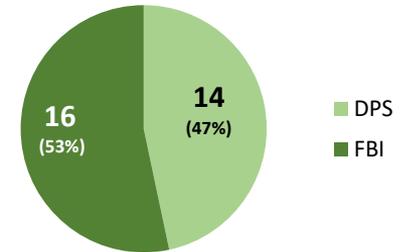


Observation 1

Criminal History Checks - Background

Background Check Type	Cost	Assurance Level	ERS criteria for obtaining background check type
DPS	\$1	<ul style="list-style-type: none">- Name & birthdate based search- Texas criminal history	Minimum background check for all temporary workers
FBI	\$28	<ul style="list-style-type: none">- Fingerprint based search- Nationwide criminal history	<ul style="list-style-type: none">- Covered persons- If Texas residency less than two years- Access to sensitive data (e.g. PHI)

Background Checks by Type CY18



Temp Worker Contract Management Audit



Observation 1

Control owners not aware of Information Security guidelines for additional screening of temporary workers

- FBI background checks not obtained for 3 of 6 temporary workers with access to PHI.
- ERS Info Security Manual guidelines state that FBI background check for temp staff with access to PHI.
- Procedure for level of background checks obtained does not align with criteria above.
- Privacy laws (HIPAA) require reasonable safeguards in place to protect electronic PHI.
- The factors above could be applied to regular full-time employees as well. Management should evaluate and assess the risk and impact to both temporary workers and full-time employees when developing procedures to address the observation and risks.

Questions?

Public Agenda Item #4.1

*Adjournment of the ERS Board of Trustees
Audit Committee Meeting*

May 22, 2019

Public Agenda Item #4.2

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.

May 22, 2019