



## Audit Committee Meeting

May 22, 2019



**Presented for Review and Approval**

**August 21, 2019**

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**AUDIT COMMITTEE MEETING  
EMPLOYEES RETIREMENT SYSTEM OF TEXAS  
May 22, 2019  
TRS Board Room, E513  
TRS Building – 1000 Red River Street  
Austin, Texas 78701**

**TRUSTEES PRESENT**

Catherine Melvin, Audit Chair  
I. Craig Hester, Board Chair  
Ilesa Daniels, Board Vice Chair  
Doug Danzeiser, Member  
James Kee, Member

**TRUSTEE ABSENT**

Cydney Donnell, Member

**ERS DIRECTORS PRESENT**

Porter Wilson, Executive Director  
Cathy Terrell, Deputy Executive Director  
Paula A. Jones, Deputy Executive Director & General Counsel  
Tony Chavez, Director of Internal Audit  
William Nail, Special Projects & Policy Advisor  
Jennifer Chambers, Director of Government Relations  
Bernie Hajovsky, Director of Enterprise Planning Office  
Robin Hardaway, Director of Customer Benefits  
Machelle Pharr, Chief Financial Officer  
Gabrielle Schreiber, Director of Procurement and Contract Oversight  
Chineque “DeeDee” Sterns, Director of Human Resources  
Katherine Tesar, Director of Benefits Communications  
Tom Tull, Chief Investment Officer  
Keith Yawn, Director of Strategic Initiatives

**ERS STAFF PRESENT**

Jason Avants, Information Systems  
Kelley Davenport, Executive Office  
Juli Davila, Investments  
Christi Davis, Customer Benefits  
Tressie Landry, Internal Audit  
Greg Magness, Internal Audit  
Betty Martin, Investments  
Aris Oglesby, Investments  
Jonathan Puckett, Internal Audit  
Susie Ramirez, Executive Office  
Tanna Ridgway, Investments  
Cheryl Scott Ryan, Office of General Counsel  
John Streun, Investments  
MaryJane Wardlow, Executive Office  
Ariana Whaley, Government Relations

**ALSO PRESENT**

Sam Austin, NEPC  
Tim Bruce, NEPC

## Meeting of the ERS Board of Trustees Audit Committee

### 1. CALL TO ORDER

#### 1.1 Call Meeting of the ERS Board of Trustees' Audit Committee to Order

Ms. Catherine Melvin, Chair of the Board of Trustees Audit Committee of the Employees Retirement System of Texas (ERS), noting a quorum was present, called the meeting to order at 8:01 a.m. and read the following statement:

"A public notice of the ERS Board of Trustees' Audit Committee meeting containing all items on the proposed agenda was filed with the Office of the Secretary of State at 2:54 p.m. on Monday, May 13, 2019, as is required by Chapter 551, Texas Government Code, referred to as the "Open meetings Law."

### 2. MINUTES

#### 2.1 Review and Approval of the minutes to the March 6, 2019 ERS Audit Committee Meeting (ACTION)

Ms. Catherine Melvin, Audit Committee Chair, opened the floor for a motion on the approval of the minutes from the March 6, 2019 Audit Committee meeting.

The Board then took the following action:

**Move** that the ERS Board of Trustees Audit Committee of the Employees Retirement System of Texas approve the minutes for its meeting held on March 6, 2019.

**Motion** by Craig Hester, second by Jim Kee

Final Resolution: Motion Carries

Aye: Craig Hester, Doug Danzeiser, Ilesa Daniels, Catherine Melvin, Jim Kee

### 3. AUDIT ITEMS

#### 3.1 Review of Internal Audit Reports

Mr. Tony Chavez, Director of Internal Audit, informed the board two engagements were performed this period as part of the Fiscal Year 2019 audit plan: Client Reconciliation Consulting Engagement and the Audit of Temporary Workers Contract Management. Mr. Chavez introduced Tressie Landry, audit manager, and Greg Magness, project lead.

Mr. Magness reported that the consulting engagement with the client reconciliation unit of the Finance division is complete. Internal Audit reviewed the processing of member contributions and maintenance of the integrity of member data. Staff were asked to identify process improvements for the accounting of member contributions. The business objective for this process was identified as, "To ensure the accuracy of member data within ERS's Oracle/PeopleSoft Pension System, also known as ERS OnLine." Internal Audit was asked to perform the audit and it was considered a consulting engagement. The work does not constitute an audit performed in accordance with the Generally Accepted Government Auditing Standards (GAGAS). However, all GAGAS standards regarding the threats and safeguards of independence were addressed. In addition, consulting standards for internal auditing (International Professional Practices Framework) were followed. Unlike a standard ERS Internal Audit report, no ratings are assessed for consulting engagements.

Mr. Magness said that this engagement was different in that staff worked with management to determine the scope of the project, instead of performing an assessment of risk. Management is not required to respond to the report or provide a management action plan.

The assessment included the PeopleSoft pension system, which is the system of record for member pension data. Each member has an individual retirement account where ERS records their pensionable earnings and member contributions. This information is used to calculate the members' interest earned and service credits. There were four data elements that staff focused on during the review - Pensionable Earnings, Service Credits, Member Contribution and Interest Earned. These data elements

are used to establish eligibility for insurance and retirement, calculating a retirement annuity, and maintaining the balance of members' accounts in the case of withdrawal.

All member retirement contributions originate at the members' employing agency. The agency calculates the amount to be deducted from the members' payroll based on their pensionable earnings and contribution rate. Payroll is submitted throughout the month to the Comptroller for payment. Key payroll data is forwarded to ERS for posting to individual member accounts within the pension system. Changes in any agency payroll systems, including the Comptroller, can have a significant effect on ERS processes. Funds from payroll are sent in a separate file from the Comptroller and are accounted for at ERS in the Oracle/PeopleSoft Financial system.

Mr. Magness explained that the control framework for processing member contributions is designed appropriately. The system validates data prior to the processing of contributions all contributions are posted to the member accounts once all work list items are corrected and cleared. Work within the control framework is coordinated across three divisions within ERS – Customer Benefits, Finance, and Information Systems. With cross-divisional responsibilities, one challenge is communication. Division directors may not be aware of work that is performed in the other divisions and must rely on information from those other divisions. Division directors must work together to review the appropriate system security access of staff.

Application controls are automated controls built into computer applications to assist in preventing bad data from entering the system and detecting incomplete or inaccurate data once it has been processed. The three types of application and monitoring controls that are used at ERS in maintaining the validity, completeness and accuracy of member data are: *Edit Checks* (which prevent bad data from being processed), *Custom Reports* (which identify accounts that need to be monitored), and *Service Queries* (which identify accounts that may have been affected by a known system issue.)

Mr. Magness reported that in Fiscal Year 2018, ERS processed over 4.4 million member contributions to individual retirement accounts. Most (99.2%) of contributions were processed automatically. The remaining contributions (0.8%) needed some type of manual research and were sent to a worklist for staff to complete. Work time equivalent to 4.4 full-time employees are dedicated to researching the contributions identified by the application or monitoring control.

ERS does not review the controls on a periodic basis as noted in the report. The report suggests that ERS periodically review the application controls and create a formal method to share information between divisions. Periodic review of these key controls should be completed to ensure they are operating effectively and ensuring the resources of the client reconciliation are used in an efficient manner. The review should prioritize the identification of all accounts needing research, eliminating false positives from reports, and assessing the relevancy of current controls. While the divisions meet regularly, more communication should be established at a governance level to ensure program objectives are met. Staff recommend formalizing cross-divisional communications to ensure the effectiveness of controls, workload and data governance.

The number of contributions failing the validity checks increased dramatically this year due primarily to one error code that resulted from errors of payroll agents at other agencies. This error code was not mapped to appear on the worklist, but staff did identify there was an issue prior to the engagement through communications with payroll agents and addressed the cause. All error codes were reviewed to ensure they were mapped to appear on worklists. In addition, a contributing factor to an increase in invalid contributions resulted from an external payroll system update. ERS is working with the State Comptroller of Public Accounts to get the error corrected. Since ERS is not the employer, the agency relies on external payroll data.

Staff received two files from the Comptroller, one is the pension data that contains individual member pension data, and the other is the funds summarized by agency. Those two files are reconciled by ERS to ensure completeness.

Mr. Danzeiser asked what management's responses were. Mr. Chavez noted that they were not required to respond since it was a consulting engagement. Mabelle Pharr and Robin Hardaway noted that they have already started working on enhanced communication between their two divisions as recommended in the report.

Ms. Melvin clarified that management requested this engagement. Mr. Chavez explained that during the development of the audit plan, each division director has an opportunity to request advisory services.

Ms. Melvin then turned the presentation over to Jonathan Puckett, project lead for the Temporary Worker Contract Management Audit who provided the board with background information on the audit. The objective was to determine if contract management of temporary staff vendors ensures compliance with laws, rules and regulations governing contract employment. There were two scope areas that included on-boarding and ongoing management. The audit scope included internal control activities in place to meet audit objectives between January 2018 to December 2018.

Mr. Puckett reviewed how temporary workers are defined. Staff used internal policies and procedures to identify temporary workers. There are two main groups of non-regular employees: temporary workers and consultants. The unique characteristics of each are listed below:

Temporary Worker	Consultant
<ul style="list-style-type: none"> <li>• Works under ERS manager's supervision</li> <li>• May work alongside ERS employees to complete project</li> <li>• Is told what to do, how to do it, and when it needs to be done</li> <li>• Submits weekly / monthly timesheet for approval</li> </ul>	<ul style="list-style-type: none"> <li>• Analyzes the problem and decides how to solve it</li> <li>• Often uses methods or tools that the client hasn't even thought of</li> <li>• Self-directed</li> <li>• Does whatever it takes to deliver the solution that meets the client's needs</li> <li>• ERS pays by project or service</li> </ul>

The total temporary worker expenditures in Calendar Year 2018 was \$4.4 million for 78 workers. Information Systems and Customer Benefits are the top two divisions utilizing temporary workers. Information Systems spent \$3.8 million on 45 temporary workers to meet needs for specialized skills and Customer Benefits spent \$191k on 14 temporary workers, primarily temp to hire contact center specialists.

Mr. Puckett reported that the overall assessment was satisfactory. Contract management activities for onboard scope area includes obtaining criminal history background checks for all temporary workers, providing Health Insurance Portability and Accountability Act (HIPAA) training, and security awareness training.

For the Ongoing Management scope area, activities include addressing any temporary worker or contract issues with the vendor, reviewing vendor invoices for accuracy, and ensuring temporary worker access to systems is removed after termination.

Mr. Puckett provided information on Observation 1 - there are two types of criminal history background checks (DPS and FBI) which provide different assurance levels. All workers must receive the DPS background check, but ERS criteria requires the additional check from the FBI when the worker has access to sensitive data or meets other attributes.

Background Check Type	Cost	Assurance Level	ERS criteria for obtaining background check type
DPS	\$1	- Name & birthdate based search - Texas criminal history	Minimum background check for all temporary workers
FBI	\$28	- Fingerprint based search - Nationwide criminal history	- Covered persons - If Texas residency less than two years - Access to sensitive data (e.g. PHI)

The control owners were not aware of the ERS Information Security guideline for additional screening of temporary workers with access to sensitive data. Documentation of FBI background checks was not obtained for three of six temporary workers with access to private health information (PHI). The vendor for these three workers confirmed FBI background checks were performed, however ERS did not

obtain the evidence of the checks. 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. Staff recommend that management evaluate and assess the risk and impact to both temporary workers and full-time employees when developing procedures to address the observation and risks.

Mr. Hester asked management if it would be reasonable to perform the FBI background checks on all temporary workers and Mr. Wilson responded that it was definitely a consideration. Mr. Puckett clarified that the workers that did not have the FBI background checks all worked in Customer Benefits and all the workers in Information Technology had FBI checks performed.

Ms. Melvin asked about the objective related to removing system access for temporary workers and Mr. Puckett reported that all workers had their access removed timely.

There were no further discussion or questions and no action was taken on this agenda item.

#### **4. ADJOURNMENT/RECESS**

##### 4.1 Adjournment of the ERS Board of Trustees Audit Committee.

There being no other items, the ERS Board of Trustees' Audit Committee adjourned at 8:38 a.m.

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 Board of Trustees and Investment Advisory Committee agenda items.