

## **AGENDA ITEM DETAILS**

- Subject:** Review of Internal Audit Reports
- Internal Public Equity Audit
  - Status of Audit Recommendations

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As part of the approved FY21 Audit Plan, Internal Audit completed the Internal Public Equity Audit included as Exhibit A. In addition, a Status of Audit Recommendations report is included as Exhibit B.

### **Internal Public Equity Audit**

Based on the audit scope areas reviewed, internal controls are effective and substantially address significant risks related to operational execution and regulatory compliance. The organization's system of internal controls provides reasonable assurance that key goals and objectives will be achieved despite control gap corrections and improvement opportunities identified. The identified control gap corrections and improvement opportunities have the potential to negatively impact the organization's program and control objectives.

1. Annual Review does not provide the Board with all information needed to facilitate a discussion of long-term performance. (Significant)

Sub-objectives included the following:

#### Investment Management

1. Are portfolios managed to ensure alignment with defined strategies?
2. Are processes in place to manage and mitigate portfolio risk?
3. Are investments properly authorized?

#### Governance

1. Is information presented reliable to facilitate proper oversight?
2. Is Public Equity managed to ensure compliance with regulatory requirements?
3. Does performance incentive align with portfolio objectives?

### **Status of Audit Recommendations**

Internal Audit (IA) has completed procedures to monitor and report on the status of management action plans (MAPs) to address open audit recommendations. Implementation status was based on management's self-assessment and IA's review of supporting documentation to corroborate the self-assessment. Supporting documentation included, but was not limited to, revised documented policies/procedures, worksheets, management status reports and reconciliations. Audit work was not performed to verify the effectiveness of implemented management actions to determine if controls were working as intended. Future audit engagements in these areas will confirm the effectiveness of the implemented controls.

1. Disability Retirements Audit – Observation 1 has been implemented with the following actions:
  - a) Members living out of state are required to attest to employment status
  - b) Risk assessment performed
  - c) Application revised to include certification that member understands re-certification is possible
  - d) Medical Board Certification Form revised to include indication that new medical evaluation should be completed

2. HealthSelect of Texas Contract Management Audit – Observation 1 has been implemented through establishing new performance measures and reporting them to the Board of Trustees.
3. Temporary Workers Contract Management – Observation 1 is partially implemented by revising Human Resources (HR) policies related to background checks. Alignment of HR policies with information security policies has yet to be completed.

ATTACHMENTS:

1. Exhibit A – Internal Public Equity Audit
2. Exhibit B – Status of Audit Recommendations
3. Slides – Internal Audit Reports