

## **AGENDA ITEM DETAILS**

- Subject:** Review of Internal Audit Reports
- Private Real Estate Audit
  - Dental Insurance Audit
  - Performance Measure Management Audit
- 

As part of the approved FY22 Audit Plan, Internal Audit completed the Private Real Estate Investments Audit included as Exhibit A, the Dental Choice Plan PPO Audit included as Exhibit B and Performance Measures Management Audit, included as Exhibit C.

### Private Real Estate Investments Audit

The Private Real Estate program is an alternative asset class composed of professionally managed pooled private investments in the real estate markets.

Based on the audit scope areas reviewed, the system of internal controls provides reasonable assurance that key goals and objectives will be achieved. The audit also identified control gap corrections and improvement opportunities.

1. Improve controls over active risk management (Significant)
2. Limited investment performance information provided to facilitate discussion of long-term performance. (Moderate)

Audit Objective: To determine if investments in private real estate are in accordance with ERS Investment Policy. Sub-objectives included the following:

#### Portfolio Management

1. Has the portfolio been adapted to meet investment objectives?
2. Are processes in place to manage and mitigate portfolio risk?

#### Investments

1. Do investment recommendations communicate relevant information?
2. Is information validated?
3. Are investments properly authorized?

#### Governance

1. Is information presented reliable to facilitate proper oversight?
2. Is portfolio performance and management explained to promote transparency?
3. Does performance incentive align with portfolio objectives?

### Dental Choice Plan PPO Insurance Audit

The State of Texas Dental Choice Plan is ERS' member-funded Preferred Provider Organization (PPO) dental insurance plan available to State of Texas agency and higher education employees, retirees, and eligible family members. The primary benefit of the dental insurance program is the cost savings realized through cost sharing and in-network service discounts negotiated by the third-party administrator (TPA) with providers.

Based on the audit scope areas reviewed, the system of internal controls provides reasonable assurance that key goals and objectives will be achieved. The audit also identified control gap corrections and improvement opportunities.

1. Establish controls to assess whether in-network service discounts are realized. (Moderate)

Audit Objective: Does contract management over the Dental Choice Plan PPO insurance program ensure member benefits are properly delivered? Sub-objectives included the following:

#### Member Benefits

1. Does provider network support delivery of dental services?
2. Does customer service assist in delivery of benefits?

#### Cost Management

1. Are dental claims processed in accordance with plan design?
2. Are claims reimbursements and TPA fees remitted accurately?
3. Are cost savings through the provider network realized?
4. Are appropriate funding levels established to support program costs?

#### Performance Measure Management Audit

The State of Texas' Strategic Planning and Performance Budgeting (SPPB) system requires state agencies to report on performance measures to the Texas Legislative Budget Board (LBB). Reported SPPB performance measures may be certified by the Texas State Auditor's Office (SAO) for accuracy.

Based on the audit, following the methodology described in the SAO's Guide to Performance Measure Management, the system of internal controls provides reasonable assurance that key goals and objectives will be achieved. The audit also identified control gap corrections and improvement opportunities.

1. Formalize and align performance measure processes with legislative agency requirements.

Certification categories were assigned, using the SAO's criteria, for each of ERS' key performance measures, and are as follows:

1. Certified
  - a. Investment Expense as Basis Points of Net Position
  - b. Number of ERS Accounts Maintained
2. Certified with Qualification
  - a. Percent of HealthSelect Participants Satisfied with TPA Services
  - b. Percent of Medical Claims Paid within 22 Business Days
  - c. HealthSelect Administration Fees as Percent of Total HealthSelect Costs
3. Inaccurate
  - a. Percent of ERS Retirees Expressing Satisfaction with Member Benefit Services

#### ATTACHMENTS:

1. Exhibit A - Private Real Estate Investments Audit
2. Exhibit B - Dental Choice Plan PPO Insurance Audit
3. Exhibit C - Performance Measure Management Audit
4. Slides – Internal Audit Reports