



Internal Audit Annual Performance and Quality Review

December 7, 2021

From the Director

The ERS Board of Trustees (Board) provides oversight of the Internal Audit Division (IA). Internal Audit continues to provide relevant results to assist stakeholders in meeting agency goals and objectives. In addition, Internal Audit’s quality assurance and improvement program (QAIP) ensures audit work is in conformance with regulatory requirements and standards.

To provide accountability and transparency, the IA Director is presenting the following results of annual performance and quality program assessments to the Board and executive management.

Sincerely,

Anthony Chavez, CIA, CGAP, CRMA

Director, Internal Audit Division

ERS Internal Audit Division

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Overall Internal Audit continues to meet its mission of providing assurance on the effectiveness of controls and operations to meet ERS' strategic directions. Internal Audit's existing control framework allowed it to continue meeting required professional standards and provide relevant results. Internal Audit initiated the transition of return to office in July 2021. As of August 2021 all staff had returned under a hybrid work schedule which included holding all key milestone meetings with stakeholders and process owners in person with a virtual meeting option. While providing effective and relevant results, the following key performance observations for FY21 were identified to help Internal Audit meet its three strategic directives:

1. Enhance Professional **Practices** — Compliance with regulatory requirements and statutes.
2. Enhance **Performance** — Management and Accountability—Effectiveness and efficiency of audit performance and results.
3. Grow **People** Management—Audit team members continue to grow in their professional development.

OVERALL ASSESSMENT		SATISFACTORY
SCOPE AREA	RESULT	RATING
Practice	<ul style="list-style-type: none"> Continued enhance of audit management software in the audit process Coordinate external peer review for Fall 2022 Participated as team lead on external peer review 	SATISFACTORY
Performance	<ul style="list-style-type: none"> Incorporate data analysis of actual audit hours in developing Annual Audit Plan. Continue to improve on the timeliness and balance of director feedback on internal audit engagements. 	SATISFACTORY
People	Peer group conference not held this year impacting core business CPE for some staff. Conference to return in Calendar Year 2022.	SATISFACTORY

Fiscal Year 2022 Initiatives and Action Items

The following initiatives are being implemented for Fiscal Year 2022:

- On-board new staff auditor
- Incorporate data analysis of actual audit hours in developing Annual Audit Plan.
- Continued enhancements of audit management software in the audit process
- Coordinate external peer review for Fall 2022
- Assist with hosting peer group conference in Fall 2022.

External Assessment

The current External Quality Assurance Review of the Employees Retirement System of Texas Internal Audit Division was performed in October 2019.

ERS Internal Audit division earned the highest rating “**Pass/Generally Conforms**” which means that policies, procedures, and practices are in place to implement the standards and requirements necessary for ensuring independence, objectivity, and proficiency of the internal audit function.

Government Auditing Standards - External Peer Review (3.96) states the audit organization should obtain an external peer review at least once every three years.

Internal Assessment

Ongoing monitoring of the audit function is performed through day-to-day activities including:

- Audit work paper reviews and feedback
- Individual staff and team meetings
- Quality control checklists

An annual self-assessment was completed in November 2021. The self-assessment included a review of audit work papers and Board reports. See *Appendix A* for further information on the internal assessment process. Overall we concluded that Internal Audit “**General Conforms**” with audit standards. Opportunities for improvements included:

Improve documentation over the following:

- Data validation and analysis procedures
- Consideration of information system controls that could impact audit objectives
- Alignment of program objectives, inherent risk and key controls

Internal assessments must include:

- Ongoing monitoring of the performance of the internal audit activity.
- Periodic self-assessments or assessments by other persons within the organization with sufficient knowledge of internal audit practices.

Fiscal Year 2021 Performance Measures

Internal Audit continues to assess areas for improvement. Significant performance observations include:

Although the measure for percent of audits within budget hours continues to be a challenge further analysis identified the following:

Variance between actual and budgeted hours has been decreasing for individual audits, getting closer to meeting targets.

Re-assessment of budget hours for investment related audits going forward as original budget hours may be too aggressive.

On certain engagements cause for over-budget was based on decision to perform additional value-added work to better communicate the impact of observations on program goals.

Number of days in reporting process (days from end of fieldwork to draft report) increased due to pause of on audit engagement because of staff resignation. Anticipate returning to FY19-20 levels for FY22.

Cancellation of peer group audit conference impacted three team members from obtaining core business training (Investments, Insurance, Information Technology). All staff have met or will meet training requirements to maintain certifications held.

“Measures or benchmarks should provide a reasonable balance between difficulty of achievement and unrealistic performance measures.” — Committee of Sponsoring Organizations (COSO)

Strategic Direction	Measure	Target Goal	FY21	FY20	FY19	FY18
Performance	Percent of Audit Plan Completed	90%	82%	56%	64%	54%
Performance & Practice	Number of Days From End of Fieldwork to Draft Report is Sent to Executive Director	25 business days	28	16	22	27
Performance & Practice	Percent of Recommendations Accepted by Management	85%	100%	100%	100%	100%
Performance	Percent of Time Spent on Added Value Services	75%	TBD	80%	73%	74%
Performance	Percent within Audit Engagement Budgeted Hours*	90%	28%	25%	43%	50%
People	Percent of Audit Staff attending 16 hours of annual training in core business to increase business acumen	100%	25%	60%	80%	100%
People	Percent of Audit Staff Meeting Required CPE	100%	100%*	100%	100%	100%

* Some staff have training to complete for the year, but it is expected that all staff will meet the requirements

SATISFACTORY

NEEDS IMPROVEMENT

NEEDS SIGNIFICANT IMPROVEMENT

Appendix - Internal Self-Assessment

Internal assessments must include both ongoing monitoring and periodic self-assessment or independent reviews.

Ongoing monitoring is an essential part of the day-to-day supervision, review and measurement of the internal audit activity. Ongoing monitoring is incorporated into the routine policies and practices used to manage the internal audit activity and uses processes, tools, and information considered necessary to evaluate conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards.

Periodic self-assessments are more in depth assessments conducted to evaluate conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards. Also evaluated are:

- Adequacy of Internal Audit's charter, goals, objectives, policies and procedures.
- Contributions to the organization's governance, risk management and control processes.
- Compliance with applicable laws, regulations and government or industry standards.
- Effectiveness of continuous improvement activities and adoption of best practices.
- The extent to which the internal audit activity adds value and improves the organization's operations.
- Follow-up on recommendations involving appropriate and timely modification of resources, technology, processes and procedures.

Optimizing Process Improvement while meeting Professional Audit Standards

Internal Assessment Process

1. *The Institute of Internal Auditor's Quality Assessment Manual and the State Agency Internal Audit Forum (SAIAF) serve as guidance.*
2. *Information reviewed:*
 - *Checklists and procedures*
 - *Feedback from audit customers and other stakeholders*
 - *Working paper review*
 - *Board reports*
 - *Approved audit plan, project budgets, and hours*
 - *Performance metrics*
3. *Conclusions as to the quality of performance made and action plan developed*
4. *Report results of internal assessments, necessary action plan, and status of implementation to executive management and the Board*