

AGENDA ITEM DETAILS

- Subject:** Consideration of Internal Audit Reports
- Public Equity – External Advisor Program
 - Administrative Budgeting Audit
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As part of the approved FY22 Audit Plan, Internal Audit completed the Externally Advised Public Equity Audit included as Exhibit A and the Budgeting Audit included as Exhibit B.

Externally Advised Public Equity Audit

The Externally Advised Public Equity program consists of three programs:

- External Advisor Program
- Emerging Manager Program
- Directional Growth Hedge Fund Program

The goal of the program is to complement the internally managed portfolios through contracting with external advisors who may have differentiated strategies, unique processes or resources not available internally.

Based on the audit scope areas reviewed, internal controls partially address risk and need improvement to address significant risks related to monitoring the value provided by the External Advisors. One observation is reported:

1. Process to evaluate and assess the value added by external advisors needs improvement. (Significant)

Audit Objective: To determine if investments in externally advised public equity are in accordance with ERS Investment Policy. Sub-objectives included the following:

External Advisor Selection

1. Are respondents properly vetted to ensure qualified, quality firms?
2. Does the respondents' expertise align with investment objectives?
3. Are investment services authorized based on relevant information?

Portfolio Monitoring

1. Are portfolios monitored to ensure acceptable performance?
2. Are investments in accordance with portfolio investment objectives?

Governance

1. Is reliable information provided to stakeholders for proper oversight?
2. Do performance incentives align with portfolio objectives?

Budgeting Audit

The Operating Budget is an annual document that presents the estimated expenses necessary for ERS operations and for administering benefits and services to members, retirees and survivors. The budget is developed annually and presented to the Board of Trustees for approval in August of each year.

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

1. Formally establish and define costs that should be included in the Board approved Operating Budget. (Significant)
2. Establish linkage between organizational goals, costs and performance through enhanced performance reporting. (Moderate)
3. Provide historical budget data (actual expenses) to help assess future spending. (Moderate)

Audit Objective: To evaluate the planning and managing of ERS Operating Budget. Sub-objectives included the following:

Budget Management

1. Are all administrative expenses accounted for in the budget?
2. Are estimates or assumptions reliable?
3. Are requests for additional funds and resources supported and justified?

Performance Management

1. Does the budget communicate how resources have been used to achieve strategic goals?
2. Is performance presented accurately and sufficiently to facilitate proper oversight?

ATTACHMENTS:

1. Exhibit A – Public Equity Externally Advised Report
2. Exhibit B – Budgeting Audit Report
3. Slides – Internal Audit Reports