

Public Agenda Item # 3
Consideration of Internal Audit Reports

March 20, 2024

Tony Chavez, Director of Internal Audit

Ethics Audit

Tony Chavez, Director of Internal Audit

Tressie Landry, Audit Manager

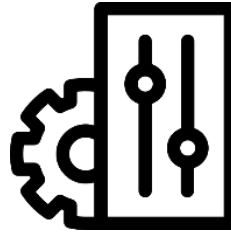
Will Koenig, Auditor

Rodney Valls, Auditor

Agenda



Ethics Overview &
Objectives



Key Controls



Observations

Ethics Program Objectives



- Maintain stakeholder trust (Members, Legislature)
- Foster a culture of honesty and compliance
- Set the tone for a strong control environment

- Loss of autonomy (authority, direction and control)
- Increased regulatory reporting requirements
- Increased disregard for Standard Operating Procedures (SOPs)
- Increase fraud risk
- Reputational damage



ERS Trust Fund/
Members

Personal Benefit



Conflict Interest

- Gifts, favors, services
- Outside employment/relationships
- Personal financial interest in ERS investments/contracts
- Bribes
- Honoraria



Abuse of authority

- Misuse of state resources
- Misuse or sharing of confidential information
- Nepotism (appointments/hiring)

High Risk Areas:

Specific legislation addresses ethical risks in **investment** and **procurement** activities

Ethics Framework

Board of Trustees



Agency Employees



Vendors / Advisors



Governance

- Policy
- Leadership
- Education
- Reporting Mechanisms

Compliance

- Disclosures
- Affirmations
- Investigations
- Program Reporting

Ethics Summary Observations



Scope Area	Rating	Results
Communication	Needs Improvement	<ul style="list-style-type: none">• Additions for comprehensiveness: Non-retaliation emphasis, Investigation process description, Allegation prompts, Board reporting• Edits for clarity: Cohesive policy, Topic vs. division-based focus, Duplicative information, Readability
Composition	Satisfactory	<ul style="list-style-type: none">• Essential components included• Consistent applicability• Reporting and protection mechanisms need enhancement
Governance	Needs Improvement	<ul style="list-style-type: none">• Roles and responsibilities need formal identification

Observation 1 - Clarify Roles & Responsibilities



Establish and communicate the who, what, when, where, and why of internal control execution to personnel.

Responsible: completes task

Accountable: ultimately answerable

Consulted: opinion sought

Informed: kept up-to-date

Ethics Area	Executive Office	General Counsel	Ethics Advisor	HR Director	Investment Compliance Officer	CIO	OPCO	Internal Audit
Governance								
Policy*	I	A	R	C	C	C	C	I
Compliance								
Investigations								

**RACI policy assignments created for illustrative purposes and not current or recommended assignments*

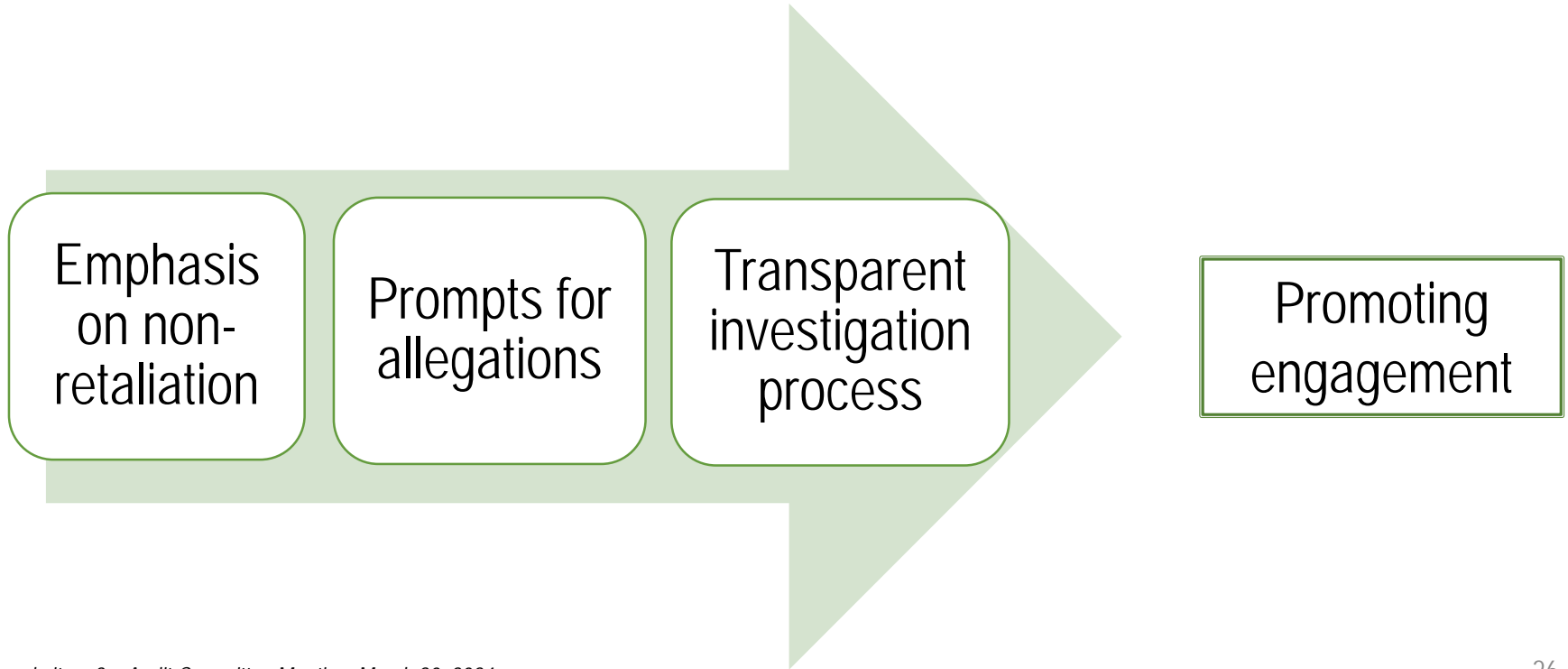
Observation 2 – Policy Attributes



Attribute	Description
Communication (Accessibility)	<ul style="list-style-type: none">• Easy to locate and readily available
Comprehensiveness	<ul style="list-style-type: none">• Covers a wide range of ethical issues relevant to the organization• Specific examples of acceptable and unacceptable behavior included to guide employees in their decision-making processes
Clarity (Understandability)	<ul style="list-style-type: none">• Plain language easily understood by all employees, regardless of level of expertise• Well-organized structure with distinct sections making it easy for employees to find relevant information

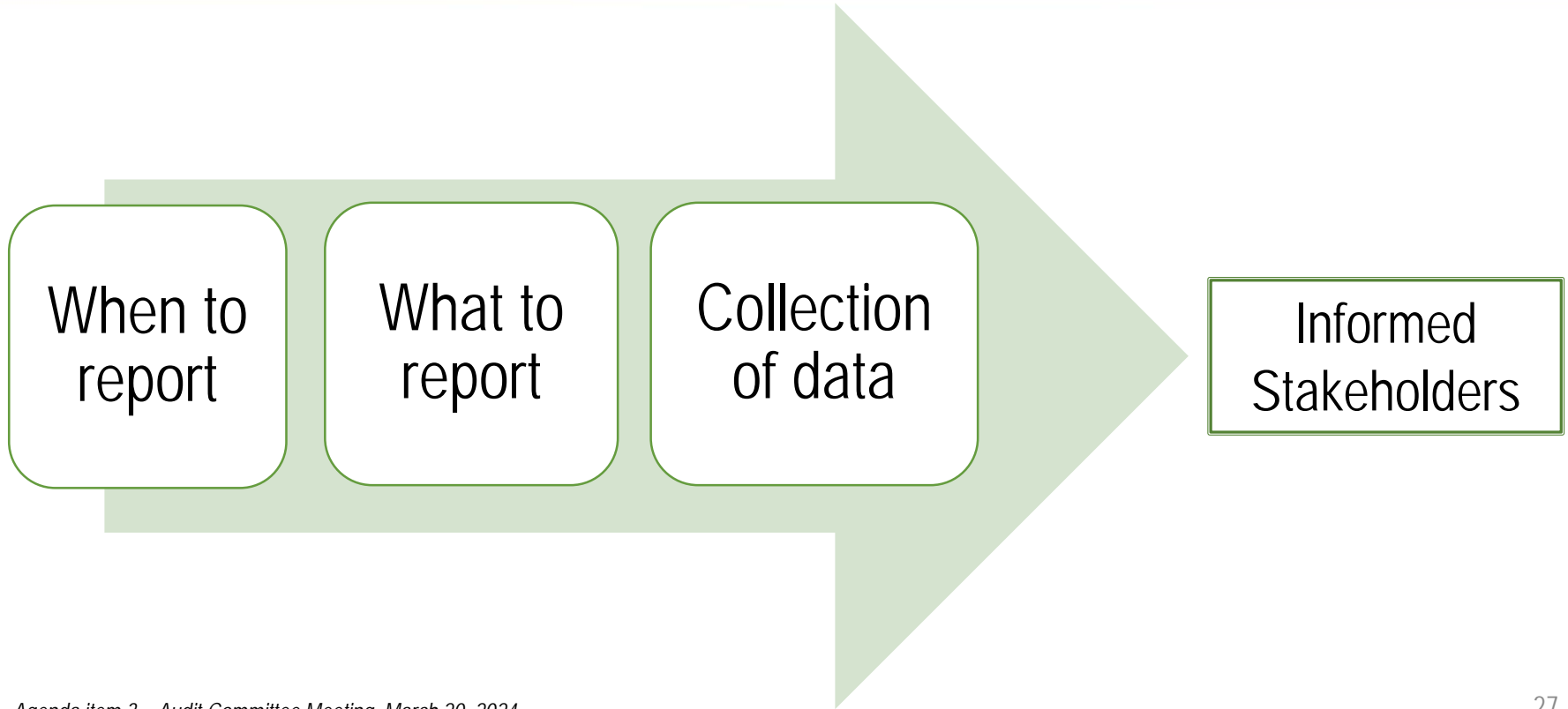
Observation 2 – Comprehensiveness

Investigations

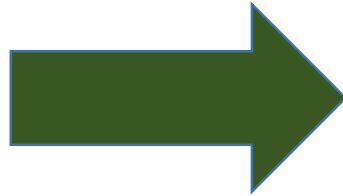


Observation 2 – Comprehensiveness

Board Reporting



Observation 2 - Clarity



- Organization
- Duplication
- Readability



Summary



- Positive ethics results from 2022 Survey of Employee Engagement
- Essential required, regulatory components included
- Roles and responsibilities need formalization
- Improve clarity and comprehensiveness of policy

Observation 1:

Assign ownership of policy document and other functions and consider addition of Ethics Officer position

Observation 2:

Edits to the policy have begun, but are still in progress

Discussion