

**Commonwealth of Pennsylvania
Public School Employees' Retirement System**

DATE: May 4, 2018
SUBJECT: Audit Plan for FY 2018/19
TO: Audit/Compliance Committee
FROM: Alicia E. James, CPA, CISA
Internal Auditor



At the Audit/Compliance Committee meeting, I will present the proposed Audit Plan for the FY 2018/19. At the conclusion of the presentation, I will recommend the Committee adopt the FY 2018/19 Audit Plan.

If you have any questions or comments, please contact me at 717-720-4628 or alijames@pa.gov.

AUDIT/COMPLIANCE COMMITTEE

Audit Plan for FY 18/19

May 24, 2018



INTERNAL AUDIT OFFICE

- ◉ The mission of Internal Audit Office (IAO) is to provide independent, objective assurance, and consulting activity designed to add value and improve the Pennsylvania Public School Employees' Retirement System's (PSERS) operations. It helps PSERS accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal controls, and governance processes. The IAO:
 - Provides a wide range of quality independent internal auditing services for the Audit/Compliance Committee and executive management.
 - Performs independent assessments of the systems of risk management, internal controls and operating efficiency, guided by professional standards and using innovative approaches.
 - Supports the PSERS' efforts to achieve its objectives through independent assurance and consulting services.
 - Routinely monitors compliance with established laws, rules, regulations, policies and procedures.

AUDIT PLAN OVERVIEW

- The Audit Plan is prepared using risk assessment techniques which identify individual audit projects to be conducted during the year along with the day-to-day responsibilities of the IAO.
- The Audit Plan also takes into consideration the resources available to the IAO. The IAO is staffed with the Internal Auditor and two (2) Assistant Internal Auditors.
- This Audit Plan covers the period 7/1/18-6/30/19.

AUDIT PLAN (FY18/19): EXECUTIVE

Task	Resource	Task Description
Evaluate internal controls for PSERS by each assessable unit	IAO	Management Directive 325.12 (MD) mandates every Commonwealth agency evaluate their internal controls annually. The evaluation must be submitted by September 30, 2018 for the FYE 6/30/18.
Develop a Monitoring Plan for FYE 6/30/19	IAO	The MD also mandates that PSERS implement a plan to monitor the internal controls for the FYE 6/30/19. The Monitoring Plan must be submitted along with our evaluation of internal controls on September 30, 2018.
Monitor the internal controls for PSERS by each assessable unit	IAO	Test a selected group of controls described in the internal control evaluations to ensure the controls are operating as intended. Monitor the Corrective Action Plans in accordance with the Monitoring Plan.
Meetings Participation	IAO	Participate in PSERS executive level meetings such as senior staff meetings, board planning and wrap-up sessions.

AUDIT PLAN (FY 18/19): FINANCE

Task	Resource	Task Description
<p>Coordinate the final fieldwork for the FYE June 30, 2018 Financial Statement Audit</p>	<p>IAO & CliftonLarsonAllen</p>	<p>The purpose of this audit is to conduct a full-scope audit annually of the PSERS financial statements. This audit is conducted in accordance with generally accepted accounting standards and includes all procedures considered necessary to render an opinion regarding the financial statements. The annual financial statement audit is required by the PSERS Retirement Code.</p> <p>We will wrap up our interim fieldwork in the summer of 2018. The final fieldwork will occur in September 2018.</p>
<p>Initiate the FYE June 30, 2019 Financial Statement Audit and coordinate the preliminary fieldwork</p>	<p>IAO & CliftonLarsonAllen</p>	<p>Initiate the financial statement audit at the March 2019 A/C Committee meeting. Preliminary fieldwork will occur in the Spring of 2019.</p>
<p>Coordinate the audit of the schedules and reports related to GASB 68 & 75</p>	<p>IAO & CliftonLarsonAllen</p>	<p>Coordinate the audit of the Schedule of Allocations and Schedule of Pension & OPEB Amounts by Employer.</p> <p>The audit of these schedules will occur in the winter of 2019.</p>

AUDIT PLAN (FY 18/19): INVESTMENT OPERATIONS

Task	Resource	Task Description
Monthly Investment Compliance Review with the Investment Policy Statement (IPS) - Traditional Investments	IAO	<p>Monthly review of the following:</p> <ul style="list-style-type: none"> - Rebalancing Activity for Equity and Fixed Income - Liquidation Activity for Equity and Fixed Income - Securities Lending Activity - Act 44 of 2010 Prohibited Securities in Iran and Sudan - Prohibited Securities Listing for Employees
Quarterly Investment Compliance Review with the IPS - Traditional Investments	IAO	<p>Quarterly review of the following:</p> <ul style="list-style-type: none"> - Portfolio Compliance - Notify BRS of Rule Coding updates based on Amendment/Addendum changes - Personal Security Transaction Reports
Annual Investment Compliance Review with the IPS -Traditional Investments	IAO	Annual Portfolio Compliance review
Investment Office Compliance - Non-Traditional Investments	IAO	<p>We will develop and implement a compliance program for non-traditional investments.</p> <p>NOTE: This task is dependent on receiving an additional position in the IAO.</p>
Meetings Participation	IAO	Continue to meet monthly with the Risk Management Group to strengthen IAO's understanding of the current and evolving risks associated with our investment program.

AUDIT PLAN (FY 18/19): PENSION BENEFITS

Task	Resource	Task Description
Monthly Benefit Testing	IAO	Run monthly queries to identify benefit payments that do not meet specific criteria. The accounts that fall outside of these parameters are reviewed.
Annual Benefit Testing	IAO	Recalculate a sample of 30 benefit payments annually and determine whether documentation on file supports the calculation.
Liaison for the Department of Treasury Auditors (Treasury Auditors)	IAO	Act as a liaison between the Benefits Processing Area and the Treasury Auditors. IAO coordinates the Treasury Auditors' access to our benefit processing systems, responds to their inquiries on specific benefit calculation/processing questions, assists them with V3 user acceptance testing, requests benefit accounts to be rushed or rejected, etc.
Liaison with the Department Auditor General's (DAG) Bureau of School Audits	IAO	Coordinate all information requests received from the DAG as it relates to school audits. IAO also monitors and confirms resolution of their school audit findings and recommendations that specifically relate to PSERS (i.e. non-retirement covered compensation).
Act 5 Implementation	IAO	Provide assistance with the Act 5 implementation. This may include TPA internal control reviews, V3 benefit system testing, etc.
Approve offline spreadsheets that are used for benefit calculations.	IAO	Test and approve offline spreadsheets that are needed to assist benefit processing staff calculate a benefit manually. (These spreadsheets are normally for complex benefit calculations that cannot be programmed into V3.)
Meetings Participation	IAO	Participate in various benefit related meetings such as the Body of Knowledge meetings.

AUDIT PLAN FY (18/19): HEALTHCARE

Task	Resource	Task Description
Prescription Drug Program (PDP) Compliance Responsibilities	IAO & PDP Compliance Consultant (Blue Peak)	The PDP Compliance responsibilities include: <ul style="list-style-type: none"> - Review relevant Centers for Medicare and Medicaid Services (CMS) guidance - Monitor Part D Regulatory Activity & Submissions - Monitor Part D Program Updates & Compliance - Monitor Prescription Drug Event (PDE) Submissions - Facilitate quarterly meetings with the Compliance Committee - Provide quarterly status reports to the CMS Account Manager
Mock Compliance Program Effectiveness Audit	IAO & PDP Compliance Consultant (Blue Peak)	Conduct a mock compliance program effectiveness audit using the exact timeframes and methodology as outlined by the CMS protocols. This mock audit will review the effectiveness of the self monitoring program and assess any remaining risks with recommended corrective action plans.
Data Validation Audit for 2018	PDP Pharmacy Consultant (Segal)	Conduct a data validation audit for 2018. CMS has made it a regulatory requirement that Plans must use an outside third party auditor, to validate the data reported by all Plans is reliable, valid, complete and comparable among sponsoring organizations. The goals of the audit are to determine whether: <ul style="list-style-type: none"> • Adequate processes are in place to assure accurate and valid data results • The contractor has reported “accurate results” (i.e., whether there are any data issues that might impact accurate reporting)
Health Options Program (HOP) Audit	External Audit Firm	Conduct an audit of the HOP for the FYE 6/30/17 & 6/30/18. The purpose of this audit would be to have the financial statement auditors perform an “in-depth” review of the revenue and expenditures reported by the HOP vendors.
Meeting Participation	IAO	Participate in the monthly HOP and quarterly PDP Compliance Meetings.

AUDIT PLAN (FY18/19): INTERNAL AUDIT ACTIVITIES

Task	Resource	Task Description
Implementation of the Auditor General's (AG) audit recommendations related to the IAO	IAO	Implement the following AG recommendation: <ul style="list-style-type: none"> Evaluate the current duties and responsibilities of the IAO and determine the need for additional staff
Fraud, Waste and Abuse (FWA) Monitoring, Investigation & Reporting	IAO	Investigate and report on allegations of suspected FWA
Quarterly Audit Recommendations Follow-up	IAO	Follow-up and report on the status of outstanding audit recommendations
Audit/Compliance Committee Meetings Preparation	IAO	Prepare communications and attend Audit/Compliance Committee and Board meetings
Annual Internal Audit Report for FY 2018/2019	IAO	Prepare the annual report of audit results and activities for FY 2018/2019
Audit Plan for FY 2019/2020	IAO	Prepare annual audit plan for FY 2019/2020 based on documented risk assessment in accordance with professional auditing standards
Professional Education and Development	IAO	Attend conferences and professional training events

AUDIT PLAN: EXCLUSIONS

Task	Reason for Exclusions
V3 Security Group and User Role Review	The security groups and user roles for V3 were transferred from Classic to Browser. During conversion, various V3 user roles had to be updated due to differences in the functionality between the two systems. The V3 user roles should be evaluated to ensure that system access is appropriate for users based on their current job responsibilities. Due to the availability of resources, we will not be able to conduct this review during FY 2018/19.
Operational audit - identification of deceased members living outside the U.S.	This would be an operational audit to review the process and procedures used by BBA to identify deceased members living outside the U.S. Due to the availability of resources, we will not be able to conduct this review during FY 2018/19.
Operational audit – disability renewal process	This would be an operational audit to review the process and procedures used by BBA for disability renewals. Due to the availability of resources, we will not be able to conduct this review during FY 2018/19.
Procurement Compliance Audit	This would be a compliance audit to evaluate compliance with the established laws, standards, regulations, policies, and/or procedures related to procurements. Due to the availability of resources, we will not be able to conduct this review during FY 2018/19.

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Questions

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