

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

**DATE:** June 1, 2017  
**SUBJECT:** Audit Plan for FY 2017/18  
**TO:** Audit & Compliance Committee  
**FROM:** Alicia E. James, CPA, CISA  
Internal Auditor 

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At the Audit & Compliance Committee meeting on June 16, 2017, we will review the proposed Audit Plan for the FY 2017/18 and I will recommend the Committee adopt the FY 2017/18 Audit Plan.

If you have any questions or comments, please contact me at 717-720-4628 or [alijames@pa.gov](mailto:alijames@pa.gov).

# AUDIT/COMPLIANCE COMMITTEE

Audit Plan for FY 2017/18

June 16, 2017

## INTERNAL AUDIT OFFICE

- ◉ Internal Audit is independent of management and provides objective assurance and consulting services designed to add value and improve PSERS' operations.
- ◉ Internal Audit is also responsible for compliance activities related to PSERS investment operations and the prescription drug program.
- ◉ The Internal Audit Office is staffed with the Internal Auditor and two (2) Assistant Internal Auditors.

# OVERVIEW OF THE AUDIT PLAN

- 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 Internal Audit Office.
- The Audit Plan also takes into consideration the resources available to the Internal Audit Office.
- This Audit Plan covers the period 7/1/17-6/30/18.

# AUDIT PLAN: EXECUTIVE

Title	Resource	Project Description
Evaluate internal controls for PSERS by each assessable unit (In rogress)	Internal Audit	Management Directive 325.12 (MD) mandates every Commonwealth agency evaluate their internal controls annually. We are in the process of working with the assessable units to complete this evaluation. The initial evaluation must be submitted by September 30, 2017 for the FYE 6/30/17.
Monitor the internal controls for PSERS by each assessable unit	Internal Audit	The MD also mandates that PSERS implement a plan to monitor the internal controls for the FYE 6/30/18. We will work with the assessable units to create and implement a monitoring plan. The monitoring plan must be submitted along with our evaluation of internal controls on September 30, 2017.
Develop a Fraud Notification Policy and Response Plan	Internal Audit	As part of our internal control evaluation, we determined our Fraud Notification Policy needs to be updated along with the need to develop a Fraud Response Plan. This policy will cover suspected or detected fraud involving a member, employer, contractor or employee of PSERS. This will also include an evaluation on establishing a fraud hotline and the formal notification to staff on the Whistleblower Policy.
Meetings Participation	Internal Audit	Participate in PSERS executive level meetings such as senior staff meetings, board planning and wrap-up sessions. Also, evaluate if there are additional meetings that require Internal Audit's involvement.

# AUDIT PLAN: FINANCE

Title	Resource	Project Description
Coordinate the annual Financial Audit - (In progress - completed preliminary fieldwork)	External Audit Firm (SB&Co.)	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 audit is required by the PSERS Retirement Code. The financial audit will be complete and an opinion will be issued by the end of September 2017.
Coordinate the Actuarial Audit - (In progress)	External Firm (Korn Ferry Hay Group)	The purpose of this audit is to perform a comprehensive actuarial audit for the primary purpose of independent verification and analysis of the assumptions, methods, results and reporting used by PSERS' consulting actuary (Conduent) for valuations as of June 30, 2015 and the five-year experience review for the period July 1, 2010 to June 30, 2015.
RFP - Financial Audit	Internal Audit	The existing contract with our financial auditors, SB&Co., is set to expire on February 28, 2018. We will need to issue an RFP, evaluate the proposals, present the results of the evaluation to the Audit/Compliance Committee and finalize the contract by March 1, 2018.

# AUDIT PLAN: INVESTMENT OPERATIONS

Title	Resource	Project Description
Monthly Investment Compliance Review with the Investment Policy Statement (IPS) - Traditional Investments	Internal Audit	Monthly review of the following: <ul style="list-style-type: none"> <li>- Rebalancing Activity for Equity and Fixed Income</li> <li>- Liquidation Activity for Equity and Fixed Income</li> <li>- Securities Lending Activity</li> <li>- S&amp;P 500 Alpha Generation Program tracking</li> <li>- Act 44 of 2010 Prohibited Securities in Iran and Sudan</li> <li>- Prohibited Securities Listing for Employees</li> </ul>
Quarterly Investment Compliance Review with the IPS - Traditional Investments	Internal Audit	Quarterly review of the following: <ul style="list-style-type: none"> <li>- Portfolio Compliance</li> <li>- Notify BRS of Rule Coding updates based on Amendment/Addendum changes</li> <li>- Personal Security Transaction Reports</li> </ul>
Annual Investment Compliance Review with the IPS -Traditional Investments	Internal Audit	Annual Portfolio Compliance review
Code of Conduct for Investment Operations Review	Internal Audit	Conduct a detailed review of our Code of Conduct for Investment Operations, compare those to industry best practices and provide recommendations to strengthen our policies.
Meetings Participation	Internal Audit	Continue to meet weekly with the Risk Management Group to strengthen Internal Audit's understanding of the current and evolving risks associated with our investment program.

# AUDIT PLAN: PENSION BENEFITS

Title	Resource	Project Description
Monthly Benefit Testing	Internal Audit	Monthly queries are run to identify benefit payments that do not meet specific criteria. The accounts that fall outside of these parameters are reviewed by Internal Audit.
Annual Benefit Testing	Internal Audit	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)	Internal Audit	Internal Audit acts as a liaison between the Benefits Processing Area and the Treasury Auditors. We coordinate the Treasury Auditors access to our benefit processing systems, respond to their inquiries on specific benefit calculation/processing questions, assist them with V3 user acceptance testing, request benefit accounts to be rushed or rejected, etc.
Liaison with the Department Auditor General's (DAG) Bureau of School Audits	Internal Audit	Internal Audit coordinates all information requests received from the DAG as it relates to school audits. We also monitor and confirm resolution of their school audit findings and recommendations that relate specifically to PSERS (i.e. non-retirement covered compensation).
Assist with C2B user acceptance testing (In progress)	Internal Audit	Assist the Treasury Auditors with user acceptance testing. Also, monitor the security testing that is occurring related to assigning new user access roles, groups associated with those user roles, the functionality that is available to those user roles, etc.
Approve offline spreadsheets that are used for benefit calculations.	Internal Audit	We 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	Internal Audit	Participate in various benefit related meetings such as the weekly Body of Knowledge meeting.

# AUDIT PLAN: HEALTHCARE

Title	Resource	Project Description
Prescription Drug Program (PDP) Compliance Responsibilities	Internal Audit & Pharmacy Benefit Consultant (IPC)	<p>The PDP Compliance responsibilities include:</p> <ul style="list-style-type: none"> <li>- Review relevant Centers for Medicare and Medicaid Services (CMS) guidance</li> <li>- Monitor Part D Regulatory Activity &amp; Submissions</li> <li>- Monitor Part D Program Updates &amp; Compliance</li> <li>- Monitor Prescription Drug Event (PDE) Submission</li> <li>- Facilitate quarterly meetings with the Compliance Committee</li> <li>- Provide quarterly status reports to the CMS Account Manager</li> </ul>
Data Validation Audit for 2017	Pharmacy Benefit Consultant (IPC)	<p>CMS has made it a regulatory requirement, that Plans must use an outside third party auditor, to validate that the data reported by all Plans is reliable, valid, complete and comparable among sponsoring organizations. The goals of the audit are to determine whether:</p> <ul style="list-style-type: none"> <li>• Adequate processes are in place to assure accurate and valid data results</li> <li>• The contractor has reported “accurate results” (i.e., whether there are any data issues that might impact accurate reporting)</li> </ul>
Health Options Program (HOP) Audit	External Audit Firm	<p>The purpose of this audit would be to conduct an annual financial audit of the HOP beginning with the 2017 calendar year. This would allow us to align with CMS’s requirement to have an audit of the program on a calendar year basis versus submitting audited financial statements of the entire PSERS fund on a fiscal year basis. We would need to issue an RFP to hire an external audit firm to conduct this audit.</p>
Meeting Participation	Internal Audit	Participate in the monthly HOP meeting.

# AUDIT PLAN: INTERNAL AUDIT ACTIVITIES

Title	Resource	Project Description
Implementation of the Auditor General's (AG) audit recommendations related to the Internal Audit Office (In Progress)	Internal Audit	<p>Based on the prioritization set by the PSERS Board, we may be tasked to implement the following AG recommendations:</p> <ul style="list-style-type: none"> <li>• Change the organization structure of the internal audit function to promote independence</li> <li>• Evaluate the current duties and responsibilities of the Internal Audit Office and determine the need for additional staff</li> <li>• Develop an Internal Audit Office Charter</li> <li>• Continue to develop the responsibilities of the Audit/Compliance Committee</li> </ul>
Quarterly Audit Recommendations Follow-up	Internal Audit	Follow-up and report on the status of outstanding audit recommendations
Audit/Compliance Committee Meetings Preparation	Internal Audit	Prepare communications and attend Audit/Compliance Committee and Board meetings
Annual Internal Audit Report for FY 2017/2018	Internal Audit	Prepare the annual report of audit results and activities for FY 2017/2018
Audit Plan for FY 2018/2019	Internal Audit	Prepare annual audit plan for FY 2018/2019 based on documented risk assessment in accordance with professional auditing standards

# AUDIT PLAN: EXCLUSIONS

Title	Reason for Exclusions
RFP - Pharmacy Benefit Consultant	<p>The pharmacy benefit consultant supports the Internal Audit Office's compliance duties related to the prescription drug program, in addition to the pharmacy consulting support they provide to the Health Insurance Office. The contract for the current pharmacy benefit consultant expires on January 31, 2018. The Health Insurance Office is issuing an RFP for these services towards the end of June 2017. In the past, the Internal Audit Office has participated in the technical evaluation committee to select this vendor. Due to the timing, the priority of the internal control assessment and availability of resources, we will not be able to participate on the evaluation committee for the pharmacy benefit consultant. The Internal Audit Office will rely on the Health Insurance Office to select the most qualified vendor to support our compliance related activities.</p>
Investment Office Compliance with the Investment Policy Statement - Non-Traditional Investments	<p>Currently, we do not perform compliance reviews on the non-traditional investment portfolio, but we plan to expand our compliance reviews to include this portfolio. Due to the availability of resources, we will not be able to expand our compliance review to the non-traditional investment portfolio during the FY 2017/2018.</p>

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# Questions

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