

Internal Audit Plan

2013-2015

Office of Internal Audit



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**Department of Employee Trust Funds
Office of Internal Audit
Internal Audit Plan**

FY2014 - FY2015

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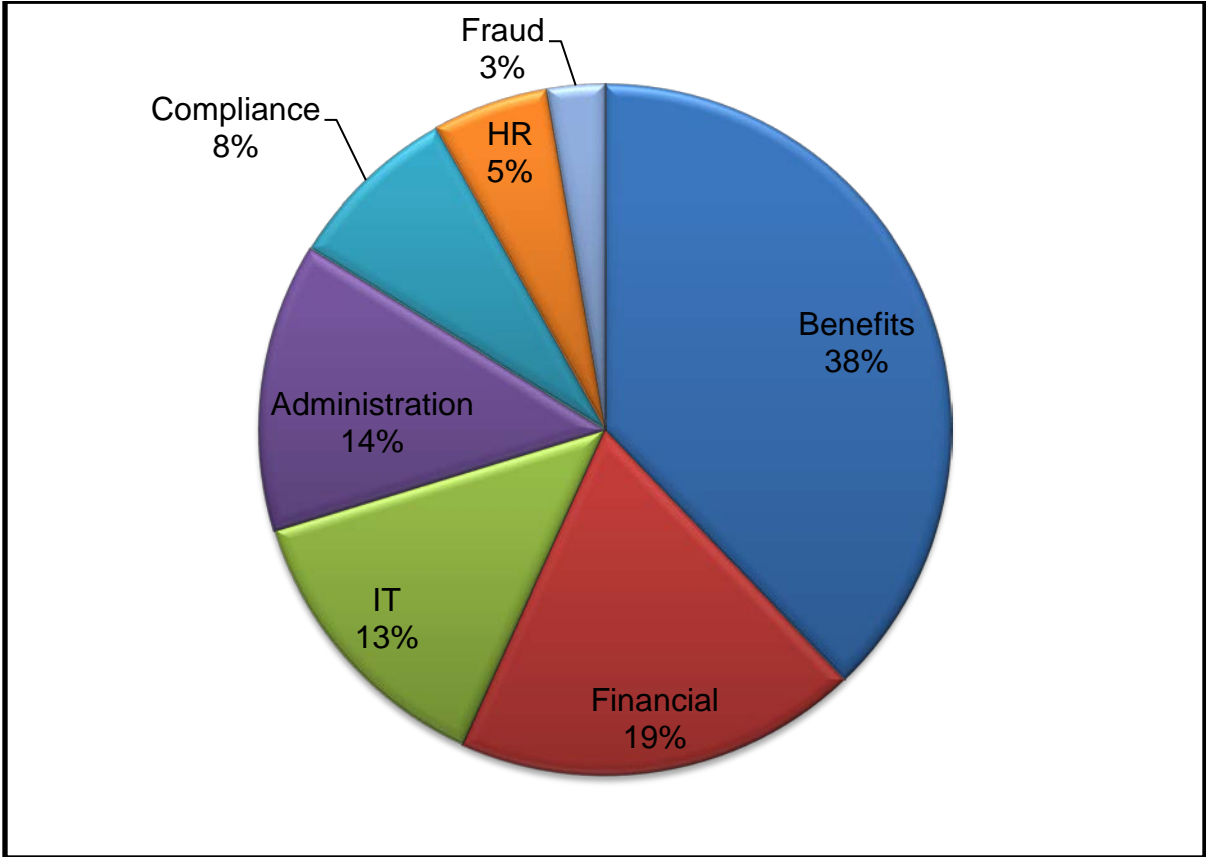
Executive Summary

As required by the Institute of Internal Auditors (IIA) *International Standards for the Professional Practice of Internal Auditing* and by the *Internal Audit Charter*, the Office of Internal Audit (OIA) is submitting this Audit Plan (Plan) for biennial period FY2014 and FY2015.

The *Internal Audit Charter* stipulates that the OIA is to “prepare a flexible biennial audit plan that addresses key risk areas in cooperation with ETF administrators/office directors. The Secretary’s Office will consider and finalize the plan including any desired changes for submittal to the Committee.”

The Plan is a guide to utilize the Department’s resources during each fiscal year in an efficient and effective manner. Thirty-seven (37) projects were identified for inclusion in this Plan after considering input from the Secretary’s Office and ETF’s management. Using that input and applying a quantitative risk assessment model, we exercised judgment in selecting projects for each fiscal year. Chart 1 reflects the scope of the coverage of the 37 projects.

Chart 1



The Plan will continue as a dynamic document that changes during each year as circumstances dictate. Continuous reassessment of risk, requests from the Audit Committee, Secretary's Office or ETF's management, and changes in the organization or operations may result in changes to the Plan. Also, certain projects are described in the Plan only in general terms. The specific focus of our audit resources will be determined at the time the project objective and scope are developed, based on a more detailed assessment of relative risks in that area.

Scope and Policy Statement

This Plan covers the period July 1, 2013, through June 30, 2015.

The Office of Internal Audit's (OIA) objectives and scope of work are aligned with the overall mission of ETF, "*To develop and deliver quality benefits and services to our customers while safeguarding the integrity of the Trust.*"

The IIA provides an official definition of internal auditing which is one of three requirements for any internal auditing function that claims to be in compliance with the IIA *Standards*, and therefore, we have adopted the IIA's definition of internal auditing as the official ETF internal audit policy statement which follows:

ETF's OIA policy statement

"The Department of Employee Trust Funds (ETF) Office of Internal Audit (IA) provides independent objective services and consultation designed to ETF's overall operations. It assists ETF in accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control, and governance processes."

The OIA Director and each internal auditor sign an *Internal Auditor Independence and Conflict of Interest* statement each year declaring that they are independent of the areas they plan to audit and will remain independent during their audits. See **Appendix C** for this statement.

Audit Plan Process

The audit process started with the OIA Director discussing the upcoming audit plan with management of each division/office. Prior to those meetings, the OIA Director prepared interview questions to address division or office objectives, performance indicators, top challenges, key business processes and potential projects to be considered. Any suggestions from the meetings are taken into consideration when preparing the risk assessment. The information is used to update the risk assessment matrix.

After the risks are reviewed and rated by each division/office the audit plan information is updated and presented to the Secretary's Office for comment, to discuss risks to be included in the Plan, and to adjust the priority of audit engagements. The OIA Director then presents the Plan to the Audit Committee.

The OIA Director provides the Secretary's Office and Audit Committee with quarterly audit plan status updates. The quarterly status report will also include a listing of projects the OIA worked on that were not included in the Plan.

Risk Assessment

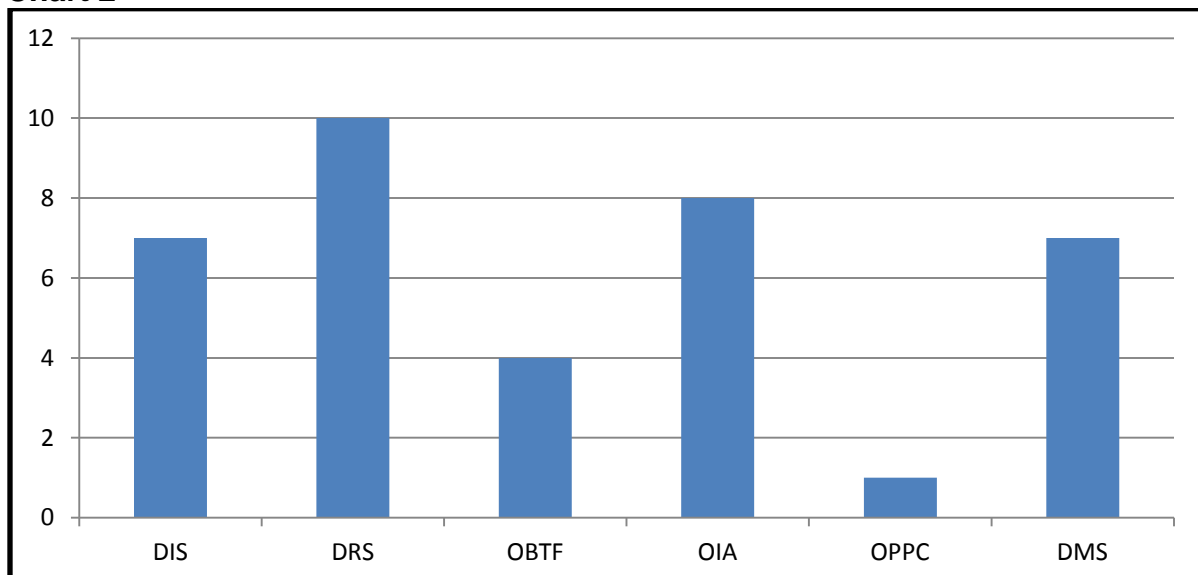
Risk assessment is defined as a “systematic process for assessing and integrating professional judgments about probable adverse conditions and/or events.” We assessed risk within ETF by creating “auditable activities” based on information received from the Secretary's Office, management of each division or office and information received from other pension fund auditors.

The following risk factors were used in determining the relative risk of each auditable activity. **Appendix A** provides the risk assessment factor definitions.

- Severity
- Complexity
- Internal Controls (General)
- Information Technology Controls
- Change in operation
- Time Since Last Review

Each division/office scored the auditable activities identified for their respective area with a numeric score ranging from “1” (least risk) to “5” (greatest risk). Each risk assessment factor score was weighted based on the judgment of the internal auditors. The scores were then multiplied by the weighting factor to arrive at the adjusted risk score. The completed risk assessment worksheet, sorted in risk score descending order, is included as **Appendix B** to this Plan. Chart 2 provides a summary of the number of projects planned for each division/office.

Chart 2



Division/Office

DIS - Division of Insurance Services

DRS - Division of Retirement Services

OBTF - Office of Budget and Trust Finance

OIA - Office of Internal Audit

OPPC - Office of Policy, Privacy and Compliance

DMS - Division of Management Services

Staffing and Available Audit Hours

The Office of Internal Audit includes the Director and three full-time audit professional staff. One auditor specializes in information technology and two auditors specialize in operations. Available hours are calculated using 2,080 hours per staff member, less allowance for vacation, sick leave, holidays and training. Additional hours are reserved for administrative duties including the attendance of Audit Committee and Board meetings, management meetings and other such activities.

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Risk Assessment Factor Definitions

1. **Severity:**

Significance of event on ability to meet strategic and/or organizational goals and objectives at the unit, bureau, division/office or department level. Amount of impact the audit area has on the system's constituents. Includes concern for public perception. Concern about adverse publicity; laws and regulations; customer demands; and political exposure.

2. **Complexity:**

Complexity includes amount of time, number of steps, techniques or procedures, degree of difficulty, training necessary, and interaction with other agencies/divisions necessary to complete a work task or process a transaction. Complexity can increase both the probability of error and the effort required to monitor the system. Includes complexity of federal and state laws, rules and regulations governing a particular program.

3. **Internal Controls – General:**

The extent that controls are in place to address internal control factors and Employee Trust Funds internal control standards. Degree of integrity and reliability of management functions of planning, organizing, staffing, directing, controlling, documented policies and procedures, audit trails, compensating controls when policy and procedures are overridden, segregation of duties and responsibilities, supervision and training, planning for business resumption and contingency, and reconciliation controls, make exposures for this audit. The internal control structure takes into consideration the adequacy of written procedures and whether or not controls have been previously tested.

4. **Information Technology Controls:**

Computer applications affect the accuracy and timeliness of completed work tasks, as well as the productivities of the staff. Information systems should process information in a secure, reliable and accurate manner.

Age, condition, efficiency and effectiveness of the data processing system specific to this audit area, and the perceived impact of general information technology controls related to: consistent use of an acceptable systems development methodology (including programmer and user documentation and testing procedures), consistent use of an acceptable project management system, effective computer maintenance change controls (to assure application program changes are properly authorized, managed, and recorded), and effective logical access security to guard against unwarranted access and unauthorized changes to computer programs and/or data.

5. Change:

Changes in operations can impact the efficiency and effectiveness of the organization's performance. Criteria include changes in staff size, processing changes (manual to computerized), systems (input and/or output), as well as staff turnover. This area includes concerns of rapid growth, which includes rapid growth of personnel size and of additional programs added to an operational area.

Changes in operation to meet statutory, regulatory, and legal requirements, and/or to address organizational restructuring including modifications to manual or automated procedures such as increased use of technology.

Changes in operations since this area was last audited may have a significant impact on accuracy and timeliness of work completed, efficiency and effectiveness of operation, and the reliability of work products and records.

6. Time Since Last Review:

The duration of time that has passed since the risk area has last been audited by internal audit, Legislative Audit Bureau, or auditor of third party administrator. Apply the following points for this factor:

- 1= Review covered 2012,
- 2= Review covered 2011,
- 3= Review covered 2010,
- 4= Review covered 2009,
- 5= Review covered 2008 or before, or not at all

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Risk Assessment Worksheet

#	DIVISION OFFICE	AUDIT TYPE	RISK	MAX=10	fy2014	fy2015
1	OBTF	Financial	1099R TAX REPORTING REVIEW a. To determine benefit recipients and refunded members paid during calendar year 2012 were scheduled to receive a 1099R b. To determine that data in the 1099R file used to populate the 1099R forms is accurate c. To determine if 1099R forms are correctly populated d. To determine that the data file submitted to the IRS is accurate e. To determine if returned/cancelled benefits, particularly those that happen after year-end, are correctly reported on 1099R forms submitted to members and the IRS	9.10	X	X
2	DMS/BITS	IT	INFORMATION SYSTEMS COMPLIANCE - To determine the effectiveness of ETF's management of the physical security of laptops, mobile phones, media players, and flash drives, and the security of the info stored on these devices	7.90	X	
3	OBTF	Financial	Active Lives Actuarial Data Validity - Perform reasonableness checks and sample verification of data sent to the actuary	7.85	X	
4	DIS	Financial	EMPLOYER COMPLIANCE WITH MONTHLY PAYMENT PROCESS - To determine if employers are in compliance with the monthly payment process, specifically monthly reconciliation of invoices	7.70	ER Self Audit	
5	DRS	Benefits	RETIREMENT APPLICATIONS - To determine if procedures for processing retirement applications are operating and compliant as intended	7.65	X	
6	OBTF	Financial	ACCOUNTS RECEIVABLE - To determine if ETF's Overpayment Recovery Policy & Process is being uniformly implemented throughout ETF	7.65	X	

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Risk Assessment Worksheet

				MAX=10		
#	DIVISION OFFICE	AUDIT TYPE	RISK	Total Weight-Adjusted Score	fy2014	fy2015
7	OBTF	Benefits	PURCHASE OF SERVICE CREDIT - a. To determine if the service purchases are calculated correctly and that there is adequate supporting documentation b. To determine that payments are deposited timely and recorded accurately	7.65		X
8	DMS/BITS	IT	DATA CENTER SECURITY - To determine if the physical security and access control measures are adequate to prevent unauthorized access to computer center areas	7.35		X
9	DIS	Compliance	COURT ORDERED BENEFITS - To determine if the process to implement benefit adjustments mandated by court order or other court document to assign such rights to such benefits to "legal wards" and "disabled dependents" is operating as intended	7.30	X	
10	DMS/BITS	IT	DATA CENTER COOP READINESS - To determine if the environmental controls are adequate to minimize hardware/software losses from fire or flood	7.30	X	
11	DIS	Compliance	EMPLOYER COMPLIANCE WITH COBRA NOTIFICATION STANDARDS - To determine if employers are in compliance with timeliness of issuing COBRA notifications	7.10	ER Self Audit	
12	OIA	Benefits	ER SELF-ASSESSMENT	7.10	ER Self Audit	
13	DMS/BITS	IT	IMPLEMENTATION OF DATA/SECURITY POLICIES - To determine if the implementation of newly developed and approved data/security policies has been completed as intended	7.10	X	
14	DRS	Benefits	EMPLOYER COMPLIANCE WITH WRS ENROLLMENT PROCEDURES - To determine if employers are in compliance with WRS enrollment standards	7.00	ER Self Audit	

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Risk Assessment Worksheet

				MAX=10		
#	DIVISION OFFICE	AUDIT TYPE	RISK	Total Weight-Adjusted Score	fy2014	fy2015
15	DRS	Benefits	SSN FILE MAINTENANCE TRANSACTIONS - To determine if recurring or frequent SSN file maintenance transactions are valid [ANALYTICS; DRS="A"]	7.00	X	X
16	DRS	Benefits	SOCIAL SECURITY NUMBER CHANGES - To determine if changes to social security numbers are valid [ANALYTICS; DRS = "A"]	6.90	X	X
17	DRS	Benefits	DOMESTIC PARTNER APPLICATION PROCESS - To determine if the timeliness of the approval process and subsequent internal notification process are working as intended	6.70		X
18	DRS	Benefits	CALCULATION OF CREDITABLE SERVICE WITH SIMULTANEOUS SERVICE - To determine if the procedures for calculating creditable service when member has/had simultaneous service in FY and CY positions are operating as intended	6.60		X
19	DRS	Financial	RECONCILIATION OF HEALTH INSURANCE ANNUITY DEDUCTIONS WITH CARRIER INVOICES - To determine if the reconciliation process is working as effectively and efficiently as intended	6.45		X
20	OPPC	Fraud	INFORMATION PRIVACY or SECURITY INCIDENT REPORTS - To determine if the reports and processes for determining whether to submit a report are being utilized by each office/division as intended.	6.20	X	
21	DMS/non-BITS	HR	ETF SUCCESSION PLANNING - To determine if divisions/offices plans, procedures, and documentation are in place for positions most vulnerable to staff turnover	5.95		X
22	DRS	Benefits	ANNUITY ESTIMATES TO FINAL BENEFIT - To determine reasonableness of annuity estimates that exceed an established difference threshold with final benefit calculation [ANALYTICS; DRS = "B"]	5.50		X

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Risk Assessment Worksheet

#	DIVISION OFFICE	AUDIT TYPE	RISK	MAX=10	fy2014	fy2015
23	DIS	Financial	ACTUARIAL DATA VERIFICATION - To determine the validity of "addendum one" data provided to the actuary by the health plans	4.90		X
24	DRS	Benefits	DECEASED RETIREES WITH A FOREIGN ADDRESS - To determine if reports and procedures for identifying deceased retirees with a foreign address are operating as intended.	4.80		X
25	DIS	Benefits	ICI ENROLLMENT PROCESS - To determine if the procedures for processing ICI enrollment applications are operating as intended	4.70	ER Self Audit	
26	DIS	Benefits	ELIGIBILITY OF SPOUSE AS DEPENDENT FOR HEALTH INSURANCE - To determine if the process to confirm the dependent eligibility of spouses is operating as intended	4.60	ER Self Audit	
27	DMS/BITS	IT	STAFF ACCESS TO ETF SYSTEMS - To determine if process for determining and administering workforce access to ETF systems is as effective as intended	4.60		X
28	DMS/non-BITS	HR	EXTERNAL ACCESS POLICY COMPLIANCE - To determine if external access activity of ETF staff and supervisor permission procedures are in compliance with Human Resource policies	4.45		X
29	OIA	Financial	Vendor Contract Invoice Review		X	
30	DIS/DRS	Benefits	TPA Compliance Reviews		Ongoing	

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Risk Assessment Worksheet

				MAX=10		
#	DIVISION OFFICE	AUDIT TYPE	RISK	Total Weight-Adjusted Score	fy2014	fy2015
31	DRS	Benefits	BPS Manual Transactions Audit		Current Audit	
32	OIA	Administration	ETF Internal Control Plan Review		Current Audit	
33	OIA	Administration	OIA Procedureal Manual		Current Project	
34	OIA	Administration	Peer Review		X	
35	OIA	Financial	FMIS Review and Testing		X	
36	OIA	Administration	OIA FRED Intranet Page			X
37	OIA	Administration	Special Requests		X	X

Internal Auditor Independence and Conflict of Interest

A signed copy of this completed document will accompany the biennial audit plan and will be included in the audit plan package that is approved by the Department of Employee Trust Funds (ETF) Secretary and submitted to each member of the retirement board Audit Committee. This statement will be updated as necessary.

The Institute of Internal Auditors Standards 1120 and 1130 state:

1120 Individual Objectivity – Internal auditors must have an impartial, unbiased attitude and avoid any conflicts of interest.

1130 Impairments to Independence or Objectivity – If independence or objectivity is impaired in fact or appearance, the details of the impairment should be disclosed to appropriate parties. The nature of the disclosure will depend upon the impairment.

1130.A1 – Internal auditors must refrain from assessing specific operations for which they were previously responsible. Objectivity is presumed to be impaired if an internal auditor provides assurance services for an activity for which the internal auditor had responsibility within the previous year.

1130.A2 – Assurance engagements for functions over which the internal audit director has responsibility should be overseen by a party outside the internal audit activity.

1130.C1 – Internal auditors may provide consulting services relating to operations for which they had previous responsibilities.

1130.C2 – If internal auditors have potential impairments to independence or objectivity relating to proposed consulting services, disclosure must be made to the engagement client prior to accepting the engagement.

Comments:

I certify that I have disclosed any information of which I am aware that might be viewed as impairment to my independence and objectivity in conducting 2013-2015 internal audit activities. I will report any future impairment to my independence or objectivity immediately to the ETF Secretary, and if necessary, the Audit Committee.


John Vincent - Internal Audit Director


05/17/2013
Date


Claudius Lebi - Internal Auditor

05/17/2013
Date


Helen Malzacher - Internal Auditor

05/17/2013
Date


Jackie Van Marter - Internal Auditor

05/17/2013
Date