



National Association of State Retirement Administrators

Results of Survey on Internal Audit Processes Conducted May 2004 29 Systems Responded

1. Does your System have an internal audit function?

Yes: 26 No: 3

The remaining questions pertain only to those systems responding "Yes" to Question 1.

2. Do you outsource any part of your internal audit function?

Yes: 7 No: 19

Comments from those who outsource some portion of their internal audit function, regarding what function(s) they outsource:

- A review of membership eligibility for Boards of Education, Community Colleges and Public Libraries
- We currently outsource the entire function.
- We have been having real estate manager reviews completed by a third party with internal audit assistance over the last 2 years. Internal audit training has been received and that process could reside solely with Internal Audit as early as 2005.
- Annual Financial Audit
- We outsource a semi-annual beneficiary death audit and we may contract for specialized audit services at the discretion of the internal auditor. The most recent service we contracted out was for a review of the internal auditors' audit programs related to the investment section.
- Internal Audit Department Manager is outsourced. He is supported by full time staff assistant internal auditor.
- Real estate audits.

3. Do you have intentions to outsource any part of your internal audit function?

Yes: 4 No: 21 No response: 1

Comments from those indicating they have intentions to outsource part of their internal audit function:

- Possible for very technical IT audits
- We are preparing requests for proposals for: 1. An Internal Control Assessment (including enrollments, payroll data and benefit payments). 2. Audits of Participating Governmental Units. 3. Risk Assessment/Risk Management Study
- Already have done it (2 respondents).

4. Does your internal audit function include one or more positions assigned specifically to your system's information technology operations?

Yes: 8 No: 18

Comments:

- One auditor who used to audit Information Systems exclusively
- IT Auditor position was eliminated in 2003
- One Senior IT Auditor position on staff
- Not specifically. Included in our internal audit master plan.
- Ideally, we should have someone dedicated to IT auditing.
- CISA certification required.

1. What approach or methodology does your internal audit function use to audit information technology operations?

- The Information Systems Audit and Control Association COBIT methodology is used as a reference
- We use the methodology as espoused by the COBIT software.
- Internal Audit (IA) has audited many facets of IT, using a risk based approach in accordance with Standards of the Institute of Internal Auditors. In addition, IA has purchased sophisticated audit software that permits audits of full files including year to year comparisons of all member records.
- COSO/COBIT
- We audit through the system to ensure transactions are recorded and adequate controls are in place.
- Risk-based. However, all Systems Development projects are reviewed by the Internal Auditor
- We have had an independent Series Security audit and an independent Network Security audit. Other approach is to audit operations as part of other process audits.
- I don't believe there is a specific audit program singling out IT. This is a weakness that we are currently addressing.
- Integrated IT internal audit approach that is built from an organizational risk assessment of current systems and the newly planned system initiatives for the audit plan year. This approach includes: review of control environment, risk assessment, control activities, and monitoring
- Our first Internal Auditor comes on board Monday so I can't answer this yet.
- Initially with a General Controls Review then to specific areas, such as Applications, Change Management etc.
- External auditors bring in an expert to audit our IT operations. In the future we will be incorporating some testing in-house since one auditor has a major in Management of Information Systems.
- The approach to all auditing is based on a risk assessment. To date there has been no detailed audit of the information technology operations.
- With each audit, we review the information systems that support the area we are auditing. As time permits, we may perform more comprehensive reviews of our IT operations.
- Develop audit plans for various information technology operations based on risk assessment.
- The function has some capability of auditing IT operations, such as general controls and application controls, but not more detailed work that would involve understanding programming language or some highly technical matters. If we need that, we will need to outsource or hire an IT consultant.

- Purely a general control review. External auditors perform more detailed specific application review.
- Risk Assessment approach
- Audit projects are identified during the annual risk assessment. Furthermore the integrated audits include looking at information technology during audits of other areas.
- Annual Risk Assessment
- Risk based approach using IIA and COBIT standards.

2. Does your internal audit function use an enterprise-wide risk management approach or are you considering using such an approach?

Yes: 17

No: 5

Not Sure/No Response: 4

Comments:

- Enterprise Risk management is management's responsibility. It should not be confused with risk assessment, the audit component of risk management.
- Future use being considered
- Smaller version of organizational risk assessment
- We are currently developing one.
- We anticipate utilizing this approach this coming year.
- Only for developing internal audit plan.

3. How many professional staff positions comprise your internal audit function?

Median: 3 Maximum: 32

Eight of 24 respondents to this question report having one professional staff member. All but one respondent reported ten or fewer positions. Generally, the larger the number of system participants, the larger the size of the professional audit staff.

8. What operational areas are covered by your internal audit function?

- All operational areas (nine respondents)
- Internal controls, investments, retirement, enrollment, benefits, prior service, accounting
- Two internal auditors, one specializing in IT. Also have four dedicated to external compliance audits of member agencies plus a manager and director.
- Internal controls, investment management, accounting, member services (benefits, refunds, death, service credit purchases, etc.) employer services
- Internal controls, investments, including private equity and real estate, finance, actuarial, health care, benefits administration
- Internal controls, information technology, financial, external auditing for compliance of member agencies
- Internal controls and compliance audits (for employer and employee reporting and contribution requirements)
- Currently our internal auditor audits high risk retirement calculations. Those high risk retirement calculations focus on retirement applications of administrator positions within school districts.

- Internal controls, investments, benefits, information technology, fiscal and support functions.
- Internal controls, compliance with laws, regulations and ethics policies and substantive testing of financial statement balances.
- Active Membership, Benefit Claims, Benefit Payments, Accounting and Administration. Investment management is excluded.
- Benefit services, investments, financial, information systems, ethics/compliance
- Internal Controls, Investment compliance
- Information Technology, Administrative Services, Financial Services, Investments, Active Members, and Retired Members.
- investments, cash management, information technology, retirement, health benefits, compliance, internal control evaluations

9. What professional designations, if any, do you require or prefer for your internal audit staff?

Most respondents indicated that a CPA designation is preferred; three systems indicated a CPA is required for managerial or supervisory audit positions. Many systems indicated a preference for CIA (Certified Internal Auditor) and CISA (Certified Information Systems Auditor) designations. Other designations identified as preferred include CFE (Certified Fraud Examiner), CGFM (Certified Government Financial Manager), CIDA (Certified Investment and Derivatives Auditor) and CMA (Certified Management Accountant).

10.. What type of continuing professional education do members of your internal audit staff attend?

Most respondents indicated national (and in some cases, state) CPA training, IIA (Institute of Internal Auditors), GFOA, and APPFA training. Others mentioned include ACFE training, SANS (SysAdmin Audit Network & Security), university coursework, MIS training, ISACA training, training offered by the state auditor, and AGA (Association of Governmental Accounting) training.

11. What type of continuing professional education, if any, do members of your internal audit committee attend?

As evidenced in the survey on Board Audit Committees and Education Requirements, about one-third of respondents indicated their system does not have a board audit committee. Of those respondents whose system has an audit committee, two systems have board education requirements, but these requirements do not include audit issues. Many systems indicated their audit committee members may take advantage of the many industry seminars and conferences made available through public, non-profit, and for-profit organizations. One system indicated that it is developing a program for audit committee education, and another system responded that its internal auditor is responsible for developing training opportunities for the board audit committee.

12. How would you characterize your internal audit function's turnover rate during the last two years?

Of 26 responses, 17 indicated zero to low turnover, and one reported low to medium. Three reported moderate turnover, and two reported high turnover. Other responses include:

- It is outsourced, but the individuals sent by the firm have been the same for the last year.
- Function started in January 2001 - same person has held the position since then.
- Doesn't apply yet.

13. What is the greatest challenge currently facing your internal audit function?

- Having enough resources to complete the annual internal audit plan.
- With a new administrator taking over last fall and a new internal audit manager recently being hired, the biggest challenge will be to formulate a long range plan on the changes to be made in the internal audit area, the direction it should be headed, and establishing goals for the internal audit function to develop into and accomplish.
- Examining all the areas needed.
- That we do not have the resources at this time to expand the internal audit functions to other areas under our jurisdiction.
- Large scope of areas to review and timeliness of review process
- Determining where to spend the majority of the internal audit resources (audit time).
- Demands on our time and staying on top of industry changes. With a small staff, it is not always possible to specialize (i.e. Investments, Information Technology, Retirement Operations, etc.) Audit staff must be knowledgeable about many different areas as well as current auditing standards, laws and regulations etc.
- A new on-line system implementation.
- Having an effective audit committee as well as management support, rather than lip service.
- Manually created audit working papers.
- Staffing hours needed to conduct all audits included in our internal audit plan based on risk assessment.
- meeting the increased expectations from our audit committee, our external auditors, and legislation (e.g. Sarbanes-Oxley)
- Allocating resources to address all areas of operations and investments keeping abreast of current developments in pension funds
- Changing technologies requires constant upgrade in abilities, e.g. IT auditing.
- Being a audit shop of one, the greatest challenge is quality assurance in the audit work. It is difficult to know that all bases have been covered when there is no one to review the audit reports and workpapers.
- We have been in a significant period of technological change that has required extensive audit coverage of a number of areas during this period.
- Educating management of the value internal auditing can provide to the organization and to management, educating the audit committee to understand their role and responsibility as a committee member.
- It is a new function. Consequently, there will be a learning curve for management at all levels in the organization to realize the positive benefits from this function.

- Needing to increase attention to IT and data security. Better communication between audit firm and management even though the firm reports directly to the Board. Whether to continue outsourcing internal audit function.
- Maintaining quality, knowledgeable audit staff to audit the investment and retirement functions.
- Recruiting to fill vacant positions and developing an effective outsourcing program.
- Selecting the most beneficial audit work to do and trying to make sure the auditor does not get involved with non-audit work.
- We are developing a new pension administration system and the auditor will be charged to ensure that the security controls in place will be adequate as well as the workflow.
- Training and developing staff to adequately assess risk within the organization and recommend mitigation strategies. Understanding and resolving the expectation gap with the audit committee and senior management.

The following NASRA member systems participated in this survey:

- Retirement Systems of Alabama
- Arkansas PERS
- Arizona State Retirement System
- California Public Employees' Retirement System
- Colorado PERA
- Florida Retirement System
- Iowa PERS
- State Retirement System of Illinois
- Illinois Municipal Retirement Fund
- Kansas PERS
- Louisiana State Employees
- Teachers' Retirement System of Louisiana
- Massachusetts Teachers' Retirement System
- State Retirement and Pension System of Maryland
- Michigan Office of Retirement Services
- Minnesota Public Employees Retirement Association
- Minnesota State Retirement System
- Missouri SERS
- Public School & Non-Teacher School Employee Retirement Systems of Missouri
- North Dakota PERS
- New Mexico PERA
- Nevada PERS
- Ohio PERS
- Oklahoma PERS
- South Dakota Retirement System
- Tennessee Consolidated Retirement System
- Employees Retirement System of Texas
- Virginia Retirement System
- Wisconsin Retirement System

Thank you for participating.