

DECEMBER

ASSURANCE

## **Audit, Compliance & Ethics Committee Meeting**



**Teacher Retirement System of Texas**  
1000 Red River Street  
Austin, Texas  
78701-2698

**TEACHER RETIREMENT SYSTEM OF TEXAS  
BOARD OF TRUSTEES  
AND  
AUDIT, COMPLIANCE AND ETHICS COMMITTEE**

*(Committee Chair and Members are Subject to Change at the December Board Meeting)*

*All or part of the December 12, 2019, meeting of the TRS Audit, Compliance and Ethics Committee (Committee) and Board of Trustees may be held by telephone or video conference call as authorized under Sections 551.130 and 551.127 of the Texas Government Code. The Committee intends to have a quorum and the presiding officer physically present at the following location, which will be open to the public during the open portions of the meeting: **1000 Red River, Austin, Texas 78701 in the TRS East Building, 5<sup>th</sup> Floor, Boardroom.***

*The open portions of the meeting are being broadcast over the Internet. Access to the Internet broadcast is provided at [www.trs.texas.gov](http://www.trs.texas.gov).*

**AGENDA**

**December 12, 2019 – 1:15 p.m.  
TRS East Building, 5<sup>th</sup> Floor, Boardroom**

1. Call roll of Committee members
2. Approve minutes of September 2019 Audit, Compliance and Ethics Committee meeting  
– Committee Chair
3. Receive State Auditor’s Office (SAO) presentation on the results of the audit of TRS Comprehensive Annual Financial Report (CAFR) for Fiscal Year 2019 – Hillary Eckford, Anca Pinchas, SAO and Richard Scheel.
4. Receive Grant Thornton report for financial audit of TRS Investment Company (TRICOT) (for fiscal year ending August 31, 2019) – Erica Brown, Dan Barron, Grant Thornton and Richard Scheel.
5. Receive TRS Compliance reports including those related to ethics and fraud, conflicts of interest, and investment policies – Heather Traeger
6. Receive an update on implementation of Senate Bill 65 regarding Trustee Conflicts of Interest procedures – Brian Guthrie and Heather Traeger.
7. Receive Internal Audit reports:
  - A. Cash Management Audit – Alejandra Moreno, Kendall Courtney, Scot Leith.
  - B. Collections Audit – Andrea Morales, Adam Fambrough and Melody Austin.
  - C. Annual Internal Audit Report – Amanda Jenami
  - D. Status of prior audit and consulting recommendations – Amanda Jenami
8. Discuss or consider Internal Audit and TRS Compliance administrative reports and matters related to governance, risk management, internal control, compliance violations, fraud,

NOTE: The Board of Trustees (Board) of the Teacher Retirement System of Texas will not consider or act upon any item before the Audit, Compliance and Ethics Committee (Committee) at this meeting of the Committee. This meeting is not a regular meeting of the Board. However, because the full Audit, Compliance and Ethics Committee constitutes a quorum of the Board, the meeting of the Committee is also being posted as a meeting of the Board out of an abundance of caution.

regulatory reviews or investigations, fraud risk areas, audits for the annual internal audit plan, or auditors' ability to perform duties – Committee Chair, Amanda Jenami, and Heather Traeger

9. Receive Internal Audit report on Healthcare Claims Data Warehouse Audit – Rolando Delgado, Christopher Chan, Katrina Daniel.
10. Receive Texas DIR Cybersecurity Assessments presentation – Frank Williams and Kristi Glasgall.

NOTE: The Board of Trustees (Board) of the Teacher Retirement System of Texas will not consider or act upon any item before the Audit, Compliance and Ethics Committee (Committee) at this meeting of the Committee. This meeting is not a regular meeting of the Board. However, because the full Audit, Compliance and Ethics Committee constitutes a quorum of the Board, the meeting of the Committee is also being posted as a meeting of the Board out of an abundance of caution.

**TAB 2**

**Minutes of the Audit, Compliance and Ethics Committee  
September 19, 2019**

The Audit, Compliance and Ethics Committee of the Board of Trustees of the Teacher Retirement System of Texas met on September 19, 2019, in the boardroom located on the fifth floor of the TRS East Building offices at 1000 Red River Street, Austin, Texas.

**Committee Members present:**

Mr. Christopher Moss, Chair  
Mr. David Corpus  
Dr. Greg Gibson  
Mr. James D. Nance  
Ms. Nanette Sissney

**Other Board Members present:**

Mr. Jarvis Hollingsworth  
Mr. Joe Colonna  
Mr. John Elliott  
Ms. Dolores Ramirez

**Others present:**

Brian Guthrie, TRS	Keith Brown, TRS Board Advisor
Andrew Roth, TRS	Kenneth Kasper, NYSTRS
Don Green, TRS	Hillary Eckford, SAO
Carolina de Onis, TRS	Anca Pinchas, SAO
Amanda Jenami, TRS	Michael Clayton, SAO
Heather Traeger, TRS	Morgan Burandt, SAO
Carolyn Perez, TRS	Ann Fickel, TCTA
Nick Ballard, TRS	Lih-Jen Lan, TRS
Kate Rhoden, TRS	Alejandra Moreno, TRS
Cari Casey, TRS	Chris Chan, TRS
Adam Fambrough, TRS	Mary Presley, TRS
Andrea Morales, TRS	Karen Marino, TRS
Mark Chi, TRS	Rolando Delgado, TRS
LaTresa Stroud, TRS	Barbie Pearson, TRS
Katherine Farrell, TRS	Katrina Daniel, TRS
Carolyn Perez, TRS	
Tiffany Reeves, Reinhart Boerner Van Deuren s.c.	

Audit Committee Chair Mr. Moss called the meeting to order at 1:21 p.m.

**1. Call roll of Committee members.**

Ms. Farrell called the roll. A quorum was present.

**2. Approve minutes of July 2019 Audit, Compliance and Ethics Committee meeting – Committee Chair Mr. Christopher Moss**

On a motion by Mr. Nance, seconded by Dr. Gibson, the proposed minutes for the July 2019 Audit Committee meeting were approved as presented with Ms. Sissney abstaining.

**3. Receive report on the TRS Internal Audit Quality Assurance and Improvement Program (QAIP) External Assessment – Kenneth Kasper, NYSTRS.**

Ms. Amanda Jenami discussed how the statute requires that internal audit functions maintain a quality assurance and improvement program that has an external and internal assessment. She introduced Mr. Kenneth Kasper of NYSTRS who led the assessment team. Mr. Kasper introduced the team that made up the peer review: Elizabeth Scott with the Florida State Board of Administration, Parsons Townsend of TXDOT. He then described the standards applied and the period covered for the review. He said the department received the highest of three possible ratings of it generally conforms rating. He reviewed the positive aspects of the department and opportunities for improvement. Ms. Jenami responded agreeing an assurance map would be beneficial and to perform more audits and fewer consulting projects moving forward.

**4. Receive SAO's Presentations**

**A. Planned audits of TRS' Comprehensive Annual Financial Report (CAFR) for Fiscal Year 2019 – Hillary Eckford and Anca Pinchas, SAO.**

Ms. Pinchas stated the deadline for the financial audit for TRS for the fiscal year 2019 CAFR is November 20, 2019.

**B. Results of the Audit of TRS' Fiscal Year 2018 Other Post-Employment Benefits (OPEB); and Employer Pension Liability Allocation Schedules – Michael Clayton and Anca Pinchas, SAO.**

Ms. Anca Pinchas stated that the SAO issued an unmodified opinion on the System's pension and other post-employment benefit (OPEB) liability allocation schedules for fiscal year 2018. She said they did not have any recommendations for the internal comptroller report. She provided an overview of the 12 items they are required to report to the Board for the audit.

**C. Results of the Audit of Incentive Compensation at Selected State Agencies – Hillary Eckford and Morgan Burandt, SAO.**

Mr. Morgan Burandt reported that TRS calculated and paid incentive compensation in accordance with the policies and procedures for year 2018.

**5. Receive TRS Compliance reports including those related to ethics, fraud, conflicts of interest and investment policies – Heather Traeger.**

Ms. Heather Traeger noted there were no new compliance violations identified this quarter. She reported that compliance continues to receive inquiries, comments and complaints. She noted the

reporting of several conflicts of interest by employees, mostly from new employees disclosing relationships. She concluded with the IPS violation, a repeat violation, which was due to the Asset Allocation transition. She confirmed that it was initially reported in the transparency report, consistent with the policy regarding passive violations. Mr. Auby responded that IMD actively monitored the portfolio and saw that it was nearing the threshold for the total public equity value. However, he said they did not want to incur trading costs in that volatile environment when the market was edging up and down around the threshold.

Mr. Moss announced without objection taking up Agenda Item 7 out of order.

**7. Consider recommending to the Board of Trustees adoption of the proposed Audit Plan for Fiscal Year 2020 – Amanda Jenami.**

Ms. Jenami provided an overview of the proposed audit plan for fiscal year 2020. In addition to the plan she said they performed a comprehensive risk assessment. From the risk assessment she said they developed the audit plan for the upcoming year. Ms. Jenami highlighted the audits and the few consulting projects they proposed for 2020.

On a motion by Mr. Corpus, seconded by Mr. Nance, the committee approved recommending to the Board adoption of the proposed audit plan for fiscal year 2020 as presented by staff.

Mr. Moss announced without objection taking up Agenda Item 6.

**6. Receive Internal Audit reports:  
A. Communications Audit - Nick Ballard and Carolyn Perez**

Ms. Jenami noted this audit was an agency wide audit, reviewing how different divisions of TRS are communicating. Mr. Nick Ballard added the audit also reviewed how TRS communicates with stakeholders, and that the communication is effective. He provided a summary of the push communications, information that TRS sends out to members and reporting employer partners and pull communications, information we provide to the public for the stakeholders to get information they need related to TRS. Mr. Ballard stated the overall conclusion for this project is very positive. He said there are good processes. He noted the opportunities for improvement focused on governance and processes around external communication.

**B. Annual Benefits Testing (Agreed-Upon Procedures) - Kate Rhoden, Cari Casey and Adam Fambrough**

Ms. Jenami provided an overview noting the risk associated with the payment of annuities the size and amounts. She said in 2018 TRS paid a little over \$10 billion in annuity payments via 5 million transactions. Ms. Casey described the audit procedures and review. She said there was a very low exception rate, only two exceptions were identified. Mr. Fambrough noted both exceptions were already corrected.

**C. Employer Testing (Agreed-Upon Procedures) - Andrea Morales and Mark Chi**

Ms. Andrea Morales stated for this quarter they tested three reporting entity partners: Austin, Donna and Longview. She said for each the total gross compensation was underreported mostly due to employees being categorized as substitutes. Mr. Mark Chi stated they have already reached out to the partners and corrections were being implemented.

**D. TRS Internal Audit Quality Assurance and Improvement Program (QAIP)  
Internal Assessment – Amanda Jenami**

Ms. Jenami stated in preparation for the external quality assurance review, they did a high-level assessment internally. She noted this assessment is required as well.

**E. Status of prior audit and consulting recommendations and update on  
procurement audit outstanding recommendations – Amanda Jenami and  
LaTresa Stroud.**

Ms. Jenami reported the items listed are on schedule to be implemented by the target dates. She noted the target implementation dates for procurement were extended to January 2020 for the guidelines and policies and procedures to incorporate any improvements needed in response to Senate Bill 65.

**8. Discuss or consider Internal Audit and TRS Compliance administrative reports and matters related to governance, risk management, internal control, compliance violations, fraud, regulatory reviews or investigations, fraud risk areas, audits for the annual internal audit plan, or auditors' ability to perform duties – Christopher Moss, Amanda Jenami, and Heather Traeger.**

Ms. Jenami reported for the end of the fiscal year how they did in reaching their goals and key performance targets. She said they completed all of the projects in the audit plan and either met or exceeded all of the KPIs except for one.

Without further discussion, Mr. Moss adjourned the meeting at 2:48 p.m.

APPROVED BY THE **AUDIT COMMITTEE** OF THE BOARD OF TRUSTEES OF THE  
TEACHER RETIREMENT SYSTEM OF TEXAS ON THE 12<sup>th</sup> DAY OF DECEMBER 2019.

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Christopher Moss  
Chair, Audit Compliance and Ethics Committee  
Board of Trustees  
Teacher Retirement Systems of Texas

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Date



TAB 3



## Internal Audit

# SAO Audit of CAFR for FY 2019



**Hillary Edkford, Anca Pinchas and  
Richard Scheel**

December 12, 2019





A Report on

# The Audit of the Teacher Retirement System's (TRS) Financial Statements for Fiscal Year 2019

SAO Report No. 20-011  
December 2019

## Overview

### Overall Conclusion

We issued an unmodified (clean) opinion for the fiscal year 2019 Teacher Retirement System's financial statements

### Background

For fiscal year 2019, TRS reported:

- Net Position for Pension and Other Employee Benefits of \$159.3 billion.
- Total Contributions of \$8.8 billion.
- Total Investment Income of \$ 7.7 billion.
- Total Benefit Expenses of \$11.3 billion.



A Report on

## The Audit of the Teacher Retirement System's (TRS) Financial Statements for Fiscal Year 2019

SAO Report No. 20-011  
December 2019

### *Key Points*

#### Significant Deficiency

The System should strengthen controls to ensure the completeness and accuracy of the active employee census data that employers submit through the Teacher Retirement Unified System for Technology (TRUST).

**Required Communication with Those Charged with Governance**  
**Based on the Audit of the Teacher Retirement System’s Fiscal Year 2019 Financial Statements**

We have audited the financial statements of the Teacher Retirement System for the year ended August 31, 2019, and have issued our report thereon dated November 20, 2019. Professional standards require that we provide you with the following information related to our audit.

No.	Item	Comments
1	The Auditor’s Responsibilities Under Generally Accepted Auditing Standards	As stated in our engagement letter dated August 2, 2019, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management, with your oversight, are prepared, in all material respects, in accordance with generally accepted accounting principles. Our audit of the financial statements does not relieve management or those charged with governance of their responsibilities.
2	Planned Scope and Timing of the Audit	We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter dated August 2, 2019.
3	Corrected and Uncorrected Misstatements	<p>Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those the auditor believes are trivial, and communicate them to the appropriate level of management.</p> <p>The attached schedule summarizes uncorrected misstatements of the financial statements. System management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.</p>
4	Other Information in Documents Containing Audited Financial Statements, Supplementary Information, and/or Required Supplementary Information	<p>Our financial statement audit opinion applies to the basic financial statements, which include the accompanying notes.</p> <p>We also applied certain limited auditing procedures to the Other Supplementary Information and the Pension Trust and TRS-Care Required Supplementary Schedules as listed in the table of contents, and concluded that such information was fairly stated in all material respects in relation to the basic financial statements taken as a whole.</p> <p>We did not opine on Management’s Discussion and Analysis (MD&amp;A). However, we performed limited procedures related to this information, which consisted of making inquiries of management regarding the methods of its measurement and presentation, and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements.</p>

**Required Communication with Those Charged with Governance**  
**Based on the Audit of the Teacher Retirement System’s Fiscal Year 2019 Financial Statements**

No.	Item	Comments
5	Management Representations	We have requested certain representations from management that are included in the management representation letter dated November 20, 2019. We also requested a representation letter dated November 20, 2019, from the System’s general counsel regarding the existence of certain contingent liabilities that might require disclosure in the financial statements.
6	Qualitative Aspects of the Entity’s Significant Accounting Practices	<p>Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the System are described in Note 1 to the financial statements.</p> <p>We noted no transactions entered into by the System during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a period that differs from when the transactions occurred.</p>
7	Significant Difficulties Encountered During the Audit	We did not encounter any restrictions in performing our procedures or gaining access to individuals or records. Management and staff provided us with all of the information and support we requested.
8	Other Audit Findings or Issues	<p>We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year. Those discussions occurred in the normal course of the audit.</p> <p>We identified the following significant deficiency in controls: The System should strengthen controls over active employee census data submitted through the Teacher Retirement Unified System for Technology (TRUST) to help ensure that the data is complete and accurate.</p>
9	Disagreements with Management	<p>We did not encounter any disagreements with management during the course of the audit.</p> <p>For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor’s report.</p>

**Required Communication with Those Charged with Governance**

**Based on the Audit of the Teacher Retirement System’s Fiscal Year 2019 Financial Statements**

No.	Item	Comments
10	Management’s Consultations with Other Accountants	<p>In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the System’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts.</p> <p>To our knowledge, there were no such consultations with other accountants.</p>
11	Significant Findings or Issues Discussed, or Subject to Correspondence, with Management	<p>Prior to and throughout our audit engagement, we had routine discussions, or engaged in correspondence, with management regarding the System and application of accounting principles and auditing standards.</p>
12	Independence	<p>The State Auditor’s Office is independent to conduct the audit of System’s fiscal year 2019 financial statements. It is the State Auditor’s Office’s policy to conduct all projects in an environment free of any threats that impair independence.</p>
13	Fraud, Abuse, or Noncompliance with Laws and Regulations, Contracts or Grant Agreements	<p>Auditing standards require auditors to exercise professional skepticism and increased awareness to detect potential violations, fraud, and abuse.</p> <p>We did not find evidence that fraud, abuse, or noncompliance with laws and regulations, contracts or grant agreements, had, or might have, occurred.</p>

This information is intended solely for the use of the System’s Board of Trustees and System management of the System and is not intended to be and should not be used by anyone other than these specified parties.



Lisa R. Collier,  
CPA, CFE, CIDA,  
First Assistant State Auditor

## Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

### Independent Auditor's Report

#### Teacher Retirement System Board of Trustees

Mr. Jarvis V. Hollingsworth, Chairman  
Mr. Michael Ball  
Mr. David Corpus  
Mr. John Elliott  
Dr. Greg Gibson  
Mr. Christopher Moss  
Mr. James D. Nance  
Ms. Nanette Sissney  
Mr. Robert Hamilton Walls Jr.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the major enterprise fund and the aggregate remaining funds information, consisting of the fiduciary funds and the non-major enterprise fund, of the Teacher Retirement System (System), a component unit of the State of Texas as of and for the year ended August 31, 2019, and the related notes to the financial statements, which collectively comprise the System's basic financial statements and have issued our report thereon dated November 20, 2019.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a

Robert E. Johnson Building  
1501 N. Congress Avenue  
Austin, Texas 78701

P.O. Box 12067  
Austin, Texas 78711-2067

Phone:  
(512) 936-9500

Fax:  
(512) 936-9400

Internet:  
[www.sao.texas.gov](http://www.sao.texas.gov)

SAO Report No. 20-307



material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control described in the accompanying schedule of findings and responses that we consider to be a significant deficiency.

Summary of Findings and Responses
Finding Number
2019-1

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the System's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Auditors communicated certain issues that were not material or significant to the audit objectives in writing to the System's management.

### **System's Response to Findings**

The System's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The System's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

Lisa R. Collier, CPA, CFE, CIDA  
First Assistant State Auditor

November 20, 2019

# Schedule of Findings and Responses

## ***The System Should Strengthen Controls to Help Ensure the Completeness and Accuracy of the Active Employee Census Data That Employers Submit Through TRUST***

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Reference No. 2019-1

### **Type of finding: Significant Deficiency**

The Teacher Retirement System (System) should strengthen controls over active employee census data submitted through the Teacher Retirement Unified System for Technology (TRUST) to help ensure that data is complete

#### **Active Employee Census Data**

Active employee census data is key demographic data that affects the actuarial estimate of the pension liability amount that the System presents in its financial statements.

Key data elements include:

- Name.
- Gender.
- Date of birth.
- Pensionable earnings.
- Service credits.

Source: Chapter 13 in *State and Local Governments - Audit and Accounting Guide*, American Institute of Certified Public Accountants.

and accurate (see text box for additional information about the census data). More than 1,300 school districts, colleges, and universities submit data regarding the active members who participate in the System's pension plan. The completeness and accuracy of the active employees' census data is important because the System uses that data to calculate (1) member pension benefits and (2) the pension and Other Post-employment Benefits (OPEB) liability amounts that the System presents in its financial statements.

During the audits of the System's financial statements for fiscal years 2014, 2015, 2016, 2017 and 2018,<sup>1</sup> auditors reported findings related to the System's controls over the completeness and accuracy of active employee census data. Since the initial finding in 2014, the System has begun performing audits on a limited basis of the employer census data information submitted. In addition, for fiscal year 2018, the System implemented TRUST, a new employer census data reporting system. TRUST was designed to (1) collect the entire payroll data from participating employers and (2) allow the System to perform a comprehensive review of the employer data submitted to the System. However, the System's controls over TRUST do not adequately ensure the completeness and accuracy of active employee census data.

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<sup>1</sup> See *A Report on the Audit of the Teacher Retirement System's Fiscal Year 2014 Financial Statements* (State Auditor's Office Report No. 15-010, November 2014); *A Report on the Audit of the Teacher Retirement System's Fiscal Year 2015 Financial Statements* (State Auditor's Office Report No. 16-009, December 2015); *A Report on the Audit of the Teacher Retirement System's Fiscal Year 2016 Financial Statements* (State Auditor's Office Report No. 17-015, November 2016), *A Report on the Audit of Teacher Retirement System's Fiscal Year 2017 Financial Statements* (State Auditor's Office Report No. 18-005, November 2017), and *A Report on the Audit of Teacher Retirement System's Fiscal Year 2018 Financial Statements* (State Auditor's Office Report No. 19-015, December 2018).

In fiscal year 2019, the System made some improvements related to TRUST access controls to ensure that only necessary personnel have the ability to edit the data. The System began development of a new process related to review of the data submitted by the reporting employers, and that process has not been fully developed and deployed. Specifically, TRUST still allows reporting employers to delete records after submission to the System. This presents a risk to completeness of the census data, as reporting employers could delete valid submissions to meet filing requirements instead of correcting the records. The System should strengthen its process to ensure that the employers review and correct data elements that TRUST identifies as potential errors.

The lack of sufficient controls over the active employee census data in TRUST represent a significant deficiency in internal control over financial reporting, as noted in guidance issued by the American Institute of Certified Public Accountants.<sup>2</sup>

### **Recommendation**

The System should strengthen controls over active employee census data in the TRUST system.

### **Management's Response**

*TRUST is a complete pension line of business solution. The system has many components related to benefit calculations and employer payroll reporting system for TRS, which includes a full payroll component regardless of membership eligibility. TRS implemented TRUST Phase 1 in FY 2018. The employer reporting component is in the second year of implementation and improvements continue to be made. Management agrees with the control deficiencies outlined above. In addition to expected difficulties implementing large systems responsible for integrating highly complex data relationships, TRS must contend with the responsibility shift introduced under GASB 67/68. TRS will take action to correct the noted deficiencies as follows:*

*TRS will implement additional review processes to identify likely reporting employer errors and take further steps to contend with the additional requirements imposed by GASB 67/68. This process will be implemented in phases as we manage maintenance and*

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<sup>2</sup> See Chapter 13 in *State and Local Governments – Audit and Accounting Guide*, American Institute of Certified Public Accountants.

*enhancements priorities while balancing completion of the entire TRUST implementation.*

**TAB 4**



# 2019 Audit Wrap Up Presentation and Discussion

Teacher Retirement  
Investment Company of  
Texas, Ltd.

December 12, 2019



# Our Responsibilities

We are responsible for:

- Performing an audit under US GAAS of the financial statements prepared by management, with your oversight
- Forming and expressing an opinion about whether the financial statements are presented fairly, in all material respects in accordance with US GAAP
- Reading other information and considering whether it is materially inconsistent with the financial statements
- Communicating specific matters to you on a timely basis; we do not design our audit for this purpose.

An audit provides reasonable, not absolute, assurance that the financial statements do not contain material misstatements due to fraud or error. It does not relieve you or management of your responsibilities. Our respective responsibilities are described further in our engagement letter.



# Those Charged With Governance and Management Responsibilities

## Those Charged with Governance are responsible for:

- Overseeing the financial reporting process
- Setting a positive tone at the top and challenging the Company's activities in the financial arena
- Discussing significant accounting and internal control matters with management
- Informing us about fraud or suspected fraud, including its views about fraud risks
- Informing us about other matters that are relevant to our audit, such as:
  - Entity strategies and related business risks that may result in heightened risks of material misstatement
  - Matters warranting particular audit attention
  - Significant communications with regulators
  - Matters related to the effectiveness of internal control and your oversight responsibilities
  - Your views regarding our current communications and your actions regarding previous communications

## Management is responsible for:

- Preparing and fairly presenting the financial statements in accordance with US GAAP
- Designing, implementing, evaluating, and maintaining effective internal control over financial reporting
- Communicating significant accounting and internal control matters to those charged with governance
- Providing us with unrestricted access to all persons and all information relevant to our audit
- Informing us about fraud, illegal acts, significant deficiencies, and material weaknesses
- Adjusting the financial statements, including disclosures, to correct material misstatements
- Informing us of subsequent events
- Providing us with written representations

# Audit Timeline & Scope

May 2019	Client continuance	<ul style="list-style-type: none"> <li>• Client continuance</li> <li>• Issue engagement letter</li> <li>• Conduct internal client service planning meeting, including coordination with audit support teams such as tax</li> </ul>
June 2019	Planning	<ul style="list-style-type: none"> <li>• Discuss scope of work and timetable as well as identify current year audit issues</li> </ul>
June 2019	Preliminary risk assessment procedures	<ul style="list-style-type: none"> <li>• Meet with management to confirm expectations and discuss business risks</li> <li>• Develop audit plan that addresses risk areas</li> <li>• Update understanding of internal control environment</li> <li>• Coordinate planning with management and develop work calendar</li> </ul>
June 2019	Interim fieldwork	<ul style="list-style-type: none"> <li>• Perform walk-throughs of business processes and controls</li> <li>• Perform selective substantive testing on interim balances</li> </ul>
September – December 2019	Final fieldwork and deliverables	<ul style="list-style-type: none"> <li>• Perform final phase of audit and year-end fieldwork procedures</li> <li>• Meet with management to discuss results including review of draft financial statements, misstatements (if any), and completeness/adequacy of disclosures</li> <li>• Present results to the Audit Committee</li> </ul>

# Materiality

Materiality is the magnitude of an omission or misstatement that likely influences a reasonable person's judgment. It is ordinarily evaluated against relevant financial statement benchmark.

- We believe that total revenues is the appropriate benchmark for the Company.

Financial statement items greater than materiality are within our audit scope. Other accounts or classes of transactions less than materiality may be in our scope if qualitative risk factors are present (for example, related party relationships or significant unusual transactions).

# Areas of focus

The following provides an overview of the areas of audit focus based on our risk assessments.

Areas of focus	Results
<ul style="list-style-type: none"><li>• VAT receivables</li><li>• Prepaid expenses</li><li>• Deposits and other assets</li><li>• Tax liabilities</li><li>• Revenues</li><li>• Expenses</li></ul>	<p>All balances were determined to be materially stated based on the audit procedures.</p> <p>Two adjustments noted.</p>

# Summary of Misstatements

Description	Increase (Decrease) to:			Change in Net Assets
	Assets	Liabilities	Net Assets	
<u>Material, corrected misstatements</u>				
Expenses				(18,617)
Accounts Payable		18,617		
<i>To record accrual for invoices not recorded in FY19</i>				
Prepaid Expenses		(14,857)		
Rental Buildings or Office Space				14,857
<i>To reclassify rent paid in advance for the months of September 2019 to December 2019 in prepaid account.</i>				
Net impact	\$ -	\$ 3,760	\$ -	\$ (3,760)

# Other Required Communications

Professional standards require that we communicate the following matters to you, as applicable.

Going concern matters
Fraud and noncompliance with laws and regulations
Significant deficiencies and material weaknesses in internal control over financial reporting
Use of other auditors
Use of internal audit
Related parties and related party transactions



# Other Required Communications

(continued)

Disagreements with management
Management's consultations with other accountants
Significant issues discussed with management
Significant difficulties encountered during the audit
Other significant findings or issues that are relevant to you and your oversight responsibilities
Modifications to the auditor's report
Other information in documents containing audited financial statements



# Quality of Accounting Practices

Accounting policies	Accounting policies and their application are consistent and appropriate
Accounting estimates	No management bias identified in salary/ wage and intercompany allocations and depreciation expense
Disclosures	Disclosures are neutral, consistent and clear
Other related matters	No other related matters





# Questions?



This communication is intended solely for the information and use of management and those charged with governance of the Teachers Retirement Investment Company of Texas and is not intended to be and should not be used by anyone other than these specified parties.



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Teacher Retirement  
Investment  
Company of Texas,  
Ltd.



**2019**  
ANNUAL  
FINANCIAL  
REPORT



A Component Unit of  
the Teacher Retirement  
System of Texas

**Fiscal Year Ended  
August 31, 2019**





# Teacher Retirement Investment Company of Texas Ltd.

Financial Statements  
For the Period Ended August 31, 2019

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**GRANT THORNTON LLP**

1717 Main Street  
Suite 1800  
Dallas, TX 75201

**D** +1 214 561 2300  
**F** +1 214 561 2370

**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

Board of Trustees  
Teacher Retirement Investment Company of Texas, Ltd.

**Report on the financial statements**

We have audited the accompanying financial statements of the Teacher Retirement Investment Company of Texas, Ltd. ("TRICOT"), which comprise the statement of fiduciary net position as of August 31, 2019, and the related statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements.

**Management's responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to TRICOT's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of TRICOT's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Teachers Retirement Investment Company of Texas, Ltd. as of August 31, 2019, and changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of matter**

As discussed in Note 1, the financial statements present only TRICOT and do not purport to, and do not, present fairly the financial position of the Teacher Retirement System as of August 31, 2019, or the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

**Other matters***Required supplementary information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. This required supplementary information is the responsibility of management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America. These limited procedures consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Dallas, Texas  
November 12, 2019

**Teacher Retirement Investment Company of Texas Ltd.**  
**Management's Discussion and Analysis (Unaudited)**

The following is Management's Discussion and Analysis (MD&A) of the Teacher Retirement Investment Company of Texas Ltd.'s (TRICOT) financial statements as of August 31, 2019 and for the year then ended. The information presented here should be considered in conjunction with other areas of the *TRICOT Annual Financial Report*.

**Financial Highlights**

Teacher Retirement Investment Company of Texas Ltd., (TRICOT), a private limited company incorporated in the United Kingdom (UK) began operations in fiscal year 2016. TRICOT, as a separate legal entity, is a wholly owned subsidiary and blended component unit of the Teacher Retirement System of Texas (TRS) Pension Trust Fund.

- TRICOT's primary purpose is to increase the size and number of investment opportunities for the TRS portfolio, especially in private equity funds, real assets funds, and co-investments for either of those investment types.
- TRICOT helps support the sourcing and portfolio management of TRS' \$12.1 billion in exposure to private investments in Europe through 90 investment vehicles and 32 manager relationships.
- Since inception, the TRICOT team has identified 224 potential deals totaling \$22.6 billion in equity, with 46 opportunities being identified for 2019. As of August 31, 2019, TRICOT-sourced deals had \$2.1 billion in exposure to private investments in Europe through 20 investments vehicles under 15 manager relationships.
- TRICOT's net position was \$417,581 as of August 31, 2019.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to TRICOT's financial presentation, which consists of fund financial statements, notes to the financial statements, and required supplementary information.

Collectively, this information presents the net position restricted for fiduciary activities as of August 31, 2019 and summarizes any changes in net position for the year then ended. The information available in each of these sections is summarized as follows:

**Fund Financial Statements**

Fiduciary fund financial statements are presented as of August 31, 2019. These financial statements reflect the resources available to pay administrative expenses related to TRICOT's mission.



**Teacher Retirement Investment Company of Texas Ltd.**  
**Management's Discussion and Analysis (Unaudited) - Continued**

**Notes to the Financial Statements**

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the TRICOT financial statements. Information available in the notes to the financial statements is described below:

- Note 1 provides a general description of TRICOT and a summary of significant accounting policies, including the basis of accounting, budgets and appropriations, and explanations of major asset and liability classes.
- Note 2 provides information on capital assets.
- Note 3 describes cash, deposits and deposit risk factors.
- Note 4 provides information on operating leases.
- Note 5 presents tax disclosure information.

**Required Supplementary Information**

Required supplementary information for TRICOT consists of Management's Discussion and Analysis.

**Financial Analysis of TRICOT**

Net position restricted for fiduciary activities at August 31, 2019 was a \$417,581.

Additions from amounts paid on behalf of TRICOT and transfers in from Teacher Retirement System of Texas (TRS) totaled \$2,998,555.

Deductions from TRICOT's net position restricted for fiduciary activities are predominantly administrative expenses. During fiscal year 2019, administrative expenses and transfers out totaled \$2,791,585.

A condensed summary of TRICOT's financial statements are presented as of August 31, 2019 and for the year then ended. Comparative data in total as of August 31, 2018, and for the year then ended has also been presented.

Fiscal year 2019 increase in cash and receivables is due to amounts received from Teacher Retirement System to prefund a new office lease, which will be paid in fiscal year 2020. Prepaid and other decreased due to fewer leases requiring prepayment. Accounts payable increased due to corporate taxes, payroll taxes and contractor fees. Amounts paid on behalf of TRICOT decreased due to a reduced need for consulting services. Transfers in from TRS increased as a result of prefunding of the new office lease and additional seconded employee costs. Administrative expenses increased due to an additional seconded employee and related expenses associated with that addition.

*Teacher Retirement Investment Company of Texas Ltd.  
Management's Discussion and Analysis (Unaudited) - Continued*

**Statement of Fiduciary Net Position (Condensed)**

**August 31, 2019**

	<b>Fiscal Year 2019</b>	<b>Fiscal Year 2018</b>	<b>Dollar Change</b>	<b>Percentage Change</b>
<b>Assets</b>				
Cash and Receivables	\$ 427,753	\$ 124,856	\$ 302,897	242.6 %
Prepays and Other	163,218	193,822	(30,604)	(15.8)
Capital Assets	2,397	4,795	(2,398)	(50.0)
<b>TOTAL ASSETS</b>	<b>\$ 593,368</b>	<b>\$ 323,473</b>	<b>\$ 269,895</b>	<b>83.4 %</b>
<b>Liabilities</b>				
Accounts Payable and Other	\$ 175,787	\$ 112,862	\$ 62,925	55.8 %
<b>TOTAL LIABILITIES</b>	<b>\$ 175,787</b>	<b>\$ 112,862</b>	<b>\$ 62,925</b>	<b>55.8 %</b>
<b>Total Fiduciary Net Position</b>	<b>\$ 417,581</b>	<b>\$ 210,611</b>	<b>\$ 206,970</b>	<b>98.3 %</b>

**Changes in Fiduciary Net Position (Condensed)**

**For the Fiscal Year Ended August 31, 2019**

	<b>Fiscal Year 2019</b>	<b>Fiscal Year 2018</b>	<b>Dollar Change</b>	<b>Percentage Change</b>
<b>Additions</b>				
Amounts Paid on Behalf of TRICOT	\$ 126,814	\$ 337,153	\$ (210,339)	(62.4) %
Transfers In from TRS - Cash	\$ 1,307,601	948,170	359,431	37.9
Transfers In from TRS - Expenditures	\$ 1,564,140	1,160,720	403,420	34.8
<b>TOTAL ADDITIONS</b>	<b>\$ 2,998,555</b>	<b>\$ 2,446,043</b>	<b>\$ 552,512</b>	<b>22.6 %</b>
<b>Deductions</b>				
Administrative Expenses	\$ 2,791,585	\$ 2,440,149	\$ 351,436	14.4 %
<b>TOTAL DEDUCTIONS</b>	<b>\$ 2,791,585</b>	<b>\$ 2,440,149</b>	<b>\$ 351,436</b>	<b>14.4 %</b>
<b>Change in Fiduciary Net Position</b>	<b>\$ 206,970</b>	<b>\$ 5,894</b>	<b>\$ 201,076</b>	<b>3,411.5 %</b>

**Request for Information**

This financial report is designed to provide a general overview of the Teacher Retirement Investment Company of Texas Ltd. for those with an interest in TRICOT's finances.

Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Communications Department of the Teacher Retirement System of Texas, 1000 Red River Street, Austin, Texas 78701.

**Teacher Retirement Investment Company of Texas Ltd.**  
**Statement of Fiduciary Net Position**

AS OF AUGUST 31, 2019

**ASSETS**

**Cash (Note 3)**

Cash in Bank	\$	402,227
TOTAL CASH		\$ 402,227

**Receivables and Other Assets (Note 1E)**

VAT (Value Added Tax) Receivable	\$	23,467
Corporate Taxes Receivable		2,059
Prepaid Expenses		50,515
Deposits and Other Assets		112,703
TOTAL RECEIVABLES AND OTHER ASSETS		\$ 188,744

**Capital Assets (Note 2)**

Depreciable Assets	\$	11,989
Less Accumulated Depreciation		(9,592)
TOTAL CAPITAL ASSETS, NET		\$ 2,397

<b>TOTAL ASSETS</b>	<b>\$</b>	<b>593,368</b>
---------------------	-----------	----------------

**LIABILITIES (Note 1E)**

Accounts Payable and Other	\$	72,664
Payroll Taxes Payable		65,782
Corporate Taxes Payable		37,341
TOTAL LIABILITIES		\$ 175,787

**NET POSITION**

Net Investment in Capital Assets	\$	2,397
Restricted for Fiduciary Activities		415,184

<b>NET POSITION RESTRICTED FOR FIDUCIARY ACTIVITIES</b>	<b>\$</b>	<b>417,581</b>
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*The accompanying Notes to the Financial Statements are an integral part of this financial statement.*

**Teacher Retirement Investment Company of Texas Ltd.**  
**Statement of Changes in Fiduciary Net Position**

FOR FISCAL YEAR ENDED AUGUST 31, 2019

<b>ADDITIONS</b>	
Amounts Paid On Behalf of TRICOT	\$ 126,814
Transfers In from Teacher Retirement System of Texas:	
of Cash	1,307,601
of Expense	1,564,140
<b>TOTAL ADDITIONS</b>	<b>\$ 2,998,555</b>
 <b>DEDUCTIONS</b>	
Administrative Expenses	
Secoded Employees and Other Services	\$ 1,457,705
Professional Fees and Services	118,799
Materials and Supplies	10,642
Communications and Utilities	5,207
Repairs and Maintenance	3,131
Travel	46,499
Rentals and Leases	516,320
Payroll Tax Expense	434,349
Corporate Tax Expense	37,056
Foreign Transaction (Gain)/Loss/Fees	6,826
Depreciation Expense	2,398
Other Expenses	89,166
Transfers Out To Teacher Retirement System of Texas	63,487
<b>TOTAL DEDUCTIONS</b>	<b>\$ 2,791,585</b>
 <b>Net Change in Net Position</b>	 <b>\$ 206,970</b>
 <b>NET POSITION RESTRICTED FOR FIDUCIARY ACTIVITIES-BEGINNING OF YEAR</b>	 <b>\$ 210,611</b>
 <b>NET POSITION RESTRICTED FOR FIDUCIARY ACTIVITIES-END OF YEAR</b>	 <b>\$ 417,581</b>

*The accompanying Notes to the Financial Statements are an integral part of this financial statement.*

**Note 1: Summary of Significant Accounting Policies**

**A. Reporting Entity**

The accompanying financial statements reflect the financial position of the Teacher Retirement Investment Company of Texas Ltd., (TRICOT), a private limited company incorporated in the United Kingdom (UK). TRICOT, as a separate legal entity, is a wholly owned subsidiary and blended component unit of the Teacher Retirement System of Texas (TRS) Pension Trust Fund. The primary purpose of TRICOT is to increase the size and number of investment opportunities for the TRS portfolio, especially in private equity funds, real assets funds, and co-investments for either of those investment types. TRICOT's Board of Directors is composed of one Managing Director. This Managing Director position is appointed by the Executive Director of TRS.

TRICOT provides investment advisory services exclusively to TRS pursuant to an intercompany agreement. TRICOT does not make investment decisions or enter into investment contracts and has no authority to legally bind TRS. All investment opportunities are referred to TRS for consideration, due diligence, decision-making, and authorization.

**B. Measurement Focus, Basis of Presentation and Basis of Accounting**

The financial statements present only the financial position and changes in financial position of TRICOT and include all activities for which TRICOT exercises fiscal control and responsibility. They are not intended to, and do not, present fairly the financial position or changes in financial position of TRS. The reporting period is for the fiscal year ended August 31, 2019.

As a blended component unit of the TRS Pension Trust Fund, TRICOT reports its accounts in the same manner, which is as a fiduciary fund. Fiduciary funds are used to report assets held in a trustee or agency capacity on behalf of others. TRICOT operations are accounted for with a self-balancing set of accounts that comprise its assets, liabilities, additions and deductions. The fiduciary financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Additions are recognized when earned, and deductions are recognized when the liability is incurred, regardless of the timing of related cash flows. All economic resources, including financial and capital assets, and related liabilities, both current and long-term, and the changes therein are reported in the fund financial statements.

TRICOT is not an employer under UK law and does not make contributions to any retirement plans. TRS employees are seconded from the Austin, Texas headquarters to TRICOT and remain employees and members of TRS for all purposes, including health insurance, pension contributions, benefits, and Social Security and Medicare taxes. The salary and benefit costs to TRS for seconded employees are allocated and transferred to TRICOT for transfer pricing and UK corporate income tax reporting purposes. Additionally, TRS employees provide legal, accounting and administrative services for TRICOT. When non-seconded TRS employees perform work on behalf of TRICOT, the proportionate cost of that labor is allocated to TRICOT. No allocation of the pension liabilities and expense for non-seconded TRS employees is necessary or required. TRS' risk management programs apply to TRICOT.

TRICOT's accounting records are maintained in United States (US) dollars. Purchases and receipts made in Great Britain Pounds (GBP) are translated into US dollars at the exchange rate on the dates of the transactions.

**C. New Accounting Pronouncements**

The accompanying financial statements were prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). There were no new GASB pronouncements related to TRICOT during fiscal year 2019.

**D. Budgets and Appropriations**

The administrative costs and capital asset outlay for TRICOT are controlled by annual budgets approved by TRS and the Managing Director of TRICOT.

**E. Assets and Liabilities**

**Receivables**

Receivables represent the amount of money owed to TRICOT for goods or services delivered or used for which payments have not been received at fiscal year-end.

- Value Added Tax (VAT) receivables represent amounts owed at fiscal year-end to TRICOT by the United Kingdom for the refund of value added taxes that will not be received until the next fiscal year.
- Corporate Taxes receivable represent a tax deferral based upon timing differences.

**Prepaid and Other Assets**

Prepaid expenses reflect payment for expenses related to rental and lease costs applicable to a future accounting period. Other Assets are deposits made to retain services and rental properties.

**Capital Assets**

Capital assets associated with the entity's activities are included in the statement of fiduciary net position. Purchases of capital assets are reported at cost on the acquisition date. Depreciation of all exhaustible capital assets is charged as an expense against operations. Depreciation is calculated using the straight-line method over the asset's useful life.

**Liabilities**

Liabilities represent the amount of money owed by TRICOT for goods or services received at fiscal year-end for which payment has not been made as of the balance sheet date.

- Accounts Payable represents the liability for assets or services received at fiscal year-end for which payment has not been made.
- Corporate and Payroll Taxes Payable represents amounts owed by TRICOT at fiscal year-end but not paid to the United Kingdom until the next fiscal year.

### Related Party Transactions

As a blended component unit of TRS, TRICOT relies upon TRS for financial resources. Those resources are recognized through three basic types of revenue.

- Amounts paid on behalf of TRICOT represent amounts paid by TRS on behalf of TRICOT and recognized as revenue in accordance with GASB 24 *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*. The associated expenses are also recorded on an accrual basis at the same time in order to present the full costs of operations.
- Transfers in of cash from TRS represent cash contributions for operational expenses, net of any reimbursements from TRICOT back to TRS. The cash transfers are to TRICOT's bank account to provide operating funds to TRICOT. For fiscal year 2019, TRS contributed \$1,307,601 in cash.
- Transfers in of expense from TRS represent monies paid directly by TRS then allocated to TRICOT for reporting purposes. For fiscal year 2019, TRS contributed \$1,564,140 in transferred expenses.

### Note 2: Capital Assets

Capital assets are presented at historical cost or, if not purchased, at fair value at the date of acquisition. To the extent assets are purchased by TRICOT for use in operations, appropriate straight-line depreciation has been charged over the estimated useful lives of the assets. Capitalization thresholds for applicable capital asset classes and useful lives for exhaustible assets are shown below:

Asset Class	Capitalization Threshold	Depreciable Life
Furniture and Equipment	\$5,000	5 years

The table below presents the composition of TRICOT's capital assets.

Asset Class	Balance 09/01/2019	Additions	Deletions	Balance 08/31/2019
<b>Depreciable Assets</b>				
Furniture and Equipment	\$ 11,989	-	-	\$ 11,989
<b>Less Accumulated Depreciation</b>				
Furniture and Equipment	(7,194)	(2,398)	-	(9,592)
<b>Capital Assets, Net</b>	<b>\$ 4,795</b>	<b>\$ (2,398)</b>	<b>\$ -</b>	<b>\$ 2,397</b>

### Note 3: Deposits

#### A. Cash and Deposits

Cash and deposits of TRICOT are maintained in demand deposit accounts with J.P. Morgan Chase Bank, N.A. in the United States (US) and the United Kingdom (UK). As of August 31, 2019, the balance in these accounts totaled \$402,227 and the carrying amount totaled \$402,227.

#### B. Deposit Risk Factors

##### Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the system will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. TRICOT does not have a formal deposit policy for custodial credit risk.

Deposits in US bank accounts are covered by the Federal Deposit Insurance Corporation (FDIC) which insures bank balances less than \$250,000. Deposits in UK bank accounts are covered by the Financial Services Compensation Scheme (FSCS) which insures bank balances less than £75,000. Deposits more than these insured amounts are uninsured and uncollateralized. As of August 31, 2019, deposits in TRICOT's US bank account were exposed to custodial credit risk of \$105,706. As of August 31, 2019, deposits in TRICOT's UK bank accounts were not exposed to custodial credit risk.

##### Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of a deposit or an investment. TRICOT does not have a formal deposit policy for foreign currency risk. As of August 31, 2019, TRICOT held \$46,521 in GBP.

### Note 4: Operating Leases

During fiscal year 2019, TRICOT renegotiated and extended the non-cancelable operating lease agreement for office building space until September 12, 2019. Rental expenses related to the lease for the fiscal year ended August 31, 2019 were \$317,785.

In fiscal year 2019, TRICOT maintained five operating lease agreements for apartments for the TRS seconded employees. The leases expire November 15, 2019, November 25, 2019, December 6, 2019, August 14, 2019 and June 30, 2021. Rental expenses related to the leases for the fiscal year ended August 31, 2019 totaled \$196,894.

The future minimum lease payments for the next two years are listed in the following table.

Fiscal Year	Amount
2020	\$ 74,298
2021	37,374
<b>Total</b>	<b>\$ 111,672</b>



**Note 5: Tax Disclosure**

**A. Tax on Ordinary Activities**

For the period ended August 31, 2019, TRICOT had tax on profit on ordinary activities. The current income tax charge is presented below:

• <b>Current tax</b>		
UK corporation tax at 19.00%		<u>\$37,341</u>
Total current tax		<u>\$37,341</u>
• <b>Deferred tax</b>		
Origination and reversal of timing differences	\$ 186	
Effect of changes in tax rate		<u>242</u>
Total deferred tax		<u>428</u>
Tax on profit on ordinary activities		<u>\$ 37,769</u>

**B. Factors Affecting the 2019 Total Tax Charge**

The tax assessed on profit/loss on ordinary activities for the year is lower than the standard rate of corporation tax in the UK of 19.00% (2018 19.00%). The differences are reconciled below:

Profit on ordinary activities before taxation	<u>\$195,909</u>
Profit on ordinary activities at standard United Kingdom corporation tax rate of 19.00%	37,223
Effects of;	
Effect of expenses not deductible	305
Effect of tax rate changes	<u>241</u>
Total tax expense	<u>\$ 37,769</u>

**C. Factors That May Affect Future Tax Charges**

The UK Government legislated in the Finance (No.2) Act 2016, which received Royal Assent on September 15, 2016, that the main rate of corporation tax statutory rate would be reduced from 19% to 17% effective from April 1, 2020. This will affect the rate at which future UK cash tax will be payable and has been taken into account in calculating deferred tax.

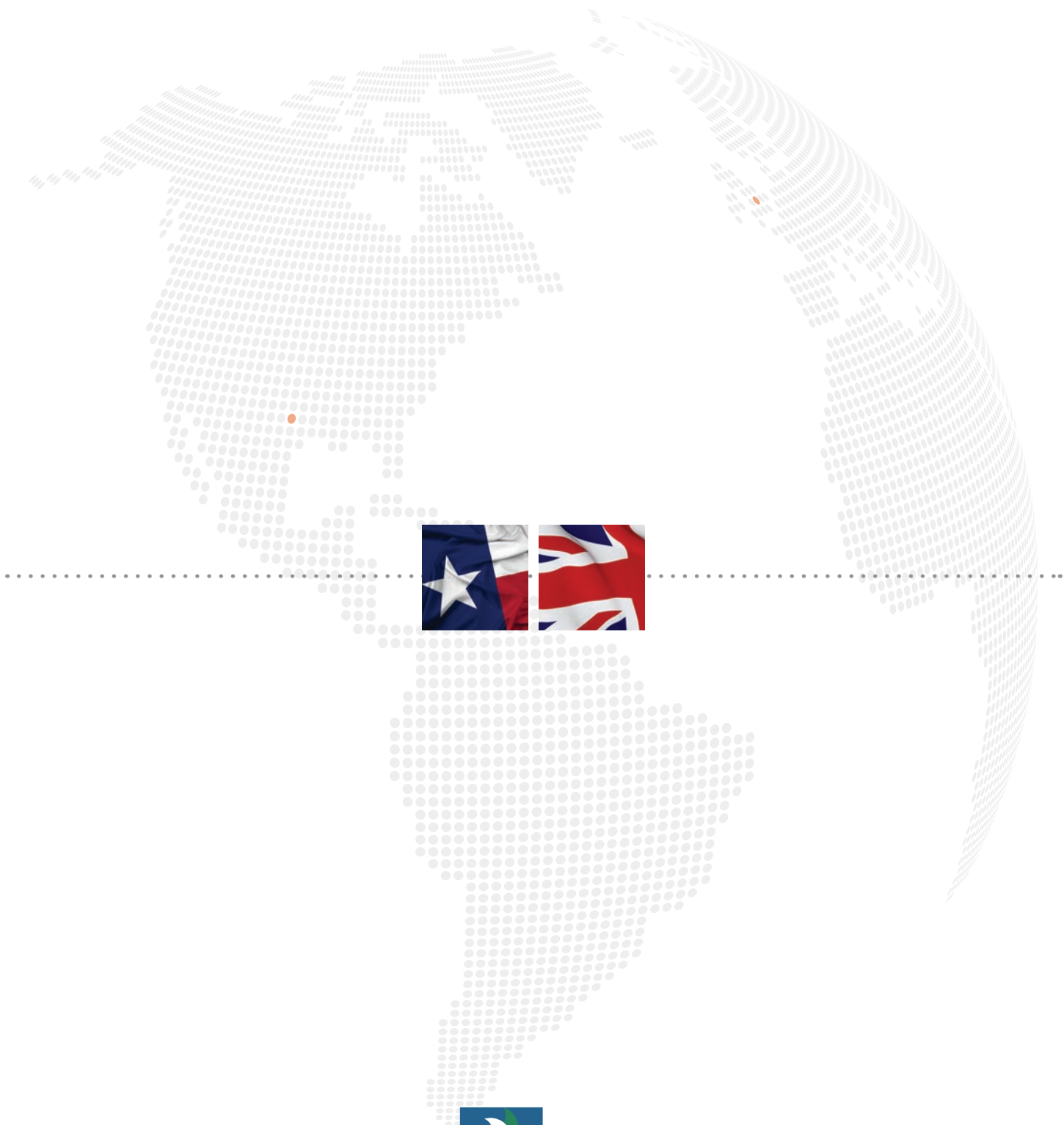
**D. 2019 Deferred Tax**

Deferred tax asset at September 1, 2018	\$ 2,487
Deferred tax credit/ (charge) to income statement	<u>(428)</u>
Deferred tax asset at August 31, 2019	<u>\$ 2,059</u>
Made up of:	
Depreciation in excess of capital allowances	\$2,059

**E. Other Tax Expense**

Tax expense also includes amounts paid to Her Majesty's Revenue and Customs office by TRS for seconded employees working in the UK. These costs were allocated to TRICOT per the intercompany agreement. Refer to Note 1.B for more information on seconded employees.





**Teacher Retirement System of Texas**

1000 Red River Street • Austin, Texas 78701-2698 • 1-800-223-8778 • [www.trs.texas.gov](http://www.trs.texas.gov)

**TAB 5**



## Internal Audit

# Summary of New and OS Complaints



Heather Traeger

December 12, 2019





## Internal Audit

# Quarterly Compliance Testing



Heather Traeger

December 12, 2019



**QUARTERLY INVESTMENT COMPLIANCE TESTING**  
**INVESTMENT POLICY STATEMENT (IPS), SECURITIES LENDING POLICY (SLP), PROXY VOTING POLICY**  
 CALENDAR QUARTER ENDED SEPTEMBER 30, 2019, EXCEPT AS NOTED

<p align="center"><b>Business Objectives</b></p>	<p><b>1. Board Reports</b>                  All required information is reported to the TRS Board of Trustees</p>	<p><b>2. Investment Selection and Approval</b>                  Investments made are within delegated limits and established selection criteria</p>	<p><b>3. Other (IPS, SLP, other reporting)</b>                  Risk limits are followed for other investment</p>
<p align="center"><b>Procedures Performed</b></p>	<ul style="list-style-type: none"> <li>• Compare Board reports to IPS requirements</li> <li>• Trace sample information included in Board reports to supporting documentation</li> </ul>	<ul style="list-style-type: none"> <li>• Trace investments approved by the Internal Investment Committee (IIC) to supporting documentation</li> <li>• Compare approval limits of new investments with IPS, including Emerging Managers (EM)</li> <li>• Obtain evidence that Investment Integrity Questionnaires (IIQs) were received prior to investing</li> </ul>	<ul style="list-style-type: none"> <li>• Obtain senior management disclosure about known compliance violations</li> <li>• Check securities lending pool for compliance with investing guidelines</li> <li>• Obtain evidence Proxy Committee reviewed voting guidelines and maintained voting record</li> </ul>
<p align="center"><b>Test Results</b></p>	<ul style="list-style-type: none"> <li>• All reporting requirements were met and documentation provided supported information tested</li> </ul>	<ul style="list-style-type: none"> <li>• All investments tested had supporting documentation and were in compliance with approval limits</li> <li>• IIQs were obtained for all investments tested</li> </ul>	<ul style="list-style-type: none"> <li>• All policy and procedure requirements tested were met</li> <li>• The disclosure of a repeated passive violation of the total equity threshold in the IPS, which has been reported to the Board via the transparency report</li> </ul>

Legend:

  Red - Significant to TRS

  Orange - Significant to Business Objectives

  Yellow - Other Reportable Exception

  Green - Positive Test Result/ No Exception

**TAB 6**





# Senate Bill 65 Implementation Update

Brian Guthrie and Heather Traeger

December 12, 2019

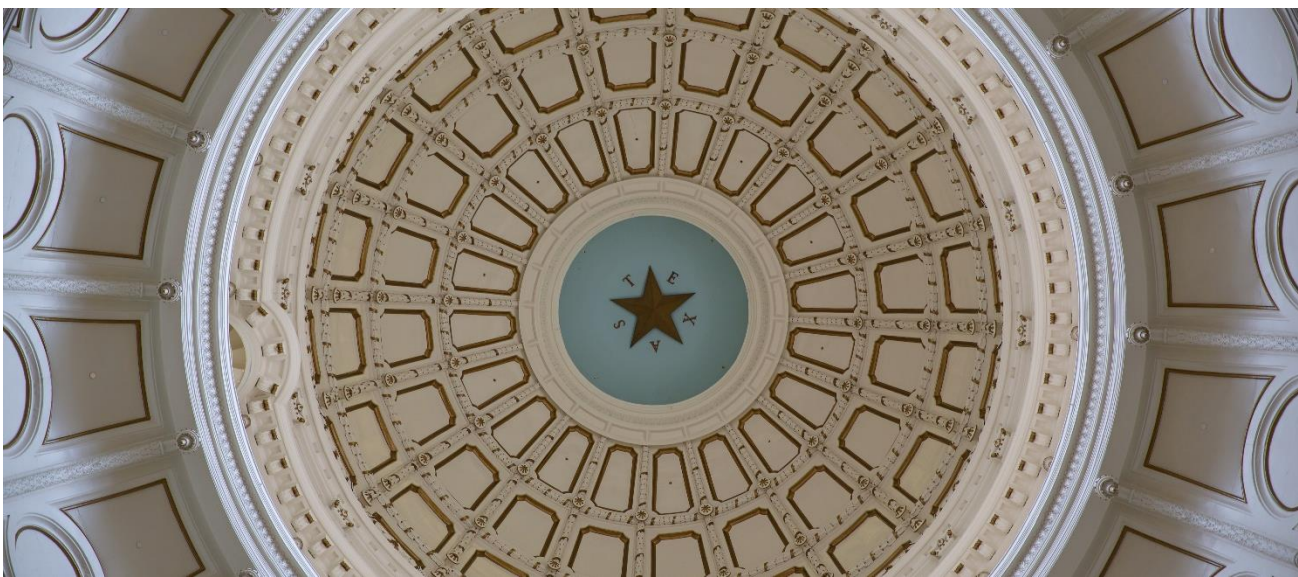


**TAB 7A**



Internal Audit

# Cash Management Audit



Alejandra Moreno, Kendall Courtney  
and Scot Leith

December 12, 2019





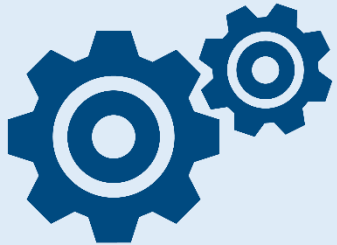
# BACKGROUND





## AUDIT OBJECTIVE

- Determine if adequate controls exist over cash management to ensure
- ✓ Safeguarding of assets
  - ✓ Effectiveness and efficiency of operations
  - ✓ Compliance with applicable laws
  - ✓ Reliability and integrity information



## METHODOLOGY

- ✓ Interview management and staff at TRS
- ✓ Review TRS processes and documents
- ✓ Benchmark against peers



## FISCAL YEAR 2019

- ✓ 5,332 cash transactions
- ✓ Netting approximately \$10 billion



# RESULTS



## **OVERALL AUDIT CONCLUSION**

The Teacher Retirement System's (TRS) cash management processes include sufficient controls to provide reasonable assurance that cash management goals are accomplished effectively and efficiently, and in compliance with relevant policies and procedures.

The audit identified positive results and opportunities to strengthen processes related to the cash movement process.

- Liquidity
- Cash Operations
- Reporting



## 1. Liquidity



### Positive Observations

- Daily Rebalance Reports
- Minimum Liquidity Targets
- Liquidity policy is aligned with those of peers



### Recommendation

None





## 2. Cash Operations



### Positive Observations

No issues identified for all processes tested



### Recommendation

Management should consider automating the creation and maintenance of the Daily Cash Movement Log

---

### Management Response

IMD Operations agrees with the recommendation. We will work with our custodian bank to identify a more automated solution.

Implementation Date: **January 31, 2020.**



## 3. Reporting



### Positive Observations

- Board Liquidity Reports
- TIFS User Access and Permissions



### Recommendation

None



# APPENDIX



## CASH MANAGEMENT BUSINESS OBJECTIVES

### 1. Liquidity

The Fund maintains ample liquidity to meet its funding commitments and comply with the Investment Policy Statement

### 2. Cash Operations

Ensure cash movements are executed timely, accurately, and with appropriate approvals

### 3. Reporting

Ensure integrity and accuracy of cash management reporting



# Cash Management Audit



## Teacher Retirement System of Texas Internal Audit Department

Business Objective(s)	The Fund maintains ample liquidity to meet its funding commitments and comply with the Investment Policy Statement	Ensure cash movements are executed timely, accurately, and with appropriate approvals	Ensure integrity and accuracy of cash reporting
Business Risks	<ul style="list-style-type: none"> <li>The Fund does not have enough cash to meet its obligations or meet IPS requirements</li> <li>Liquidity management processes are not efficient</li> </ul>	<ul style="list-style-type: none"> <li>Cash assets are not adequately safeguarded</li> <li>Cash transactions are not authorized</li> <li>Cash management processes are not efficient</li> </ul>	<ul style="list-style-type: none"> <li>Information systems utilized for liquidity and cash do not ensure completeness, integrity and accuracy of information</li> <li>Liquidity and cash reporting is not accurate</li> </ul>
Management Controls	<ul style="list-style-type: none"> <li>Daily Short Term liquidity monitoring</li> <li>Long Term Liquidity monitoring</li> <li>Daily trust rebalance</li> </ul>	<ul style="list-style-type: none"> <li>Multiple approvals and segregation of duties in place</li> <li>Reconciliations in place pre-wire execution and post-wire execution</li> </ul>	<ul style="list-style-type: none"> <li>User access to key information systems granted on an as needed basis</li> </ul>
Controls Tested	<ul style="list-style-type: none"> <li>Determine consistency of review of liquidity reports</li> <li>Test that liquidity targets were consistently met</li> <li>Benchmark against peers' liquidity management practices</li> </ul>	<ul style="list-style-type: none"> <li>Test sample of transactions for appropriate support, approvals, and segregation of duties</li> <li>Test sample of reconciliations performed</li> </ul>	<ul style="list-style-type: none"> <li>Test the user access and permissions to key information systems</li> <li>Test liquidity and cash reports against supporting evidence</li> </ul>
Results	<ul style="list-style-type: none"> <li>Consistent review of liquidity reports</li> <li>Liquidity targets were consistently met</li> <li>TRS' liquidity policy is aligned with peers</li> </ul>	<ul style="list-style-type: none"> <li>Transactions were supported and approved, segregation of duties are in place</li> <li>Reconciliations are consistently performed and reviewed</li> </ul>	<ul style="list-style-type: none"> <li>TIFS user access is based on user's job duties</li> <li>Liquidity and cash reporting agreed to supporting evidence</li> </ul>
		<ul style="list-style-type: none"> <li>Opportunity to strengthen cash log with automation</li> </ul>	
Recommended Actions	<ul style="list-style-type: none"> <li>None</li> </ul>	<ul style="list-style-type: none"> <li>Explore options to automate the creation of the cash log</li> </ul>	<ul style="list-style-type: none"> <li>None</li> </ul>
Management Responses	N/A	<ul style="list-style-type: none"> <li>Management agrees with the recommendation. We will work to identify a more automated solution by a target date of January 31, 2020.</li> </ul>	N/A

Legend of Results: **Red** - Significant to TRS

**Orange** - Significant to Business Objectives

**Yellow** - Other Reportable Issue

**Green** - Positive Finding or No Issue



# Cash Management Audit

20-301

Internal Audit Department

November 2019

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# EXECUTIVE SUMMARY

## Overview

The Teacher Retirement System's (TRS) cash management processes include sufficient controls to provide reasonable assurance that cash management goals are accomplished effectively and efficiently, and in compliance with relevant policies and procedures. The segregation of duties between investment management, investment operations, TRS investment accounting and the custodian bank assist in ensuring cash assets are safeguarded while the three-way cash reconciliations that occur pre- and post-wire confirmation assist in ensuring that cash transactions are appropriately approved, and accurately recorded. Liquidity management processes include sufficient controls to ensure the Fund maintains ample liquidity to meet immediate or short-term commitments including, member benefits, meeting capital calls, and rebalancing the portfolio per the System's Strategic Asset Allocation. Liquidity management includes setting targets and monitoring both aggregate liquidity and liquidity risk exposure.

As summarized below, the audit identified positive results and opportunities to strengthen processes related to the cash movement reconciliation process.

### *Automation*

The implementation of the automated workflow, TRS Internal Forms System (TIFS), has not only improved operational efficiency and timeliness of the review and approval of cash movement transactions, it has also improved the security of the process by assigning users different levels of access based on their specific job duties. However, there is an opportunity to further enhance efficiencies and reduce the potential for human error by automating the process used to generate the cash movement log and some of the liquidity reports.

### *Liquidity*

Liquidity and cash management serve a critical role in the management of the Trust. The Risk and Portfolio Management team has set conservative guidelines/targets to ensure sufficient liquidity (cash and cash equivalents) classified within three different tiers to minimize the cost of raising cash and limit the effect on investment managers. The Risk and Portfolio Management team presents an Investment Risk Report, which includes liquidity metrics, to the Investment Management Committee of the Board of Trustees twice a year.

### *Cash Operations*

TRS Cash Securities Operations is central to the cash reconciliation and forecasting process, and works closely with investment managers (both external and internal), the TRS Derivatives Team, TRS Investment Accounting, and the custodian bank. IMD Cash Securities Operations has



developed comprehensive/extensive written procedures (including step by step instructions and screen shots) to guide staff in its daily duties. This is particularly important given the complexity of some of the transaction types and the time-sensitive nature of the work.

### **Summary of Management Response**

IMD Operations agrees with the recommendation. We will work with our custodian bank to identify a more automated solution by a target date of January 31, 2020.

## Background

Cash management serves a critical role in the management of the Fund. Cash management comprises several key processes, including Trust rebalance, Comptroller payment, liquidity management, trade settlement, fundings and distributions, and wire processing. TRS cash management's main objectives include liquidity management, cash movement operations, and reporting. These objectives are fulfilled by the TRS Investment Management Division (IMD) in coordination with TRS Investment Accounting and the custodian bank.

The TRS IMD Risk & Portfolio Management team is responsible for setting and monitoring liquidity targets and creating plans to meet these targets. The IMD Cash & Securities Operations team is responsible for the processing of cash movements, including coordinating with TRS investment and accounting staff and custodian bank for execution. TRS Investment Accounting are the final approvers of any outgoing cash wire movement.

Management has been responsive to the audit and is already planning to implement the recommendations. Results of the audit procedures are presented in more detail in the **Results, Recommendations, and Management Responses** section. The audit objective, scope, methodology, and conclusion are described in **Appendix A**. The summary of business objectives, risks, and controls are described in **Appendix B**.

## Scope

The audit focused primarily on cash management activities from September 1, 2018 through August 31, 2019. Fieldwork was conducted in September through October 2019.

# AUDIT RESULTS

## **Business Objective 1 – The Fund maintains ample liquidity to meet its funding commitments and comply with the Investment Policy Statement**

### Daily Rebalance Reports

The IMD Risk and Portfolio Management group create the Daily Rebalance Report which is used to measure and track the Trust's daily position on cash liquidity, leverage, and asset allocation. The key inputs to this report include projections of cash movement and trades. The report is reviewed by senior management on a weekly basis and used to direct investment decisions for the Trust.

The auditors tested a sample of 12 rebalance reports for accuracy and evidence of senior management review and found no exceptions.

### Short Term Liquidity Reports

The IMD Risk and Portfolio Management Group's Short Term Liquidity Report, implemented in March 2019, tracks the Trust's liquidity, including liquidity balances by tiers, top cash flows, and a liquidity forecast benchmarked against the minimum liquidity targets. The two minimum liquidity targets are 1) 2 x the average comptroller payment, and 2) 2x the daily internal derivatives Value at Risk (VaR). These minimum liquidity targets assist in ensuring compliance with the Investment Policy Statement.

For a sample of 12 dates, the audit tested for compliance with minimum thresholds and found no exceptions. The auditors tested a sample of 6 Short Term Liquidity Reports for accuracy and found no exceptions.

### Benchmarking against Peers

A peer benchmark, performed as part of this audit, found TRS' liquidity policy to be aligned with those of its peers.

## **Business Objective 2 – Ensure cash movements are executed timely, accurately, and with appropriate approvals**

### TRS Cash Movement Log and Approvals

The IMD Cash & Securities Team maintains a daily log of all actual and projected receipts, fundings, distributions, SWAP resets and maturities, futures margins, dividends, interest and other cash flows. Various sources are used to update the cash log: notices from internal investment and accounting staff, invoices from external investment managers, and other internal reports.

To initiate an outgoing cash wire movement, the IMD Cash & Securities Team uploads a form into the *TRS Internal Forms System (TIFS)*. This form is then routed to the appropriate parties for approval. Investment Accounting grants the final approval for every outgoing wire. Prior to releasing the wire, the custodian bank crosschecks the signatures to the Fund Transfer and Transaction Origination Process (*FTTOP*), a file that is reviewed and maintained by TRS, which details all authorized approvers from Investment, Financial and Executive groups.

For internally managed trades, TRS investment staff enter trades into Bloomberg and these are approved before execution by investment management. The General Authority Resolutions (GAR) dictate who is authorized to execute and approve trades.

The auditors tested a representative sample of 60 transactions (made up of 50 items from TRS Cash Movement Log and 10 from the Bloomberg trade activity report) for accuracy, timeliness, appropriate approvals by IMD and Finance, and segregation of duties. The sample included both incoming and outgoing movements, various asset classes, fees, and both domestic and foreign transactions. No exceptions were found.

### Pre-execution Reconciliation

The IMD Cash & Securities Team manually reconciles the custodian bank's Cash Activity Report to the TRS Cash Movement Log and works with the custodian bank on reconciling any differences before wires are executed. The preparer uploads the completed reconciliation to TIFS for review.

The auditors tested a sample of 40 dates to determine if the Cash Activity Report reconciliations were performed and reviewed by different individuals and that there were no outstanding reconciling items. No exceptions were found.

### Post-execution Reconciliation by IMD

The IMD Cash & Securities team reconciles the previous day's cash activity. An automated 3-Way-Reconciliation between the custodian bank Wire Confirmation Log, the TRS Cash Movement Log, and the TIFS Submissions Report runs via SQL query every morning to confirm that the wires executed by the custodian bank match TRS records.

The auditors tested a sample of 20 days to determine if the 3-way-reconciliations were performed and that there were no outstanding reconciling items. No exceptions were found.

### Post-execution Reconciliation by Investment Accounting Team

The Investment Accounting team performs a manual Daily Funding Reconciliation (for the previous day's outgoing cash activity) between the custodian bank Confirmation Log and the TIFS Submissions Report.

For a sample of 14 dates, the auditors tested for evidence that the Daily Funding Reconciliations were completed and reviewed by a different person, and that there were no outstanding reconciling items. There were no exceptions.

## **2.1 Other Reportable Result – Daily Cash Movement Log Manual Maintenance**

The Daily Cash Movement Log is TRS' record of historical and projected incoming and outgoing cash movements. Its accuracy and integrity are critical for IMD operations. It is updated manually on a daily basis using various sources of information. A manual updating process increases the risk of human error. While we acknowledge that the audit testing did not identify any errors and that the process includes various compensating controls that assist in detecting errors within the Cash Movement Log, we believe that automating the process would not only reduce the risk of error but also improve operational efficiency.

### **Recommendation**

Management should consider automating the creation and maintenance of the Daily Cash Movement Log. This could take the form of a programming script that pulls relevant data points from scanned cash movement notices and updates the Daily Cash Movement Log.

### **Management Response**

IMD Operations agrees with the recommendation. We will work with our custodian bank to identify a more automated solution by a target date of January 31, 2020.

## **Business Objective 3 – Ensure integrity and accuracy of cash management reporting**

### Board Liquidity Reports

The Risk and Portfolio Management team presents an Investment Risk Report to the Investment Management Committee of the Board of Trustees twice a year. The Investment Risk Report includes a liquidity metric. The auditors tested the liquidity metric elements including sources of liquidity, uses of liquidity, and the liquidity ratio reported in September 2018, April 2019, and September 2019 for accuracy and compliance with Trust liquidity policy. The liquidity metric elements tested were accurate and the Trust liquidity ratio was significantly above the minimum target for each report.

### TIFS User Access and Permissions

A review of TIFS user access for initiating cash movement transactions, various levels of investment and financial review and approval, found that permissions are based on user job duties.

\*\*\*\*\*

We appreciate the Investment Management Division management and staff for their cooperation, courtesy, and professionalism extended to us during this audit. We also appreciate support provided by Investment Accounting.

Amanda Jenami, CIA, CISA, CPA, CFE, CRMA  
Chief Audit Executive

Alejandra Moreno Del Angel, CPA  
Senior Investment Auditor

This report is distributed to the following:

Audit, Compliance and Ethics Committee, TRS Board of Trustees  
Brian Guthrie, TRS Executive Director

# APPENDIX A

## AUDIT OBJECTIVE, SCOPE, AND METHODOLOGY

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. To conduct this performance audit, we determined that we are also independent per the generally accepted government audit standards requirements for internal auditors.

This performance audit was also conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors, Inc.

### AUDIT OBJECTIVE

The audit objective was to determine whether internal controls are in place and are working effectively to achieve the business objectives stated below and mitigate significant risks to meeting those objectives.

1. The Fund maintains ample liquidity to meet its funding commitments and comply with the Investment Policy Statement
2. Ensure cash movements are executed timely, accurately, and with appropriate approvals
3. Ensure integrity and accuracy of cash reporting

### SCOPE

The audit focused primarily on cash management activities from September 1, 2018 through August 31, 2019. Fieldwork was conducted in September through October 2019.

### METHODOLOGY

The audit methodology included obtaining information on management's business objectives and risks, and focused on key processes and monitoring controls that management has established to address significant risks. To meet the audit objectives, the following procedures were specifically performed:

- Reviewed policies, strategic plans, and procedures
- Reviewed documentation supporting cash management activity
- Interviewed staff responsible for cash management activities
- Surveyed peers to benchmark liquidity practices

## APPENDIX B

### BUSINESS OBJECTIVES, RISKS, AND CONTROLS

For the Cash Management Audit, we obtained information about the following business objectives, as well as the related risks and the controls management established to mitigate these risks:

Business Objectives	The Fund maintains ample liquidity to meet its funding commitments and comply with the Investment Policy Statement	Ensure cash movements are executed timely, accurately, and with appropriate approvals	Ensure integrity and accuracy of cash management reporting
<b>Business Risks</b>	<ul style="list-style-type: none"> <li>• The Fund does not have enough cash to meet its obligations or meet IPS requirements</li> <li>• Liquidity management processes are not efficient</li> </ul>	<ul style="list-style-type: none"> <li>• Cash assets are not adequately safeguarded</li> <li>• Cash transactions are not authorized</li> <li>• Cash management processes are not efficient</li> </ul>	<ul style="list-style-type: none"> <li>• Information systems utilized for tracking and reporting liquidity and cash do not ensure completeness, integrity and accuracy of information</li> <li>• Liquidity and cash reporting is not accurate</li> </ul>
<b>Management Controls</b>	<ul style="list-style-type: none"> <li>• Daily Short Term liquidity monitoring</li> <li>• Long Term Liquidity monitoring</li> <li>• Daily Trust rebalance</li> </ul>	<ul style="list-style-type: none"> <li>• Multiple approvals and segregation of duties in place</li> <li>• Reconciliations in place pre-wire execution and post-wire execution</li> </ul>	<ul style="list-style-type: none"> <li>• User access to key information systems granted on an as needed basis</li> </ul>
<b>Controls Tested</b>	<ul style="list-style-type: none"> <li>• Determine consistency of review of liquidity reports</li> <li>• Test historical data to determine that liquidity targets were consistently met</li> <li>• Benchmark against peers' liquidity management practices</li> </ul>	<ul style="list-style-type: none"> <li>• Test sample of transactions for appropriate support, approvals, and segregation of duties</li> <li>• Test sample of reconciliations performed</li> </ul>	<ul style="list-style-type: none"> <li>• Test the user access and permissions to key information systems</li> <li>• Test liquidity and cash reporting reports against supporting evidence</li> </ul>



**TAB 7B**



Internal Audit

Collections Audit



Andrea Morales, Adam Fambrough,  
Melody Austin, and Martin Cano

December 12, 2019





# BACKGROUND

## BACKGROUND

### Death Claim Related Payments

- Post-Death overpayments
- Payments to an incorrect beneficiary
- As of FY19, approximately \$4.5 million outstanding

### Forfeited Annuity Payments

- Employment after Retirement
- FY19 approximately \$2.5 million

### Safeguarding Receipts

- Controls to safeguard receipts processed in TRS' mailroom
- FY19 approximately \$89 million in processed receipts



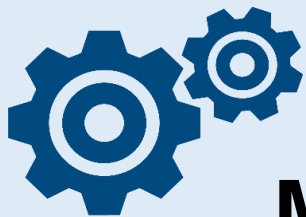
## **AUDIT OBJECTIVE**

Determine whether amounts owed to TRS due to:

- post-death annuity payments
- incorrect beneficiary payments
- forfeited annuity payments

are:

- identified, tracked, and pursued for collection
- once received, are safeguarded



## **METHODOLOGY**

- ✓ Conduct interviews
- ✓ Review processes, procedures, and tools
- ✓ Review reports and records
- ✓ Assess controls



# RESULTS



### **OVERALL AUDIT CONCLUSION**

Overall, Benefit Accounting processes include sufficient controls to provide reasonable assurance that, once identified, monies owed to TRS for forfeited annuity payments are pursued for collection.

Benefit Processing has processes for obtaining, verifying, and taking the appropriate actions on death notifications. However, for death claim-related collections, the audit could not determine the total amounts owed, collected, or written off. A formally defined process to collect death claim-related amounts is needed to ensure collection practices are consistent with management expectations. This defined process would include written procedures for collections, and would document the criteria, approval process, and tracking requirements for write-offs.

Security and Facilities Management has controls in place for physical access to the mailroom. Controls also exist for encoding and registering receipts and transferring custody of receipts from the mailroom to the Cashier. However, current mailroom processes should be strengthened to provide greater assurance that receipts are adequately safeguarded.



## 1. Death Claim-Related Collections



### Positive Observations

Processes exist for obtaining, verifying, and addressing death notifications



### Observations

- Collection efforts are generally limited and not tracked
- Procedures are needed for collection efforts
- Death notification procedures need to be updated
- Written procedures are needed for write-offs, to include write-off criteria, an approval process, and a tracking requirement





## 1. Death Claim-Related Collections



### Recommendations

- Strengthen process for pursuing death claim-related collections
- Establish and implement written procedures to guide collection efforts
- Update death notification procedures
- Establish and implement formal write-off procedures



Management agrees with the recommendations and will:

- Develop and update procedures (**March 31, 2020**)
- Document write off process (**March 31, 2020**)
- Enhance collection efforts, including tracking of efforts (**August 31, 2020**)



## 2. Forfeited Annuity Payment Collections



### Positive Observations

- Written procedures
- Completeness of collection efforts and system documentation



### Observations

- Not all forfeited annuity payments are identified and pursued for collection
- Collection efforts are not always performed timely
- Collection efforts are not always tracked



## 2. Forfeited Annuity Payment Collections



### Recommendations

Strengthen controls to:

- Identify and pursue all collections, including collections identified in audit
- Perform and track collection efforts in a timely manner



Management agrees with the recommendations and will:

- Address identified forfeited annuity payments **(December 31, 2019)**
- Improve controls for tracking collections **(February 29, 2020)**
- Further strengthen collection process **(February 29, 2020)**
- Work with IT to resolve issues with collection reports **(August 31, 2020)**



## 3. Safeguarding of Receipts in TRS Mailroom



### Positive Observations

- Physical access controls for TRS mailroom
- Controls for encoding payments and transferring custody of payments



### Observations

- Mail opening and money handling processes need stronger controls
- Cash Receipts and Mailroom procedures need to be updated



## 3. Safeguarding of Receipts in TRS Mailroom



### Recommendations

- Strengthen controls for safeguarding receipts, to include a two-person mail opening process
- Update mailroom procedures



### Management Response

Management Agrees with the recommendations and will strengthen controls by:

- Implementing a two-person cash receipts process and logs for staff who open mail and access the mailroom safe. **(January 31, 2020)**
- Updating procedures to ensure they are current and address mail opening and money handling processes. **(January 31, 2020)**



Questions?



# Collections Audit



## Teacher Retirement System of Texas Internal Audit Department

Business Objective(s)	Post-death overpayments and death benefits paid to the wrong beneficiary are identified, tracked, and pursued for collection	Forfeited annuity payments are identified, tracked, and pursued for collection	Receipts processed in TRS' mailroom are adequately safeguarded
Business Risks	<ul style="list-style-type: none"> <li>• TRS-owed amounts are not collected</li> </ul>	<ul style="list-style-type: none"> <li>• Amounts owed to TRS are not collected</li> <li>• Employment after Retirement (EAR) requirements are not consistently applied or met</li> </ul>	<ul style="list-style-type: none"> <li>• Receipts are lost or stolen</li> <li>• Reputational risks resulting from lost or stolen receipts</li> </ul>
Management Controls	<ul style="list-style-type: none"> <li>• Processes to obtain, verify, and respond timely to death notification information</li> </ul>	<ul style="list-style-type: none"> <li>• Collection reports</li> <li>• Collections tracking sheet</li> <li>• Collection procedures</li> </ul>	<ul style="list-style-type: none"> <li>• Mailroom procedures</li> <li>• Mailroom processes to safeguard receipts</li> </ul>
Controls Tested	<ul style="list-style-type: none"> <li>• Determine if processes to obtain, verify, and respond timely to death notification information are consistently applied and effective</li> </ul>	<ul style="list-style-type: none"> <li>• Determine if collection reports identify all forfeited annuity payments</li> <li>• Determine if collections tracking sheet is consistently and accurately updated</li> </ul>	<ul style="list-style-type: none"> <li>• Determine if mailroom procedures are current and contain adequate controls to safeguard receipts</li> <li>• Determine if mailroom processes include adequate controls to safeguard receipts</li> </ul>
Results	<ul style="list-style-type: none"> <li>• Efforts to collect death claim-related collections are limited and not tracked</li> <li>• Collection practices are not documented in procedures</li> <li>• Post-death overpayments are written off without criteria, procedures, an approval process, or a tracking requirement</li> </ul>	<ul style="list-style-type: none"> <li>• Not all forfeited annuity payments are identified and pursued for collection</li> <li>• Collections tracking sheet is incomplete and not consistently updated</li> <li>• Collections are not pursued timely</li> </ul>	<ul style="list-style-type: none"> <li>• Process controls are needed to ensure receipts are adequately safeguarded</li> <li>• Mailroom procedures are not current and do not address mail opening and money handling processes</li> </ul>
Recommended Actions	<ul style="list-style-type: none"> <li>• Strengthen controls for pursuing death claim-related collections</li> <li>• Document procedures for pursuing death claim-related collections and update death notification procedures</li> <li>• Document and implement procedures for writing off post-death overpayments that include criteria, an approval process, and a process for tracking written off amounts</li> </ul>	<ul style="list-style-type: none"> <li>• Strengthen controls for EAR collection reports</li> <li>• Strengthen process controls to ensure all identified collections are pursued</li> <li>• Pursue collection of forfeited annuity payments identified in audit</li> <li>• Strengthen controls to ensure collections are pursued timely and collection efforts are tracked</li> </ul>	<ul style="list-style-type: none"> <li>• Review mail opening and money handling processes to strengthen controls for safeguarding receipts</li> <li>• Update mail operations procedures to ensure they are current and address mail opening and money handling processes</li> </ul>
Management Responses	Management agrees with the recommendations and will be developing procedures to address all recommendations	Management agrees with recommendations and will continue working with IT to resolve EAR report issues and strengthen oversight	Management agrees the recommendations would provide additional controls in the mailroom and will address the identified issues no later than January 31, 2020

Legend of Results: **Red** - Significant to TRS  
**Yellow** - Other Reportable Issue

**Orange** - Significant to Business Objectives  
**Green** - Positive Finding or No Issue



# Collections Audit

20-104

Internal Audit Department

November 2019



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# EXECUTIVE SUMMARY

## Overview

Overall, Teacher Retirement System's (TRS) Benefit Accounting processes include sufficient controls to provide reasonable assurance that, once identified, monies owed to TRS for forfeited annuity payments are pursued for collection. Processes exist for obtaining, verifying, and taking the appropriate actions on death notifications. However, for death claim-related collections, the audit could not determine the total amounts owed, collected, or written off. A formally defined process to collect death claim-related amounts is needed to ensure collection practices are consistent with management expectations. This defined process would include written procedures for collections, and document the criteria, approval process, and tracking requirements for write-offs.

Currently, TRS' Benefit Processing works to collect death claim-related overpayments when they are initially identified. Processes exist to recover post-death overpayments, including under certain circumstances, via recovery from the beneficiary's death benefit or the future survivor benefit payments of a spouse. However, the audit found current collection efforts to be generally limited.

Security and Facilities Management has controls in place for physical access to the mailroom. Controls also exist for encoding and registering receipts and transferring custody of receipts from the mailroom to the Cashier. However, current mailroom processes should be strengthened to provide greater assurance that receipts are adequately safeguarded.

As summarized below, the audit identified positive results and opportunities to strengthen TRS' processes for death claim-related overpayments, forfeited annuity payments, and mailroom operations.

### *Collection of Forfeited Annuity Payments*

Benefit Accounting management has written procedures to guide its staff in the documentation, tracking, and collection of forfeited annuity payments. Tools are also available for identifying and tracking these collections. A review of 76 collections found that staff ensured employers submitted the required adjustments before rescinding collections, consistently performed required collection efforts, and made appropriate updates in TRUST<sup>1</sup>. However, testing found some forfeited annuity payments owed to TRS that were not identified and pursued for collection. Additionally, efforts to collect forfeited annuity payments are not performed and documented in a timely and consistent manner.

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<sup>1</sup> TRUST (Teacher Retirement Unified System for Technology) is the system for TRS pension administration, health and insurance benefits, and business process workflows.

### *Collection of Post-Death Overpayments and Death Benefits Paid to the Wrong Beneficiary*

Processes exist for obtaining, verifying, and addressing death notifications. While Benefit Processing works to collect death claim-related overpayments upon identification, efforts to collect post-death overpayments and incorrect beneficiary payments are generally limited and not tracked. In addition, collection efforts are not addressed in procedures and the procedures for addressing vendor-provided death notifications are not current and do not provide sufficient detail.

### *Safeguarding of Receipts Processed in TRS' Mailroom*

Physical access controls to the mailroom are in place, with only mailroom staff having badge access to the mailroom. Additionally, once mail is opened and processed, receipts are encoded with a registration number, and checks are encoded with a restrictive endorsement. Controls also exist for the transfer of receipts from the mailroom to the Cashier. However, controls within the mail opening and money handling processes should be strengthened to ensure receipts are adequately safeguarded. In addition, the Cash Receipts and Mailroom procedures should be updated to ensure they are current and address mail opening and money handling processes.

## **Summary of Management Response**

### *Collection of Forfeited Annuity Payments*

Management agrees with recommendations and will continue working with IT to resolve EAR report issues and strengthen oversight.

### *Death Claim-Related Collections*

Management agrees with the recommendations and will be developing procedures to address all recommendations.

### *Safeguarding of Receipts Processed in TRS' Mailroom*

Security and Facilities Management agrees the recommendations would provide additional controls in the Mailroom. The mailroom will address the issues identified in the report no later than January 31, 2020.

## Background

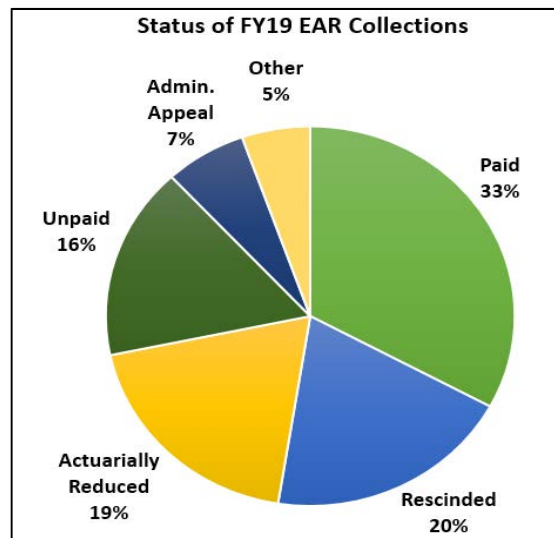
### *Collections Owed for Death Claims*

Amounts may be owed to TRS when annuity payments are disbursed after the death of a member (referred to as “post-death overpayments”) or when death benefits are paid to the wrong beneficiary. These amounts are addressed by Claims staff in Benefit Processing. Based on two reports: Pending Claims Files with Outstanding Money (DC3251) and Closed Claims Files with Outstanding Money (DC6261), the total amount of unpaid post-death overpayments as of September 1, 2019 is \$4,524,877, which is comprised of \$2,273,082 from pending claims files and \$2,251,795 from administratively closed claims files. However, as further discussed in the audit results, these report values may not be reliable. The total amounts owed due to death benefits paid to the wrong beneficiary are unknown.

### *Collections Owed for Forfeited Annuity Payments*

TRS retirees employed by TRS-covered employers who exceed Employment after Retirement (EAR) requirements may, in certain circumstances, forfeit their monthly annuity payment. Benefit Accounting staff within Benefit Services pursue the repayment of forfeited annuity payments. For Fiscal Year 2019 (FY19), the collections tracking sheet used by Benefit Accounting lists approximately \$2,471,480 in forfeited annuity payments. Audit testing identified an additional \$102,571 in FY19 forfeited annuity payments, resulting in total forfeited annuity payments in FY19 of approximately \$2,574,015.

Based on Benefit Accounting’s EAR collections tracking sheet, the largest percentages of amounts owed for FY19 forfeited annuity payments are Paid, Rescinded<sup>2</sup>, Actuarially Reduced<sup>3</sup>, Unpaid, and Administrative Appeal. Other collection status categories<sup>4</sup> comprised 5% of the total amount owed for EAR collections in FY19.



### *Receipts Processed by the Mailroom*

Receipts for death-related collections and forfeited annuity payments are processed in TRS’ mailroom within Security and Facilities Management. In FY19, TRS’ mailroom processed 5,450 receipts totaling approximately \$89 million dollars.

<sup>2</sup> Rescinded collections are annuity payment amounts initially thought to be forfeited that are determined to no longer be owed (forfeited) due to employer-submitted adjustments to employment data previously reported to TRS.

<sup>3</sup> Actuarially reduced payments are paid through an actuarial reduction that reduces the retiree’s future annuity payments to repay the amount owed.

<sup>4</sup> Other collection status categories include collections owed by disability retirees, collections resolved as part of a settlement agreement, partially paid collections, and collections owed by retirees with a revoked retirement status.

Management has been responsive to the audit, and is already implementing identified recommendations. Results of the audit procedures are presented in more detail in the **Results, Recommendations, and Management Responses** section. The audit objective, scope, methodology, and conclusion are described in **Appendix A**. The summary of business objectives, risks, and controls are described in **Appendix B**.

## **Scope**

The scope of this audit includes processes, procedures, and collection activity related to collections on forfeited annuity payments and death claims for the period of September 1, 2018 through August 31, 2019.

# AUDIT RESULTS

## **Business Objective 1 – Post-death overpayments and death benefits paid to the wrong beneficiary are identified, tracked, and pursued for collection**

While processes exist for obtaining, verifying, and taking the appropriate actions on death notifications, including effecting the necessary system updates and stopping payments when appropriate, Benefit Processing's claims processes do not provide reasonable assurance that amounts owed to TRS for death-related overpayments and incorrect beneficiary payments are identified, tracked, and effectively pursued for collection. Benefit Processing does not have a robust, reliable process to identify overpayments and incorrect beneficiary payments in a manner that ensures accuracy and completeness. Thus, the audit could not determine with a reasonable level of accuracy the total amount owed for these death-related overpayments.

Once identified, staff efforts to collect these amounts are limited and not tracked. Amounts owed for death-related overpayments are written off without procedures, criteria, guidelines, or an approval process. Because there are no documented procedures for these collection and write-off processes, there is no way to ensure they are consistent with management expectations.

The audit found opportunities for improvement in the processes for identifying, tracking, pursuing, and writing off of amounts owed due to post-death overpayments and death benefits paid to the wrong beneficiary, as discussed below.

### **1.1 Efforts to collect post-death overpayments and death benefits paid to the wrong beneficiary are limited and not tracked**

#### *Efforts to Collect Post-Death Overpayments*

When a post-death overpayment is identified, the actions taken by Claims staff are generally limited to two letters:

- A letter sent to the financial institution to request a refund, for overpayments that were disbursed electronically.
- A letter sent to the estate to request a refund, for overpayments that were disbursed in the form of a warrant or if the financial institution does not return the funds.

If Claims staff are notified of the death within five business days and the funds were initially electronically disbursed, Claims staff request reclamation of the funds<sup>5</sup> through the Texas Comptroller's Office and if all requirements are met, the Comptroller sends the initial request for the funds to the financial institution.

Management indicated that the financial institution that received the overpayment makes the determination of whether or not the funds can be returned. If the financial institution does not return the funds, Claims staff generally send a letter to the estate to request repayment of the funds.

In addition, in certain circumstances, processes are available that allow the overpayment to be recovered from the beneficiary's death benefits or the future survivor benefit payments of a spouse.

#### *Efforts to Collect Death Benefits Paid to the Wrong Beneficiary*

Actions taken to collect death benefits paid to the wrong beneficiary include at least one letter sent to request a refund. Additional letters could be sent, depending on the payment amount. However, management has not set a threshold or criteria for pursuing the repayment of death benefits paid to a wrong beneficiary.

#### *Tracking of Collection Efforts*

Benefit Processing does not track collection efforts for post-death overpayments or incorrect beneficiary payments. Currently, Benefit Processing relies on two Legacy<sup>6</sup> reports (DC3251 and DC6261) to determine amounts owed due to post-death overpayments. However, these reports cannot be relied on for accuracy and completeness as they may not include all amounts due or written off. Amounts owed due to death benefits paid to the wrong beneficiary are not included in any reports. Notes regarding post-death overpayments and incorrect beneficiary payments are documented at the account level. When amounts owed for post-death overpayments or incorrect beneficiary payments are repaid, they are reflected on the member's returned money screen in TRS' Legacy system.

Because substantive efforts are not taken to pursue the collection of amounts owed due to post-death overpayments or incorrect beneficiary payments, testing did not address the pursuit of these collections.

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<sup>5</sup> The reclamation process enables agencies, upon notification of a payee's death, to reclaim a pension, annuity or benefit payment made by direct deposit for which the payee or its estate was not entitled.

<sup>6</sup> Legacy is TRS' mainframe-based application system. Death claim-related reports are generated from Legacy.

## Recommendation

Benefit Processing management should strengthen the process for collecting post-death overpayments and death benefits paid to the wrong beneficiary. This process should include measures to track collection efforts.

## Management Response

Management agrees with the recommendation. We are currently looking at both system enhancements and manual tracking spreadsheets to assist with the tracking of collection efforts. System enhancements will have to be prioritized against TRUST Phase Two go-live activities.

Target Implementation Date: August 31, 2020

### **1.2 Procedures for collecting post-death overpayments and death benefits paid to the wrong beneficiary are not documented. Also, procedures for addressing vendor-provided death notification records are not current and do not provide sufficient detail.**

Stand-alone procedures for pursuing the collection of post-death overpayments do not exist. While the Death Claims Procedure manual contains brief references to post-death overpayments, it does not provide procedures for staff to follow in pursuing collection of these amounts. Similarly, Benefit Processing management has not developed written procedures to guide staff in collecting amounts owed on death benefits paid to the wrong beneficiary.

While procedures exist for reviewing and addressing vendor-provided death notification records, the procedures are not current and do not fully address the actions taken by staff to review and confirm the death notification records, including the vendor-provided records that are verified, the sources of information used for verification, and the actions taken to verify the records.

Well-documented procedures are an important internal control tool as they assist in articulating management expectations for job tasks, serve as a training tool, and provide day-to-day guidance.

## Recommendation

Benefit Processing management should document procedures for collecting post-death overpayments and death benefits paid to the wrong beneficiary. In addition, procedures for addressing vendor-provided death notification records should be updated to ensure they are current and fully address the tasks to be performed.



## **Management Response**

Management agrees with the recommendation. Procedures will be developed for both post-death overpayments and death benefits paid to the wrong beneficiary. The collections process as it relates to death claims is very complicated and we must retain some flexibility within the procedures to adjust for different situations that arise. Benefit Processing works closely with Legal and Compliance to determine the appropriate collection process.

Target Implementation Date: March 31, 2020

### **1.3 Amounts owed due to post-death overpayments and incorrect beneficiary payments are written off without procedures, criteria, an approval process, or being tracked**

The current process used to write-off amounts owed due to death-related overpayments and incorrect beneficiary payments does not include written procedures, guidelines, criteria, or an approval process. In addition, written off amounts are not tracked.

Because post-death overpayments and incorrect beneficiary payments that are written off are not tracked and procedures for writing off these amounts do not exist, the audit testing did not include write-offs of amounts owed due to post-death overpayments and incorrect beneficiary payments.

## **Recommendation**

Benefit Processing management should document and implement procedures for writing off post-death overpayments. At a minimum, the procedures should include criteria for writing off an amount, an approval process, and a process for tracking amounts written off.

## **Management Response**

Management agrees with the recommendation. Procedures will be developed for writing off post-death overpayments. Benefit Processing management works closely with Legal and Compliance to determine when it is appropriate to write off or not pursue collections.

Target Implementation Date: March 31, 2020

## **Business Objective 2 – Forfeited annuity payments are identified, tracked, and pursued for collection**

Benefit Accounting has written procedures to guide staff on documenting, tracking, and pursuing the collection of forfeited annuity payments. A review of 76 collections found that staff:

- ensured employers submitted the required adjustments before rescinding each of the 10 rescinded collections that were tested
- performed all required collection efforts for 19 (95%) of the tested retirees
- made the appropriate updates in TRUST for 18 (90%) of the tested retirees

However, the audit found opportunities to improve the identification and tracking of amounts owed due to forfeited annuity payments, while streamlining the process, as discussed below.

### **2.1 Some forfeited annuity payments owed to TRS are not identified and pursued for collection**

Benefit Accounting staff reviews the forfeited annuity payments identified in 12 EAR collection reports<sup>7</sup> and logs that need to be collected on their tracking sheet. Testing performed to determine the completeness of the collections tracking sheet identified 36 collections that were owed, but not listed on the tracking sheet. Of these 36 collections, 18 were resolved (i.e., paid or determined to no longer be owed) and 18 (totaling \$49,269) were unresolved.

The incompleteness of the tracking sheet was determined to be due to both 1) collections not being identified in the EAR collections reports and 2) staff not entering collections identified in the EAR collections report on the collections tracking sheet. Testing for these 18 unpaid collections determined that 11 (61%) were included in an EAR collection report and 7 (39%) were not included in an EAR collection report.

#### *Completeness EAR Collection Reports*

The EAR collection reports do not identify all forfeited annuity payments because some of these reports have not worked as intended. Three of the twelve EAR collection reports have not worked since they were implemented. An additional EAR collection report did not work between August 28, 2019 and September 12, 2019. When EAR collection reports are not functioning, Benefit Accounting staff is not notified of the forfeited annuity payments that would have been identified in those reports.

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<sup>7</sup> Of the 12 EAR collection reports, 10 are provided through the TRUST Report Repository (a library of Reporting Entity reports available through TRS Fusion, which is TRS' SharePoint collaboration site collection) and 2 are provided through emails.

### *Duplication of Collection Entries*

A review of the amounts listed on the EAR collections tracking sheet for FY19 identified 7% of the records (42 out of 646) as duplicates, totaling \$189,460.32. These duplicates not only result in an overstatement of the total collections, they could also result in duplicative efforts among staff tasked with pursuing them. Several aspects of the EAR collection reports increase the risk of duplicative efforts:

- Two different EAR collection reports may list the same collections, elevating the risk of duplicate entries on the collections tracking sheet.
- One EAR collection report lists the same information on multiple days. Because this report generates a separate email for each individual retiree who meets the reporting criteria and the report is generated each day of the week, EAR Specialists can receive several individual emails for the same retirees several days in a row.

Because the EAR Specialists work different reports each day based on a monthly schedule, listing collections in multiple reports or in the same report for multiple days creates a risk that multiple team members could duplicate efforts by performing work on the same collection. While the EAR Specialists have implemented a step to flag the collections they are working on, the risk of duplicating effort still exists.

### **Recommendations**

1. Benefit Accounting management, in coordination with Information Technology, should strengthen controls for the EAR collection reports used to identify forfeited annuity payments. At a minimum, improvements made should ensure that these reports:
  - a. are consistently generated and function as intended
  - b. identify all forfeited annuity payments
  - c. are consolidated to prevent the same collections from being identified in multiple reports and in the same report for multiple reporting periods
  - d. are made available to staff through the same means when possible (e.g., TRUST Report Repository, email, etc.)

### **Management Response**

This issue was identified during a previous audit (November 2018) and the department has been actively working to resolve issues. Benefit Accounting will continue working with business analysts and IT to determine root causes and solutions to ensure reports are working as intended.

Target Implementation Date: August 31, 2020

2. Benefit Accounting management should strengthen controls to ensure all identified forfeited annuity payments are logged on the collections tracking sheets.

#### **Management Response**

After implementing procedure and tracking changes in February 2019, management requested an independent review of EAR procedures and processes to identify risks and opportunities for improvement. Management and EAR employees worked with Strategy Office staff to identify process improvements. A report with 34 recommendations was delivered on September 4, 2019. Items identified as quick wins were immediately implemented and management is working to implement all recommendations. Management will implement monthly spot-checks to ensure that items are logged appropriately.

Target Implementation Date: February 29, 2020

3. Benefit Accounting management should ensure that all actions are taken to collect the 18 forfeited annuity payments identified during testing that were not pursued for collection.

#### **Management Response**

Management has reviewed all identified items to ensure appropriate action has been taken.

Target Implementation Date: December 31, 2019

### **2.2 Efforts to collect forfeited annuity payments are not performed and documented in a timely and consistent manner.**

Collection letters are not sent timely. For a sample of 20 retirees whose collections were pursued, testing found that the first collection notice was sent, on average, 53 days after the collection discovery date, as documented in the collections tracking sheet. It should be noted that this testing was based on the documented discovery date and not the date the collection was first included in an EAR collection report. In some instances, the documented collection discovery date was considerably later than the reported collection date. The "Working Daily Ear Reports Procedure" document states that for items on the collection report with an EAR violation, a collection letter is to be mailed within 5 business days of the discovery date.

In addition, staff did not always update the collections tracking sheet for collection efforts performed. For a sample of 20 retirees whose collections were pursued, the collections tracking sheet had not been updated for 40% (8 out of 20) of the retirees.

## **Recommendation**

Benefit Accounting management should strengthen controls to ensure that forfeited annuity payments are pursued for collection in a timely and consistent manner, and actions taken are accurately tracked.

## **Management Response**

Management has taken multiple actions to strengthen controls due to recommendations from the previous audit (November 2018). Since November 2018, management has addressed these issues and continues to improve the process. Monthly spot-checks will be implemented to identify issues with logging EAR leads.

Target Implementation Date: February 29, 2020

## **Business Objective 3 – Ensure receipts processed in TRS' mailroom are adequately safeguarded**

Security and Facilities Management has controls in place for physical access to the mailroom, with only mail operations team members having badge access to the mailroom. There is also a camera outside of the mailroom that captures individuals who enter or exit the mailroom. Additionally, once mail is opened and processed, receipts are encoded with a registration number and checks are encoded with a restrictive endorsement. Controls also exist for transferring custody of the receipts from the mailroom to the Cashier. However, the audit found opportunities for improvement in the mail opening and money handling processes and procedures as discussed below.

### **3.1 Controls within the mail opening and money handling processes should be strengthened to ensure receipts are adequately safeguarded.**

The controls within the mail opening and money handling process are not sufficient to ensure receipts are safeguarded. All eight mailroom team members are responsible for processing the mail, which often contains receipts. The mail opening procedures do not require at least two people to open the mail, with one serving as a witness. Because the mail opening process does not include maintaining a mail log, there is currently no way to determine which team member processed the mail on any given day or for any particular batch of mail.

In addition, the set-up of the area where mail is opened does not ensure transparency of the process. After a mailroom team member opens the mail in his or her custody, the same team member may encode the receipts and log them into TRUST. Thus, the same individual who opens the mail may be responsible for registering and logging the receipts.

While the mailroom has a safe, receipts processed throughout the day are not generally stored in the safe, but are left out in the mailroom area. The eight mailroom team members and manager have the combination to the mailroom safe. Additionally, the mailroom does not maintain a log showing information on the various safe openings by individual team members throughout the day. Furthermore, the mailroom does not have cameras.

### **Recommendation**

Security and Facilities Management should review the mail opening and money handling processes to strengthen controls for safeguarding receipts. The controls should include a requirement that at least two team members open the mail and log the receipts and controls for accessing the mailroom safe.

### **Management Response**

Security & Facilities Management agrees with the recommendation to review the mail opening and money handling processes to strengthen controls for safeguarding receipts. The controls will be updated to include: (1) a log for mail room employees opening the mail, (2) the involvement of two mailroom employees to account for cash receipts, and (3) a daily log documenting the date, time and reason a mail room employee accesses the mail room safe.

Target Implementation Date: January 31, 2020

### **3.2 The Cash Receipts and Mailroom procedures are not current and do not address mail opening and money handling processes.**

Certain aspects of mailroom duties are documented in the Cash Receipts and Mailroom procedures documents, which were last updated in January 2007 and May 2012, respectively. Some of these procedures are outdated and contradict current practice, including controls for safeguarding cash receipts. For example, contrary to the Mailroom written procedures, mailroom staff does not call the Cashier to verify cash receipts that are received in the mail. In addition, neither set of procedures addresses the mail opening and money handling processes. The two sets of procedures also address some of the same processes, resulting in duplication.

The written procedures have not yet been finalized. They contain updates and notes in red text and do not include an effective date.

**Recommendation**

Security and Facilities Management should update the Cash Receipts and Mailroom procedures to ensure they are current and address mail opening and money handling processes.

**Management Response**

Security & Facilities Management agrees with the recommendation to update the Cash Receipts and Mail Room procedures to ensure that they are current and address mail opening and money handling processes.

Target Implementation Date: January 31, 2020

We appreciate management and staff from Benefit Processing, Benefit Accounting, and Security and Facilities Management for the cooperation, courtesy, and professionalism extended to us during this audit.

Amanda Jenami, CIA, CISA, CPA, CFE  
Chief Audit Executive

Andrea Morales, CIA, CFE  
Audit Manager, Benefits

Carol Casey, CGAP, CPM  
Audit Consultant, Benefits

This report is distributed to the following:

Audit, Compliance and Ethics Committee, TRS Board of Trustees  
Brian Guthrie, TRS Executive Director

# APPENDIX A

## AUDIT OBJECTIVE, SCOPE, AND METHODOLOGY

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. To conduct this performance audit, we determined that we are also independent per the generally accepted government audit standards requirements for internal auditors.

This performance audit was also conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors, Inc.

### AUDIT OBJECTIVE

Determine whether amounts owed to TRS due to forfeited annuity payments, annuity payments disbursed after a member's death, and death benefits erroneously paid to someone other than the beneficiary are identified, tracked, and pursued for collection, and upon receipt, are safeguarded.

- Post-death overpayments and death benefits paid to the wrong beneficiary are identified, tracked, and pursued for collection
- Forfeited annuity payments are identified, tracked, and pursued for collection
- Receipts processed in TRS' mailroom are adequately safeguarded

### SCOPE

The scope of this audit includes processes, procedures, and collection activity related to collections on forfeited annuity payments and death claims for the period of September 1, 2018 through August 31, 2019.

### METHODOLOGY

The audit methodology included obtaining information on management's business objectives and risks, and focused on key processes and monitoring controls that management has established to address significant risks. To meet the audit objectives, the audit team:

- Reviewed applicable laws, rules, industry standards, and established procedures.
- Reviewed management's documentation of controls and controls monitoring.
- Reviewed records, information systems, reports, spreadsheets, and databases.
- Reviewed processes related to data management.
- Conducted interviews and solicited input from key staff.
- Performed tests as deemed appropriate.



## APPENDIX B

### BUSINESS OBJECTIVES, RISKS, AND CONTROLS

For the Review of Collections, we obtained information about the following business objectives, as well as the related risks and the controls management established to mitigate these risks:

<b>Business Objectives</b>	Post-death overpayments and death benefits paid to the wrong beneficiary are identified, tracked, and pursued for collection	Forfeited annuity payments are identified, tracked, and pursued for collection	Receipts processed in TRS' mailroom are adequately safeguarded
<b>Business Risks</b>	<ul style="list-style-type: none"> <li>• Amounts owed to TRS are not collected</li> <li>• Incentives for individuals to repay overpayments may be diminished</li> </ul>	<ul style="list-style-type: none"> <li>• Amounts owed to TRS are not collected</li> <li>• Employment after Retirement (EAR) requirements are not consistently applied and adhered to</li> </ul>	<ul style="list-style-type: none"> <li>• Receipts are lost or stolen</li> <li>• Reputational risks resulting from lost or stolen receipts</li> </ul>
<b>Management Controls</b>	<ul style="list-style-type: none"> <li>• Processes to obtain, verify, and respond timely to death notification information</li> </ul>	<ul style="list-style-type: none"> <li>• Reports to identify collections</li> <li>• Tracking sheet to document collections and collection efforts</li> <li>• Procedures for pursuing collections</li> </ul>	<ul style="list-style-type: none"> <li>• Cash Receipts and Mailroom procedures</li> <li>• Mailroom processes to safeguard receipts</li> </ul>
<b>Controls Tested</b>	<ul style="list-style-type: none"> <li>• Determine if processes to obtain, verify, and respond timely to death notification information are consistently applied and effective</li> </ul>	<ul style="list-style-type: none"> <li>• Determine if EAR collection reports effectively identify all forfeited annuity payments</li> <li>• Determine if the collections tracking sheet is complete and consistently and accurately updated</li> </ul>	<ul style="list-style-type: none"> <li>• Determine if Cash Receipts and Mailroom procedures are current and contain adequate controls to safeguard receipts</li> <li>• Determine if mail opening and money handling processes safeguard receipts</li> </ul>

**TAB 7C**



# Internal Audit

# Annual Report



Amanda Jenami

December 12, 2019



# **Internal Audit Annual Report**

## **Fiscal Year 2019**

**October 2019**



Teacher Retirement System of Texas  
1000 Red River Street, Austin, Texas 78701-2698

# **TEACHER RETIREMENT SYSTEM OF TEXAS**

## **BOARD AUDIT, COMPLIANCE & ETHICS COMMITTEE**

**(As of October 01, 2019)**

Christopher Moss, Chair  
David Corpus  
Greg Gibson, Ed.D.  
James D. Nance  
Nanette Sissney

## **BOARD MEMBERS**

**(As of October 01, 2019)**

Jarvis V. Hollingsworth, Chair  
Dolores Ramirez, Vice Chair  
Joe Colonna  
David Corpus  
John Elliott  
Greg Gibson, Ed.D.  
Christopher Moss  
James D. Nance  
Nanette Sissney

## **EXECUTIVE DIRECTOR**

Brian Guthrie

## **INTERNAL AUDIT DEPARTMENT**

**(As of October 01, 2019)**

Amanda Jenami, CPA, CISA, CIA, CRMA, CFE, Chief Audit Executive  
Nick Ballard, CIA, CPA, CFA, Senior Audit Manager – Benefit Services  
Lih-Jen Lan, CIA, CPA, CISA, CISSP, CCSA, Senior IT Audit Manager  
Chris Chan, CISA, Senior IT Auditor  
Rolando Delgado, Senior Data Analyst  
Andrea Morales, CIA, CFE, Benefit Audit Manager  
Alejandra Moreno, CPA, Senior Investment Auditor  
Mary Presley, CISA, Senior Data Analyst/IT Auditor  
Falguni Sampat, CQPA, Healthcare Auditor  
Carol Casey, CPM, Internal Audit Benefit Consultant  
Karen Marino, Internal Audit Administrative Coordinator

October 30, 2019   **Transmittal Letter**

Honorable Greg Abbott, Governor  
Members of the Legislative Budget Board  
Members of the Sunset Advisory Commission  
Ms. Lisa R. Collier, CPA, First Assistant State Auditor  
Mr. Jarvis V. Hollingsworth, Chair, TRS Board of Trustees  
Mr. Christopher Moss, Chair, TRS Board Audit, Compliance, and Ethics Committee  
Members of the Board of Trustees, Teacher Retirement System of Texas  
Mr. Brian Guthrie, Executive Director, TRS

Attached is the annual report of the Internal Audit department of the Teacher Retirement System of Texas (TRS). This report provides information on the audit plan, assurance, consulting, and advisory projects completed, and other Internal Audit activities. It also meets the annual reporting requirements of the Texas Internal Auditing Act (Texas Government Code, Chapter 2102.009 and Texas Government Code, Sections 2102.015 and 2102.0091). This report includes the following State Auditor's Office reporting guidelines:

- I. Compliance with Texas Government Code, Section 2102.015: Posting the Internal Audit Plan, Internal Audit Annual Report, and Other Audit Information on Internet Website
- II. Internal Audit Plan for Fiscal Year 2019
- III. Consulting Services and Nonaudit Services Completed
- IV. External Quality Assurance Review (Peer Review)
- V. Internal Audit Plan for Fiscal Year 2020
- VI. External Audit Services Procured in Fiscal Year 2019
- VII. Reporting Suspected Fraud and Abuse

The work performed by TRS Internal Audit contributes toward accountability, integrity, and good management practices within TRS operations. Fiscal year 2019 projects contributed to the improvement of risk management, control, and governance processes. Internal Audit (or those engaged by Internal Audit) issued 6 assurance and 10 agreed-upon procedures reports, followed-up and reported quarterly on the status of outstanding audit recommendations, and performed advisory services in various areas including TEAM (TRS Enterprise Application Modernization) Program initiatives.

For further information about the contents of this report or to request copies of Internal Audit reports, please contact Amanda Jenami at (512) 542-6124.

Sincerely,

Amanda Jenami, CIA, CISA, CPA, CFE  
Chief Audit Executive

**TEACHER RETIREMENT SYSTEM OF TEXAS**  
**INTERNAL AUDIT ANNUAL REPORT**

**FISCAL YEAR 2019**

**October 2019**

**I. Compliance with Texas Government Code, Section  
2102.015:  
Posting the Internal Audit Plan, Internal Audit Annual  
Report, and Other Audit Information on Internet Website**



# Teacher Retirement System of Texas

## Internal Audit Annual Report for Fiscal Year 2019

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### I. Compliance with Texas Government Code, Section 2102.015: Posting the Internal Audit Plan, Internal Audit Annual Report, and Other Audit information on Internet Web site

Texas Government Code, Section 2102.015 requires state agencies and institutions of higher education, as defined in the statute, to post agency internal audit plans and internal audit annual reports on the agency's internet website within 30 days of approval. The statute also requires entities to update the posting on the Internet to include a.) a detailed summary of the weaknesses, deficiencies, wrongdoings, or other concerns raised by the audit plan or annual report and b.) a summary of the actions taken to address concerns, if any, that are raised by the audit plan or annual report.

TRS Internal Audit follows the following procedures to ensure compliance with the requirements of Texas Government Code, Section 2102.015:

- The **TRS Annual Internal Audit Plan** is approved each fiscal year by the TRS Board of Trustees as recommended by the TRS Audit, Compliance and Ethics Committee. The annual audit plan, as approved by the TRS Board of Trustees, is provided by Internal Audit staff to the TRS Website coordinators and posted to the TRS Website within 30 days of approval.
- The **TRS Internal Audit Annual Report** is prepared annually by Internal Audit staff in accordance with the Texas State Auditor's Office guidelines by the required deadline. This report, once approved by the Chief Audit Executive, is submitted to the Governor's Office, the Legislative Budget Board, the Sunset Advisory Commission, the State Auditor's Office and the TRS Board of Trustees by November 1 of each fiscal year. The annual report is provided by Internal Audit staff to the TRS Website coordinators to post to the TRS Website.
- **Summaries of the weaknesses, concerns, and actions** taken to address concerns in the audit plan or annual report are provided by Internal Audit in the quarterly TRS Audit, Compliance and Ethics Committee materials. The committee materials provide audit reports completed during each quarter, quarterly status reports on management action on outstanding audit recommendations, and the status of the current fiscal year audit plan. The individual audit reports provide the results, recommendations, and management actions taken to address the audit recommendations. The TRS Audit, Compliance and Ethics Committee materials are posted to the TRS Website, after dissemination to TRS Board of Trustees, through an administrative process of board and committee materials prior to the scheduled Board meeting.

## **II. Internal Audit Plan for Fiscal Year 2019**

**Teacher Retirement System of Texas**  
**Internal Audit Annual Report for Fiscal Year 2019**

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**Fiscal Year 2019 Audit Plan Status**  
**As of September 2019**

Department/Program, Project Title, Project #	Type	Status	Report Date
<b>Executive and Finance</b>			
Communications Audit (Project #19-602)	Audit	Complete	8/16/2019
Talent Management and Culture Audit (formerly Building the Fleet Readiness Audit) (Project #19-601)	Audit	Complete	3/8/2019
Coordination for State Auditor's Office (SAO) Comprehensive Annual Financial Report (CAFR) Audit for Fiscal Year 2018	Advisory	Complete	NA
Teacher Retirement Investment Company of Texas (TRICOT) Financial Audit Coordination (Grant Thornton)	Advisory	Complete	NA
Executive Incentive Pay Testing	Agreed-Upon Procedures	Cancelled	NA
Committee and Workgroup Meetings Participation	Advisory	Ongoing	NA
Special Requests and Emerging Issues	N/A	N/A	NA
<b>TEAM Program</b>			
TEAM Independent Program Assessment (IPA) Vendor Support	Advisory	Ongoing	NA
TEAM Phase II Annuity Payroll Testing	Advisory	In Progress	NA
HILOB Pre-Cutover Reconciliation Process	Advisory	In Progress	NA
TEAM Committees, Projects and Controls Assessment Participation	Advisory	Ongoing	NA
<b>Pension Benefits</b>			
Annuity Payment Testing for SAO CAFR Audit of FY 2018 (Project #19-100)	Audit	Complete	NA
Benefit Disbursement (Project #18-104)	Consulting	Complete	NA
Disability Retirement and Medical Board Audit (Project #19-104)	Audit	Complete	11/29/2018
Annual Benefits Testing (Project #19-101)	Agreed-Upon Procedures	Complete	8/5/2019
Employers Testing (13 ISDs) (Project #19-102)	Agreed-Upon Procedures	Completed 13 ISDs	11/16/2018 3/13/2019 6/1/2019 8/21/2019
Employer Data Analysis and Census Testing (Project #19-103)	Agreed-Upon Procedures	Complete	6/14/2019
TRS Reporting Entity Website Audit Information and Communication Activities	Advisory	Complete	NA

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Department/Program, Project Title, Project #	Type	Status	Report Date
<b>Health Care</b>			
Pharmacy Rebate Advisory	Advisory	Deferred	NA
TRS-Care Revenue Collection Processes (Project #19-204)	Consulting	Complete	8/30/2019
TRS-Care Surcharge Payments	Advisory	Complete	8/2019
TRS-Care Coverage for Members in Pending Ret. Status	Advisory	Complete	7/2019
Business Process Improvement and Rework	Advisory	Complete	NA
Health Care Vendor Update Meetings Attendance	Advisory	Ongoing	NA
<b>Information Technology</b>			
IT Governance (outsourced) (Project #18-501)	Consulting	Complete	12/11/2018
Cloud Computing (outsourced) (Project #19-501)	Consulting	Complete	8/30/2019
Active Directory Audit (Project #19-502)	Audit	Complete	5/31/2019
CAPPS IT Controls Audit (Project #19-504)	Audit	Cancelled	NA
IT Risk Assessment	Advisory	Complete	NA
Disaster Recovery, Network Penetration Tests, Security Risk Assessment Review	Advisory	Ongoing	NA
<b>Investment Management</b>			
Derivatives Accounting Audit (Project #19-304)	Audit	Complete	6/14/2019
Trustee Travel Project (Project #19-301)	Consulting	Complete	11/20/2018
Valuations Audit	Audit	Deferred	NA
Quarterly Investment and Ethics Policies Compliance Testing (Project #19-302)	Agreed-Upon Procedures	Transfer to L&C in Q4	11/16/2018 3/13/2019 6/13/2019
Annual Testing of Investment Incentive Pay Plan (Project #19-303)	Agreed-Upon Procedures	Complete	12/18/2018
Investment Committees Attendance	Advisory	Ongoing	NA
<b>Internal Audit Department</b>			
Annual Internal Audit Report – FY19	Administrative	Complete	NA
Data Analysis Process Buildout	Administrative	Ongoing	NA
Quarterly Audit Recommendations Follow-up	Administrative	Ongoing	NA
External Quality Assurance Review	Administrative	Complete	6/2019
Fiscal Year 2020 Audit Plan	Administrative	Complete	NA
Audit, Compliance and Ethics Committee Meetings Preparation	Administrative	Complete	NA

## MEMORANDUM

TO: Audit, Compliance and Ethics Committee  
 Brian Guthrie, Executive Director

FROM: Amanda Jenami, Chief Audit Executive

SUBJECT: Proposed Revisions to the Audit Plan for Fiscal Year 2019

DATE: April 25, 2019

Per the approved *Fiscal Year 2019 Audit Plan*, amendments to the approved Audit Plan deemed to be significant will be submitted to the Board of Trustees for approval. The State Auditor’s Office also requires notification of material changes to the Audit Plan. Staff requests that the Audit, Compliance, and Ethics Committee approve the proposed amendments to the FY19 Audit Plan and recommend that the Board of Trustees adopt the proposed revisions. Below is a list of proposed changes for your consideration:

Project	Change	Reason
<b>Health Care</b>		
Pharmacy Rebate Audit Support	Defer	Management requires more time to procure a vendor. Management expects to complete the process by First Quarter, FY 2020.
Consult on TRS-Care Revenue Collection Processes	Add	Management Request
Data Analytics Projects (Advisory): 1. TRS-Care Surcharge payments 2. TRS-Care Coverage for Members in Pending Retirement Status	Add	Management Request
<b>Pension Benefits and Employer Reporting</b>		
Employer Testing	Expand Scope	Management Request to increase number of reporting entities tested by 50%
<b>Investment Management</b>		
Audit of Investment Valuation	Defer	IA no longer has the capacity to perform this audit. IA lost approximately 700 audit hours due to a vacancy in the Investment Auditor position (from December 2018 to April 2019).
<b>Technology</b>		
CAPPS IT Controls Audit	Cancel	IA will rely on the work of the State Auditor’s Office, State Comptroller’s Internal Audit Division and periodic SOC reports (from an independent third party) to provide the necessary assurance that IT controls within the CAPPS system are suitably designed and operating effectively

April 2019 Board of Trustees Meeting

### **III. Consulting Services and Nonaudit Services Completed**

# Teacher Retirement System of Texas

## Internal Audit Annual Report for Fiscal Year 2019

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### III. Consulting Services and Nonaudit Service Completed

During fiscal year 2019, Internal Audit conducted (or hired consultants to conduct) the following consulting (Nonaudit services) projects resulting in formal recommendations to management.

**1. Benefit Disbursement (Project #18-104)**

Objective: Identify fraud risk of misdirected payments and consult on any planned control changes proposed by management.

This was achieved by mapping disbursement processes that are managed by the TRS Benefits team. Process maps identified key process controls, including checks for completion and accuracy, segregations of duties, access limitations, authorizations, and compliance checks. Recommendations focused on considering implementing additional processes to strengthen identified controls.

**2. TRS-Care Revenue Collection Processes (Project #19-204)**

Objective: To gain an understanding in: (1) the TRS-Care revenue collection process in TRUST, and (2) the settlement of state contributions for fiscal year 2018.

This was achieved by mapping TRS-Care funding sources and the settlement of state contributions to TRS Pension and Healthcare funds. Using source data from TRS' TEAM system, the project team recalculated settlement amounts for fiscal year 2018 and communicated variances with TRS Health Insurance Benefits (HIB) management.

**3. IT Governance (Project#18-501)**

Objective: Assess the effectiveness of processes for identifying, evaluating, approving, funding, monitoring, and closing out major IT projects.

This was an outsourced project. The project was achieved by conducting interviews of TRS personnel, reviewing departmental documentation, and comparing TRS IT governance processes to best practices such as Control Objectives for Information and Related Technologies (COBIT) 5 and the Texas Department of Information Resources Project Delivery Framework and Project Management Lite guidance. Recommendations focused on ensuring significant IT project decisions involve the right personnel and that the appropriate level of expertise is established for translate business requirements into IT terms and requirements.

**4. Cloud Computing (Project #19-501)**

Objective: Assess whether TRS has an effective process for evaluating cloud vendors in terms of operational efficiency, IT security, and data protection.

This was an outsourced project. The project was achieved by conducting interviews of TRS personnel, reviewing departmental documentation, and identifying cloud computing services business needs, and comparing processes to best practices. Recommendations focused on finalizing cloud computing policies, identifying roles and responsibilities, and developing and maintaining a list of cloud vendors and services.

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#### **5. Trustee Travel Project (Project#19-301)**

Objective: Benchmark board travel policy with other retirement systems; review implementation of Concur travel system processes and procedures for consistency with TRS travel requirements.

This was achieved by conducting interviews of TRS personnel and reviewing departmental documentation, and analyzing board travel processes, and surveying other pension funds on travel processes. Recommendations focused on executive and legal and compliance reviews of board travel prior to booking travel to non-preapproved events and tracking and reporting board travel. Additional recommendations were made relating to board travel processes.

Internal Audit also performed various advisory (nonaudit services) as listed in section II.



## **IV. External Quality Assurance Review (Peer Review)**

**Report on the External Quality Assurance Review of the  
Teacher Retirement System of Texas  
Internal Audit Department  
June, 2019**



**Performed by**

**Kenneth R. Kasper, CIA, CPA, CFE, CPFO, CISA, CIDA, CGAP  
Director of Internal Audit  
New York State Teachers' Retirement System**

**Elizabeth Scott, CIA, CPA, CIDA  
Manager of Internal Audit  
SBA of Florida**

**Parsons Townsend, CIA, CGAP  
Compliance Director  
Texas Department of Transportation**

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**Performed in Accordance with the State Agency Internal Audit Forum  
Peer Review Policies and Procedures**

### Overall Opinion

Based on the information received and evaluated during this external quality assurance review, it is our opinion that the Teacher Retirement System of Texas (TRS) Internal Audit Department receives a rating of **"Pass/Generally Conforms"** and is in compliance with the Institute of Internal Auditors (IIA) *International Professional Practices Framework* and Code of Ethics, the United States Government Accountability Office (GAO) *Government Auditing Standards*, and the Texas Internal Auditing Act (Texas Government Code, Chapter 2102). This opinion, which is the highest of the three possible ratings, means that policies, procedures, and practices are in place to implement the standards and requirements necessary for ensuring the independence, objectivity, and proficiency of the internal audit function.


We found that the Internal Audit Department is independent, objective, and able to render impartial and unbiased judgments on the audit work performed. The staff members are qualified, proficient, and knowledgeable in the areas they audit. Individual audit projects are planned using risk assessment techniques; audit conclusions are supported in the working papers; and findings and recommendations are communicated clearly and concisely.


The Internal Audit Department is well managed internally. In addition, the Department has effective relationships with the Board and is well respected and supported by management. Surveys and interviews conducted during the quality assurance review indicate that management considers Internal Audit a useful part of the overall agency operations and finds that the audit process and report recommendations add value and help improve the agency's operations.


The Internal Audit Department has reviewed the results of the peer review team's work and has accepted them to be an accurate representation of the Department's operations.

### Acknowledgements

We appreciate the courtesy and cooperation extended to us by the Chief Audit Executive, Internal Audit staff, the Board Chair, the Chair of the Audit, Compliance and Ethics Committee, the Executive Director, and the executive managers who participated in the interview process. We would also like to thank each person who completed surveys for the quality assurance review. The feedback from the surveys and the interviews provided valuable information regarding the operations of the Internal Audit Department and its relationship with management.

  
Kenneth R. Kasper, CIA, CPA, CFE, CPFO, CISA, CIDA, CGAP  
Director of Internal Audit  
New York State Teachers' Retirement System  
SAIAF Peer Review Team Leader

  
Elizabeth Scott, CIA, CPA, CIDA  
Manager of Internal Audit  
SBA of Florida  
SAIAF Peer Review Team Member

  
Parsons Townsend, CIA, CGAP  
Compliance Director  
Texas Department of Transportation  
SAIAF Peer Review Team Member

**Teacher Retirement System of Texas**  
**Internal Audit Annual Report for Fiscal Year 2019**

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**V. Internal Audit Plan for Fiscal Year 2020**



# Fiscal Year 2020 Audit Plan

September 19, 2019



## Professional and Statutory Requirements

This document provides the *Fiscal Year 2020 Audit Plan* (Audit Plan) as required by professional auditing standards, the *Texas Internal Auditing Act* (Act), and *Texas Government Code 2102.008* for the Teacher Retirement System of Texas (TRS). The Act requires state agencies to conduct a program of internal auditing that includes an annual audit plan that is prepared using risk assessment techniques and identifies individual audit projects to be conducted during the year. The Audit Plan is required to be evaluated and updated annually for recommendation of approval by the TRS Audit, Compliance and Ethics Committee of the Board of Trustees (ACE Committee) to the TRS Board of Trustees (Board). Internal Audit is independent of management and provides objective assurance and consulting services designed to add value and improve TRS' operations.

## Audit Plan Development and Scope

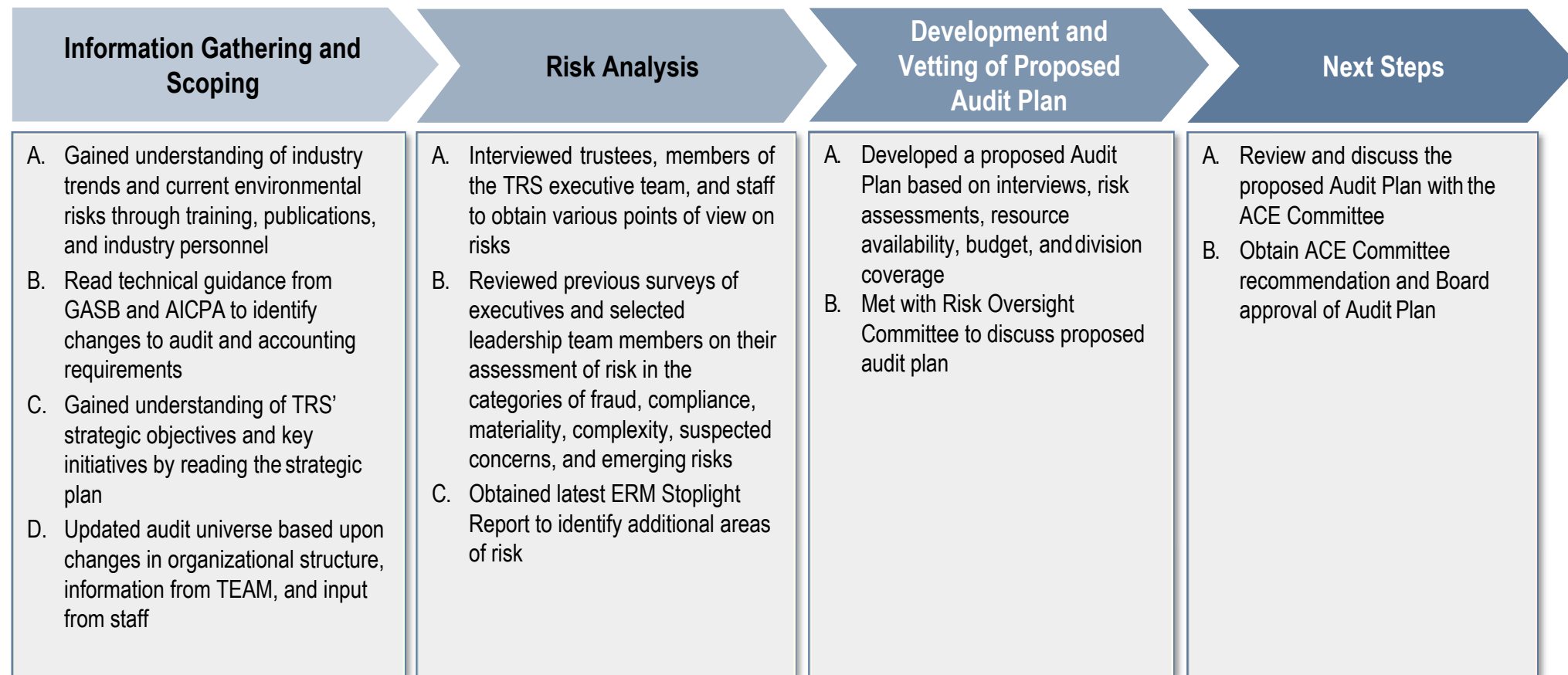
Our Audit Plan is designed to provide coverage of key risks, given the existing staff and approved budget. See the **Appendices** for information regarding the internal audit budget, performance measures, and audit plan mapped to the TRS Risk Assessment.

## Changes Subsequent to Approval

Interim changes to the Audit Plan will occur from time to time due to changes in business risks, timing of TRS' initiatives, and staff availability. We will report Audit Plan changes to executive management and present changes to the ACE Committee at the next quarterly ACE Committee meeting. Amendments to the approved Audit Plan deemed to be significant (based on discussions with the executive director and audit committee chair) will be submitted to the ACE Committee for recommendation to the Board for approval. We will also notify the State Auditor's Office of material changes to the Audit Plan.

# Risk Assessment & Audit Planning Approach

*Interviews of TRS trustees, executives and staff, risk assessment surveys from prior years, and the current TRS Risk Assessment developed by the Enterprise Risk Management (ERM) team were used to identify areas of risk and potential internal audit projects. This information was combined into an overall audit plan designed to address critical risks to achieving TRS objectives while being sensitive to operational requirements. The Audit Plan also includes hours for ad hoc projects and special requests. The following approach was taken in creating the Audit Plan:*



# Types of Projects to Cover Risk Areas

*An important part of the Audit Plan is that the identified processes, systems, and initiatives should receive differing types and levels of review based on their importance, perceived risk, and most efficient approach. Our suggested levels of review activities are as follows:*

## Audit

- Audit Focus: Assess evidence available in order to provide assurance on an audit objective
- Deliverable: Audit report for public distribution unless protected by statute
- Estimated level of effort per project: 400 - 500 hours

## Agreed-Upon Procedures

- Agreed-Upon Procedures Focus: Determine specific steps to test with management's agreement and report on results; used for data analytics and quarterly testing of specific data and transactions
- Deliverable: Agreed-upon procedures report for public distribution (use is limited to those with understanding of procedures performed)
- Estimated level of effort per project: 100 - 300 hours

## Formal Consulting

- Consulting Focus: Respond to requests for formal study or assessment with recommendations; no assurance provided
- Deliverable: Consulting report or memo for limited distribution; significant material weaknesses identified would be reported to executive management and the ACE Committee as required by professional auditing standards
- Estimated level of effort per project: 100 - 200 hours

## Informal Consulting (Advisory)

- Advisory Focus: Participate in activities in a non-voting capacity, e.g., provide training and input on policies and procedures
- Deliverable: Verbal discussion or a brief memo to management
- Estimated level of effort per year: 10 – 100 hours



# Audit Plan: Executive

Title	Type	Preliminary Scope	Timing
Enterprise Risk Management (ERM) Program Maturity Assessment	Consulting	Perform a maturity assessment of TRS' ERM program (266 hours)	Q1
Actuarial Audit	Advisory	Participate in the activities of the Actuarial Audit Working Group (25 hours)	Q1 – Q3
Follow-up of Talent Management Audit	Audit	Determine the extent to which management has implemented recommendations from Project # 19-601 (400 hours)	Q4
Follow-up of Procurement and Contracts Audit – Addresses Contract Management	Audit	Determine the extent to which management has implemented recommendations from Project # 18-201 (600 hours)	Q4
Special Requests and Emerging Issues	Advisory or Consulting	Set aside time to address special requests and emerging issues during the year as requested by management	Q1 – Q4
Meetings Participation	Advisory	Participate (non-voting) in various TRS-wide meetings such as Executive Counsel Leadership Team, and Strategy and Risk Oversight Committee	Q1 – Q4

Title	Type	Preliminary Scope	Timing
TEAM Phase II Annuity Payroll Testing	Advisory	Participate in TEAM Phase II Annuity Payroll Testing project team meetings and provide advisory services, as needed.	Q4
HILOB Pre-Cutover Reconciliation	Advisory	Participate in Health Insurance Line of Business application (HILOB) pre-cutover reconciliation project team meetings and provide advisory services, as needed.	Q4
TEAM Independent Program Assessment (IPA) Vendor Support	Advisory	Coordinate and facilitate activities of the IPA vendor and ensure direct access to executive management and the board	Q1 – Q4
TEAM Committees, Projects, and Controls Assessment Participation	Advisory	<p>Participate in TEAM Executive Steering Committee (ESC) and other committees and requirements-gathering sessions in a non-voting capacity, and provide advisory services related to TEAM project activities as outlined in the TEAM charter of internal audit activities. Provide input into controls identification projects. In FY17, Internal Audit participated in the following TEAM committees and projects:</p> <ul style="list-style-type: none"> <li>- Executive Program Oversight Committee (including TEAM budget)</li> <li>- Organizational Change Management Advisory Groups</li> <li>- Business Procedures and Training Project</li> <li>- Monthly meetings with TEAM program manager and DXC executives</li> </ul>	Q1 – Q4

*The tables on this page and the following pages provide the name of each project, type of project, and preliminary scope of work to be performed. Scope of work will be finalized as part of each project's formal planning phase.*

Title	Type	Preliminary Scope	Timing
Review of the 1099-R Process	Audit	Determine whether TRS' 1099-R process ensures accurate and timely reporting (1,150 hours)	Q4
Review of Collections	Audit	Determine whether collections for EAR etc. are processed accurately, timely and in accordance with TRS rules, policies and procedures (1,000 hours)	Q1
Annual Benefits Testing	Agreed-Upon Procedures	Recalculate a sample of benefit payments annually and determine whether documentation on file supports the calculation; scope in other tests related to benefits as agreed-upon with management (750 hours)	Q4
Employer Testing	Agreed-Upon Procedures	Test reports submitted to TRS based on procedures agreed to with management, especially in the areas of eligibility, compensation, contributions, and surcharges (pension and healthcare) (1,150 hours)	Q1 – Q4
Employer Data Analysis and Testing	Consultancy	Gather and use full payroll data to risk assess reporting entities for audit, to identify noncompliance with TRS Laws and Rules, and identify errors in system edit checks and missing data (400 hours)	Q1 – Q4
TRS Reporting Entity Website Audit Information Update and Communication Activities	Advisory	Update audit-related information and tools on the TRS employer (reporting entity) website. Information may include self-audits, audit programs, audit results, technical guidance, and frequently asked questions about reporting entity audits	Q1 – Q4

# Audit Plan: Investment Management

Title	Type	Preliminary Scope	Timing
Review of Contract Oversight – Addresses Contract Management	Audit	Determine the extent to which HIB contract administration and oversight activities ensure HIB goals are accomplished effectively, efficiently and in compliance with relevant regulations, policies and procedures (1,200 hours)	Q2
Review of Claims Data Warehouse	Audit	Determine the extent to which HIB’s Claims Data Warehouse ensures data confidentiality, integrity, accuracy, and usability (1,200 hours)	Q1
Review of Compliance with Federal Regulations	Audit	Determine the extent to which HIB has processes in place to ensure compliance with key federal regulations (1,000 hours)	Q3
Claims Data Analysis	Consultancy	Perform data analysis on claims, and share results with management. Develop data analysis scripts for future automated tests. (700 hours)	Q2
Pharmacy Rebate Audit Support	Advisory	Participate in external audit verifying accuracy of pharmacy rebates received by TRS-Care and TRS-ActiveCare (200 hours)	
Health Care Vendor Update Meetings Attendance	Advisory	Attend quarterly meetings with health care vendors to understand results, issues, and TRS management’s monitoring controls	Q1 – Q4
Health Care Vendor Selection Observation	Advisory	Observe selection process of large vendors and service providers, when applicable	Q1

December 2019 Board Audit, Compliance

# Audit Plan: Investment Management

	Type	Preliminary Scope	Timing
Quantitative Equity Strategies (QES)	Audit	Determine whether IMD's Quantitative Equity Strategies (QES) program has controls to ensure investment management goals are met effectively and efficiently, and in compliance with TRS policies and procedures (1,200 hours)	Q2
Review of Energy, Natural Resources and Infrastructure Operations	Audit	Determine whether ENRI processes ensure ENRI goals are accomplished effectively, efficiently and in compliance with relevant laws, policies and procedures (1,200 hours)	Q3
Review of Cash Management	Audit	Determine if adequate controls exist over cash management to ensure the safeguarding of assets, the effectiveness and efficiency of operations, compliance with applicable laws, and the reliability and integrity of financial and operational information. Cash management comprises several key processes, including trust rebalance, controller payment, liquidity management, trade settlement, funding and wire processing. (1,200 hours)	Q1
Follow-up of Derivatives Controls Audit	Audit	Determine the extent to which management has implemented recommendations from Project # 19-304 (400 hours)	Q4
Investment Committees Attendance	Advisory	Stay current on Investment Management Division initiatives by attending the Internal Investment Committee, Derivatives Operations, monthly staff, and other meetings such as the Annual Town Hall meeting and meeting with risk, compliance, and operations staff	Q1 – Q4

# Audit Plan: Technology

Title	Type	Preliminary Scope	Timing
Follow-up of HIPAA Security and Privacy Audit	Audit	Determine the extent to which management has implemented audit recommendations from Project# 17-501 (400 hours)	Q3
Review of Claims Data Warehouse	Audit	Determine the extent to which HIB's Claims Data Warehouse ensures data confidentiality, integrity, accuracy, and usability (1,200 hours)	Q1
Review of Investment Data and Systems	Audit	Assess the completeness, integrity, accuracy, and reliability of TRS databases that are used for tracking and reporting investment activity. (1,000 hours)	Q4
IT Risk Assessment	Advisory	Obtain an understanding of various IT processes that have not been audited in a while for purposes of determining their risk level (200 hours)	Q4
Disaster Recovery, Network Penetration Tests; Security Risk Assessment Review	Advisory	Observe, obtain, read, and follow-up on any issues identified during the network disaster recovery, penetration tests, and the security risk assessment conducted by the TRS Information Security Officer	Q1 – Q4

## Audit Plan: Finance and Staff Services

Title	Type	Preliminary Scope	Timing
Comprehensive Annual Financial Report (CAFR) testing of annuity payments	Audit	Conduct pension benefits testing on behalf of the State Auditor's Office (SAO) to be used in completion of the CAFR audit (400 hours)	Q1
Review of Accounting Operations	Audit	Determine whether Accounting Operations' processes ensure that TRS goals are accomplished effectively and efficiently and in a manner that complies with federal and state laws, agency policies and procedures (1,700 hours)	Q2

# Audit Plan: Internal Audit Activities

Title	Project Description
Annual Internal Audit Report	Prepare annual report of audit activities in accordance with SAO instructions
Quarterly Audit Recommendations Follow-Up	Follow-up and report on the status of outstanding audit recommendations
Data Analysis Process Buildout	Continue to build out data analysis skills of audit staff; incorporate into audit projects and annual audit plan development; and pilot analysis projects in various business units. Work towards a continuous auditing program by researching and developing a key risk indicator dashboard and automated scripts (reserve project)
Assurance Map	Develop and maintain an assurance map. An assurance map is a matrix comprising a visual representation of the organization’s risks and the related coverage provided by all internal and external providers of assurance services. This visual depiction exposes coverage gaps and duplications, and is a useful tool in (1) developing the annual internal audit plan [Standard 2010] and (2) coordinating efforts with other assurance providers [Standard 2050]
Staff Training Initiative	Develop and launch auditor training in key areas including report writing, workpaper documentation, and audit risk assessment
Fiscal Year 2021 Audit Plan	Prepare annual audit plan based on a documented risk assessment in accordance with professional auditing standards and the Texas Internal Auditing Act
Audit, Compliance & Ethics Committee Meetings Preparation	Prepare communications and attend Audit, Compliance & Ethics Committee and Board Meetings



# Audit Plan: High Risk Areas

*High Risk Areas are defined as (High, Elevated, or Caution). Areas of interest to the SAO (Procurement and IT Security) excluded from the Audit Plan.*

Area	Reason for Exclusion
Cybersecurity	TRS is scheduled to undergo a Texas Cybersecurity Framework Assessment, conducted by a third-party vendor on behalf of the Department of Information Resources. Internal Audit has reviewed the methodology, scope, and timing of this assessment and plans to rely on this important assessment.
Records Management	TRS is completing implementation of major records management conversion to SharePoint.
Investment Accounting	Investment Accounting is in the process of documenting accounting related processes performed by the custodian bank for TRS Investment Accounting. The process documentation will cover each service area including derivatives processing, securities finance, alternative asset servicing, pricing and valuation, trade settlement and funding and wire processing. Internal Audit plans to perform control effectiveness tests on each area after the documentation is completed.

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# Appendix A

## Internal Audit Operating Budget

## Appendix A: Internal Audit Operating Budget

Line Item	Budget FY 2020	Budget FY 2019
000 – Salaries	1,415,900	\$1,188,488
000 – Benefits	329,400	297,029
200 – Professional Fees for Internal Audit Services	463,400	450,000
200 – Professional Fees for External Audit Services (CAFR, GASB Schedules, TRICOT)	464,600	382,500
505 – Travel-In-State	15,100	12,500
510 – Travel-Out-of-State	35,900	28,100
600 – Offsite Retreat	0	0
705 – Dues, Fees, and Staff Development	28,800	28,000
710 – Subscriptions and Reference Materials	2,100	2,000
Total Operating Budget	2,755,200	\$2,391,117
Full Time Equivalent (FTE) Positions (excluding interns)	14.0	11.0

Resources are sufficient to complete the annual audit plan.

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# Appendix B

## Internal Audit Goals and Performance Measures

## Appendix B: Internal Audit Goals and Performance Measures

*For the internal audit function, the FY 2020 goals and performance measures are as follows:*

### **Goal 1: Facilitate Audit, Compliance and Ethics Committee Governance**

**Objective 1:** Provide assurance and advice to the Audit, Compliance and Ethics Committee and executive management on risk mitigation activities related to the pension and healthcare trusts

#### Performance Measures

- a. 75% or more of audit and agreed-upon procedures projects are completed in the fiscal year  
(75% allows for flexibility due to changes in TRS business practices and special requests)
- b. 70% or more of total available department hours (excluding uncontrollable leave) are spent for internal audit staff on direct assurance, consulting, and advisory services
- c. 100% of internal audit processes are in accordance with internal auditing standards as reported in the annual quality assurance and improvement report
- d. 75% (3.0/4.0) or higher score received for audit project client surveys in overall satisfaction

## Appendix B: Internal Audit Goals and Performance Measures (continued)

### **Goal 1: Facilitate Audit, Compliance and Ethics Committee Governance, continued**

#### **Objective 2: Improve Internal Audit Communication**

##### Performance Measures

- a. 75% (3.0/4.0) or higher score received for audit project client surveys regarding communication of the audit purpose, results, and reports
- b. 80% (4.0/5.0) or higher score on staff 360 evaluations in the area of verbal and written communication and collaborative audit perspective

#### **Objective 3: Provide information on effective Audit Committee practices**

##### Performance Measures

- a. 90% of relevant current “Tone at the Top” articles uploaded to Diligent

## Appendix B: Internal Audit Goals and Performance Measures (continued)

### **Goal 2: Support TRS Initiatives**

#### **Objective 1: Support the success of the TEAM Program**

##### Performance Measures

- a. 75% (3.0/4.0) or higher score received for audit project client surveys in TEAM-related projects

#### **Objective 2: Integrate TRS Core Values into Internal Audit activities**

##### Performance Measures

- a. 80% (4.0/5.0) or higher score on staff 360 evaluations in the area of organizational awareness
- b. 80% (4.0/5.0) or higher score for departmental organizational health on the annual Engage Survey

## Appendix B: Internal Audit Goals and Performance Measures (continued)

### **Goal 3: Enhance Internal Audit Staff Competence and Expertise**

#### **Objective 1: Cultivate in-house Subject Matter Experts (SME's)**

##### Performance Measures

- a. 75% (3.0/4.0) or higher score received for audit project client surveys regarding the usefulness of audit recommendations in improving business processes and controls
- b. 80% (4.0/5.0) or higher score on staff 360 evaluations in the area of audit acumen

#### **Objective 2: Ensure continued competence and expertise of Internal Audit**

##### Performance Measures

- a. 90% of audit staff complete annual training plans and obtain a minimum of 40 hours of continuing education credits
- b. 90% of audit staff maintain professional certifications or actively pursue certifications and related eligibility requirements
- c. 90% of audit staff participate in professional organizations
- d. 90% of audit staff acknowledge an understanding of their career path
- e. 80% or more of audit staff remain in internal audit or TRS (excluding retirements)



A faint, light blue magnifying glass icon is positioned in the upper left quadrant of the dark blue header area. A vertical white dotted line runs down the left side of the header, starting from the top and extending through the yellow bar below.

# Appendix C

## Audit Universe Mapped to TRS Risk Assessment

# Appendix C: Audit Universe Mapped to TRS Risk Assessment

#	TRS Risk Level	TRS Risk Category	TRS Goal	TRS-Assessed Overall Risk	Planned Approach	Project Type
1	Elevated	TRS-Care Funding	Facilitate long-term soundness of TRS-Care in order to provide sustainable retiree health care benefits.	Inadequate funding and/or unanticipated external forces would affect solvency of the program over the current biennium and future years, requiring significant premium increases or benefit reductions.	Employer audits and data analytics of TRS-Care surcharges; Pharmacy claims data analysis, Pharmacy rebate audit participation	Audits, AUP, Consulting, Advisory
2	Elevated	Records & Information Management	Manage the organization, retention and disposition of TRS information and records with adherence to laws, rules, policies and best practices.	An ineffective records and information management program results in wasted resources; and does not protect, preserve, retain, dispose, or make records accessible in an accountable or transparent manner.	None. TRS is completing implementation of major records management conversion to SharePoint	n/a
3	Elevated	Employer Reporting	Accurately capture and utilize employer reported data to project and calculate future benefits of TRS members and to properly allocate the total pension liability across districts.	Incorrect reporting could lead to calculated benefits being inaccurate; Improperly allocating actuarial liability across districts.	Employer audits and data analytics of TRS-Care surcharges	Audits and AUP
4	Elevated	Pension Benefit Services	Deliver accurate benefits and superior service to TRS participants and stakeholders.	Inadequate delivery of benefits or customer service could lead to inaccurate information or benefits/payments, dissatisfied participants, loss of credibility, adverse public perception, increased scrutiny, and oversight.	Benefit testing for SAO CAFR audit, benefit testing AUP	Audits AUP
5	Elevated	Procurement & Contracts	Maintain effective procurement and contract management systems. Inappropriate procurement practices could result in purchases of substandard products and services, unfavorable pricing or contract terms, and violation of laws, ineffective contract management could result in contractors not fulfilling their contractual obligations.	Inappropriate procurement practices could result in purchases of substandard products and services, unfavorable pricing or contract terms, and violation of laws, ineffective contract management could result in contractors not fulfilling their contractual obligations.	Follow-up on outstanding procurement audit recommendations	Follow-up
6	Elevated	TEAM Program	Implement cost effective, efficient, and sustainable processes and systems that enable TRS to serve its members, employers, and annuitants.	System design, implementation and functionality of the new processes and systems do not meet the growing demands of TRS in service of its members. Program/ project implementation schedule and cost exceeds original estimates.	IPA vendor coordination, TEAM phase II annuity payment testing; EPOC and other committee participation	Advisory
7	Elevated	Investment Accounting	Ensure all TRS Investments are properly and completely accounted for; Ensure investments are valued correctly; Ensure investment fees are accurately reported and disclosed; Ensure cash flows into and out of the Fund are complete and properly controlled; Accurately calculate performance incentive pay (PIP)	TRS investments are not properly accounted for, valued correctly or properly reported, and investment-related cash is not properly controlled.	Participate in meetings with custodian bank.	Advisory

## Appendix C: Audit Universe Mapped to TRS Risk Assessment (continued)

#	TRS Risk Level	TRS Risk Category	TRS Goal	TRS-Assessed Overall Risk	Planned Approach	Project Type
8	Caution	TRS-ActiveCare Affordability	Facilitate financial soundness of TRS-ActiveCare in order to provide affordable health care benefits.	Inadequate funding by the state and participating entities and/or unanticipated external forces could affect affordability.	Pharmacy rebate audit participation	Advisory
9	Caution	Pension Funding	Sustain a financially sound pension trust fund.	A lack of sound funding for the plan could lead to insufficient assets to pay for long-term benefits and financial obligations.	Collections Audit, 1099-R Process Audit, Employer audits and data analytics of employer contributions	Audits and AUP
10	Caution	Legacy Information Systems	Provide information systems to meet TRS' business and customer service needs.	Inability to provide adequate and consistent information in a timely fashion via the preferred delivery mechanism.	EPOC and other committee participation, IT risk assessment.	Advisory
11	Caution	Information Security & Confidentiality	Maintain the integrity, availability, and protection in the storage, use, and transfer of TRS information resources (in any form or medium).	Unauthorized or unintentional release/access of TRS confidential information could result in state or federal law violations, sanctions against TRS or its employees, and harm the best interests of TRS.	Follow-up of HIPPA Security and Privacy Audit, Review of Claims Data Warehouse.	Audits and Consulting
12	Caution	Cyber Security	To prevent malicious attacks and unauthorized access of TRS information resources.	Ineffective cyber threat controls could lead to breaches or sabotage of TRS systems.	DIR's Cybersecurity Framework Assessment; DIR penetration tests	Consulting, Pen test
13	Caution	Health Care Plans Administration	Administer retiree and active member health care programs that are valued by enrollees.	Inadequate administration of the health care programs could possibly affect the quality of health care services provided to those who depend on the delivery of TRS health care benefits which would in turn increase health care costs.	Contract Oversight; Review of compliance with Federal Regulations	Audits
14	Caution	Talent Continuity	Attract, retain and develop a highly competent staff.	The delivery of member services and pension fund management could be negatively impacted by turnover, the inability to retain qualified staff, lack of a sufficient knowledge transfer program, and an inconsistent performance management process.	Follow-up of the Talent Management Audit	Audit
15	Caution	Facilities Management & Planning	Provide a physical work environment that is safe and enhances productivity.	Inadequate facilities management or ineffective space utilization could result in less than desirable conditions for TRS members, visitors, and staff and could jeopardize our ability to continue providing an exemplary level of service to our members.	None	n/a
16	Caution	Accounting & Reporting	Maintain and monitor the integrity, accuracy, and completeness of financial information and timeliness of reporting.	Materially inaccurate financial information and reports would result in Board of Trustees and Texas Legislature decisions being made on flawed data and adverse or qualified audit opinions.	CAFR audit  Review of Accounting Operations.	External Audit  Internal Audit

## Appendix C: Audit Universe Mapped to TRS Risk Assessment (continued)

#	TRS Risk Level	TRS Risk Category	TRS Goal	TRS-Assessed Overall Risk	Planned Approach	Project Type
17	Guarded	Regulatory, Compliance, & Litigation	Adhere to and analyze current laws, rules, and policies (e.g., maintain tax qualification status); Render competent advice on legal risk management and awareness, manage litigation risks, and negotiate contracts to address risks.	Non-compliance with laws and rules could lead to penalties, fines, liability and litigation; impaired ability to conduct business; burdensome oversight; third-party investigations/audits; adverse legislation; increased scrutiny; or loss of tax qualification status.	Review of Compliance with Federal Regulations	Audit
18	Guarded	Open Government	Ensure compliance with laws and rules related to open records and meetings.	Non-compliance could lead to penalties and fines or voiding of board actions.	None	n/a
19	Guarded	Global Travel	Ensure employee safety by complying with laws and regulations and providing awareness of challenges when traveling or working abroad.	Not being aware of safety, compliance, and other challenges when traveling or working abroad could jeopardize the safety of our employees.	None	n/a
20	Guarded	Ethics & Fraud Prevention	Maintain a culture that upholds ethical behavior and values that contribute and promote the fiduciary duties of prudence and loyalty, and reduces fraud risks.	A lack of ethics could undermine the duties of prudence and loyalty and create fraud risks resulting in loss of assets, credibility, and business opportunities, adverse publicity, violations of law, and increased scrutiny and oversight.	Hotline triage team participation	Advisory
21	Guarded	Communications & External Relations	Maintain effective communication and positive relations with members, retirees, employers, TRS employees, news media, and the public.	Poor communication could lead to confusion resulting in increased calls to TRS, poor or inappropriate decision-making regarding TRS benefits, and incorrect information provided to external parties.	None. TRS is implementing recommendations from the FY 2019 Communications audit.	n/a
22	Guarded	Business Continuity	Recover and resume operations in the event of a major business interruption.	Members do not receive statutorily required services timely.	Observation of offsite BCP tests	Advisory
23	Guarded	Budget	Ensure TRS has appropriate budget to provide and sustain resources necessary to successfully carry out TRS' mission, goals, and objectives to serve our members.	Lack of a sufficient operating budget could jeopardize our ability to effectively serve our members.	Attend FTE Committee meetings	Advisory

## Appendix C: Audit Universe Mapped to TRS Risk Assessment (continued)

#	TRS Risk Level	TRS Risk Category	TRS Goal	TRS-Assessed Overall Risk	Planned Approach	Project Type
24	Guarded	Investment Operations	<ul style="list-style-type: none"> <li>•Maintain the integrity of transaction, position, and investment reporting information in a risk-controlled environment for optimal investment management decisions.</li> <li>•To support the successful operation of the Investment Management Division.</li> </ul>	<ul style="list-style-type: none"> <li>•Inefficient or ineffective transaction or position management processes which could result in losses to the fund.</li> <li>•Investment reports contain material inaccuracies.</li> <li>•Inefficient and ineffective support of IMD operations.</li> </ul>	Review of Cash Management	Audit
25	Low	Credit	Maintain effective management of counterparty and securities lending risks.	Unmanaged counterparty and securities lending exposures could result in losses to the investment portfolio.	None	n/a
26	Low	Market	Maintain market risk exposures consistent with investment objectives.	Too little or too much exposure to market risk could each lead to undesirable investment outcomes.	Rely on TRS compliance testing	n/a
27	Low	Liquidity / Leverage	Maintain levels of liquidity appropriate for the support of fund disbursements, anticipated investment funding needs and trust level leverage.	Inadequate liquidity could lead to cash shortfalls.	Review of Cash management Follow-up of Derivative Controls Audit	Audit Audit
28	Low	Governmental / Association Relations & Legislation	Maintain effective communications and positive relations with the Legislature, associations, and other public parties.	Poor communications could lead to adverse relations, unfavorable legislation, and restricted funding.	Quarterly SAO update meetings	Advisory
29		Global Operations (Coming Fall 2019)				

## **VI. External Audit Services Procured in Fiscal Year 2019**

**Teacher Retirement System of Texas**  
**Internal Audit Annual Report for Fiscal Year 2019**

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**VI. External Audit Services Procured in Fiscal Year 2019**

<b>External Audit Services Procured by TRS</b>	<b>Provided by</b>	<b>Report Date</b>
TRS Investment Company (TRICOT) Financial Audit Fiscal Year 2018	Grant Thornton	11/5/2018
Comprehensive Annual Financial Report (CAFR) – Fiscal Year 2018	State Auditor’s Office	12/20/2018
Talent Management and Culture Audit (Project #19-601)	Ernst and Young	3/8/2019
Derivatives Accounting Audit (Project #19-304)	Guidehouse	6/14/2019
Communications Audit (Project #19-602)	Ernst and Young	8/16/2019

## **VII. Reporting Suspected Fraud and Abuse**



# Teacher Retirement System of Texas

## Internal Audit Annual Report for Fiscal Year 2019

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### VII. Reporting Suspected Fraud and Abuse

TRS has taken the following actions to implement the fraud detection and reporting requirements of Section 7.09 of the General Appropriations Act and Section 321.022 of the Texas Government Code:

- Updated in September 2018, *TRS Fraud, Waste, and Abuse Policy* establishes a fraud, waste, and abuse prevention awareness program that includes employee training and guidelines for reporting suspected fraud, waste, and abuse. Key elements of the policy include definitions, covered acts, reporting procedures of detected or suspected fraud, waste, or abuse, detection and investigation, awareness training, and corrective action.
- The TRS Internet site includes the contact number of the State Auditor's Office Hotline and a link for reporting instructions.
- Links are available on the TRS Intranet for both the State Auditor's Office Hotline and the TRS Internal Fraud and Ethics Hotline.
- Administration of the TRS Internal Fraud and Ethics Hotline is vested with the Chief Compliance Officer & Compliance Counsel since fiscal year 2016.
- In compliance with the reporting requirement of fraud, waste, and abuse, TRS reports all instances of suspected fraud, waste, and abuse to SAO.

**TAB 7D**



## Internal Audit

## Prior Audit & Consulting Recommendations

Amanda Jenami

December 12, 2019



**TRS Internal Audit  
Summary of Audit Recommendations Status  
As of October 2019**

Project	Recommendation	Status	Issue Type	Estimated Date	Revised / Actual Date
<b>18-201 Vendor Procurement Audit</b>					
	1.1 Procurement Guidance should be used throughout the contracting process - Training	Implemented	Significant	3/2019	10/2019
	1.2 Procurement Guidance should be used throughout the contracting process - Job aides, guides, manuals	Implemented	Significant	12/2018	11/2019
	2.1 Obtain Business Associate Agreements for the contracts with the employers with access to Protected Health Information	Implemented	Significant	7/2018	7/2018
	2.2 Process for contracts associated with Protected Health Information have an associated Business Associate Agreement - risk assessment questionnaire	Implemented	Significant	12/2018	10/2019
	2.3 Process for contracts associated with Protected Health Information have an associated Business Associate Agreement - guidance and procedure	In Progress	Significant	9/2018	12/2019
	3. Include in TRS Contract Administration Policy referenced procedural guidance where needed	In Progress	Other Reportable	9/2019	1/2020
	4. Follow internal procedures throughout contracting process	Implemented	Other Reportable	12/2018	10/2019
	5.2 Work with management to overcome the following shortcomings of the current legacy system – Request For Offer	In Progress	Other Reportable	12/2018	1/2020

**Significant to Business Objectives**

	<ul style="list-style-type: none"> <li>Past <i>original</i> estimated completion date, and</li> <li>No management action plan <u>or</u> No progress on management action plan</li> </ul>
	<ul style="list-style-type: none"> <li>Past <i>original</i> estimated completion date</li> <li>Progress on management action plan</li> </ul>
	<ul style="list-style-type: none"> <li><i>Original</i> estimated completion date has not changed</li> <li>Progress on management action plan</li> </ul>
	Satisfactory implementation of management action plan <u>or</u> Acceptance of risk by management
	Implementation of management action plan pending Internal Audit validation

**Other Reportable**

	<ul style="list-style-type: none"> <li>Past first <i>revised</i> estimated completion date</li> <li>No management action plan <u>or</u> No progress on management action plan</li> </ul>
	<ul style="list-style-type: none"> <li>Past first <i>revised</i> estimated completion date</li> <li>Progress on management action plan</li> </ul>
	<ul style="list-style-type: none"> <li>Within <i>original</i> <u>or</u> first <i>revised</i> estimated completion date</li> <li>Progress on management action plan</li> </ul>
	Satisfactory implementation of management action plan <u>or</u> Acceptance of risk by management

**TRS Internal Audit  
Summary of Audit Recommendations Status  
As of October 2019**

Project	Recommendation	Status	Issue Type	Estimated Date	Revised / Actual Date
<b>18-304 Private Equity Management Fees and Carried Interest Desk Audit</b>					
	1. Complete evaluation of private equity fund fees monitoring	Implemented	Other Reportable	8/2019	8/2019
<b>18-602 Internal Audit Quality Assurance Review</b>					
	1. Administer business unit training opportunities on the audit project and audit follow-up processes	In Progress	Other Reportable	8/2019	8/2020
<b>19-104 Disability Retirement and Medical Review Board Audit</b>					
	1. Implement monitoring activities for all key control reports related to disability retirement so that management is alerted if reports are not being worked	Implemented	Significant	10/2019	10/2019
	2. Train additional resources to perform key control activities and create overarching process flow documentation	Implemented	Other Reportable	8/2019	8/2019
<b>19-304 Audit of Derivatives Controls</b>					
	1. Document procedures for preparation and review of CAFR derivatives information	In Progress	Significant	11/2019	
	2. Review derivative data extract files monthly	Implemented	Other Reportable	8/2019	8/2019
<b>19-601 Talent Management and Culture Audit</b>					
	1. Strengthen shared services alignment - (a)(b) Department strategic plans and roles and responsibilities	In Progress	Significant	12/2020	12/2019
	2. Strengthen shared services alignment - (c) Performance metrics	In Progress	Significant	12/2020	12/2019
	3. Strengthen shared services alignment - (d) Assigning team members	Implemented	Significant	8/2019	8/2019

**TRS Internal Audit  
Summary of Audit Recommendations Status  
As of October 2019**

Project	Recommendation	Status	Issue Type	Estimated Date	Revised / Actual Date
	4. Strengthen shared services alignment - (e) Reporting structures	In Progress	Significant	12/2020	12/2019
	5. Review, communicate, monitor TRS Core Values	In Progress	Other Reportable	4/2020	
	6. Formal hiring manager training	In Progress	Other Reportable	6/2020	
	7. Complete employee value proposition	In Progress	Other Reportable	12/2020	6/2020
	8. Complete TRS career paths	Implemented	Other Reportable	12/2020	10/2019
<b>19-602 Communications Governance Framework</b>					
	1. Communications Governance Framework	In Progress	Significant	12/2020	12/2019
	2. Communications Monitoring	In Progress	Significant	12/2020	12/2019
	3. Trustee Extended Communication Training	In Progress	Significant	12/2020	12/2019
<b>19-604 External Quality Assurance Review</b>					
	1. Establish objective criteria to determine when an engagement will be a non-audit services; and provide a mechanism to monitor the results	Implemented	Other Reportable	8/2019	8/2019
	2. Develop an Assurance Map	In Progress	Other Reportable	8/2020	
	3. Increase the number of IT audits in future audit plans	Implemented	Other Reportable	8/2019	8/2019
	4. Include budgeted hours on a project basis in annual report to the Texas SAO	Implemented	Other Reportable	10/2019	9/2019

**TRS Internal Audit  
Summary of Audit Recommendations Status  
As of October 2019**

<b>Project</b>	<b>Recommendation</b>	<b>Status</b>	<b>Issue Type</b>	<b>Estimated Date</b>	<b>Revised / Actual Date</b>
	5. Capture actual hours on a project basis for a post-audit comparison of budgeted hours to actual hours	Implemented	Other Reportable	8/2019	8/2019
	6. Apply a consistent work paper standard for more efficient review and provide more effective support for audit conclusions	In Progress	Other Reportable	12/2019	
<b>SAO Audit of FY 2018 Comprehensive Annual Financial Report (CAFR)</b>					
	1.1 Strengthen controls over census data – reporting entities	In Progress	Significant	8/2020	
	1.2 Strengthen controls over census data – general ledger to TRUST reconciliation	Implemented	Significant	8/2019	7/2019
	1.3 Strengthen controls over census data – access controls	Implemented	Significant	8/2019	8/2019
	2. Strengthen controls for reporting and review of unfunded capital commitments	Implemented	Significant	3/2019	8/2019

**TRS Internal Audit  
Summary of Audit Recommendations Status  
As of October 31, 2019**

**Status of Reporting Entity Recommendations**

	<b>Project #</b>	<b>Report Date</b>	<b>Reporting Entity (RE)</b>	<b>Status</b>	<b>Notes</b>
1	17-401b	8/31/2017	Dallas ISD	Closed	As of 9/23/19, all corrections have been made and all adjustments have been submitted.
2	18-102	8/28/2018	Alvin ISD, Sharyland ISD	Closed	TRS Benefits team has reviewed and communication has been provided to RE(s) on what corrections need to be made
3a	19-102	11/16/2018	Aldine ISD, Houston ISD	Closed	The instructions on the required corrections Houston ISD and Aldine ISD need to make per the AUP have been sent out on 4/1/2019. Benefit Reporting Team gave REPs a deadline of the June reports, due July 5, 2019.
3b	19-102	3/13/2019	Rio Grande City Consolidated ISD, Midland ISD, Region 1 ESC, Region 18 ESC	Closed	The instructions on the required corrections all four REPs need to make per the AUP have been sent out on 5/7/2019. Benefit Reporting Team gave REPs a deadline of the July reports, due August 6, 2019.
3c	19-102	6/1/2019	Arlington ISD, Killeen ISD, San Marcos CISD	Closed	The instructions on the required corrections all three REPs need to make per the AUP have been sent out on 7/17/2019. Benefit Reporting Team gave REPs a deadline of the September reports, due October 4, 2019.
3d	19-102	8/21/2019	Austin ISD, Donna ISD, Longview ISD	Closed	The instructions on the required corrections all three REPs need to make per the AUP were sent out the week of 9/22/2019. The Benefit Reporting Team gave the REPs a deadline for completing all corrections by the December 2019 reporting period, due January 6, 2020.



TAB 8



# Internal Audit

# Administrative Reports



Amanda Jenami

December 12, 2019



# CAE Goals mapped to TRS Goals (FY 2020)

## Goal 1

Sustain a Financially Sound Pension System

Coordinate CAFR and TRICOT financial audits (Q1)

Provide assurance on cash management (Q1)

Provide assurance on ENRI operations (Q2)

Provide assurance on quantitative equity strategies (Q3 - Q4)

Provide assurance on accounting operations (Q3 - Q4)

Follow-up of derivatives controls audit (Q4)

## Goal 2

Continuously Improve Our Benefit Delivery

Provide assurance on benefit collections (Q1)

Coordinate TEAM program assessment vendor activities (Q1 – Q4)

Analyze full payroll data and provide assurance on employer reports (Q1 – Q4)

Provide advisory services regarding TEAM Phase II (Q4)

Provide assurance on the 1099-R process (Q2 – Q3)

Test actual benefit annuity and manual payments in legacy system (Q4)

## Goal 3

Facilitate Access to Competitive, Reliable, Health Care Benefits

Provide assurance on healthcare claims data warehouse (Q1)

Healthcare Claims Data Analysis (Q3 – Q4)

Provide assurance on compliance with federal regulations (Q2 – Q3)

Follow-up on outstanding HIPAA audit recommendations (Q2 – Q4)

Provide assurance on contract oversight (Q4)

 -- Complete

 -- In Progress

 -- Planned

# CAE Goals mapped to TRS Goals (FY 2020)

## Goal 4

Align People to Achieve the TRS Mission

Follow-up on the talent management audit (Q3 – Q4)

## Goal 4

Align Processes to Achieve the TRS Mission

Participate in hotline triage team (Q1 - Q4)

Participate in Executive Council & Risk Oversight Committees (Q1 - Q4)

Consult on ERM program maturity (Q1 - Q2)

Advise on actuarial audit (Q2)

Follow-up of procurement and contracts audit (Q3 – Q4)

## Goal 4

Align Technology to Achieve the TRS Mission

Provide assurance on claims data warehouse (Q1)

Observe disaster recovery and business continuity tests (Q1)

Provide assurance on investment data and systems (Q4)

Follow-up on HIPAA security and privacy audit (Q3 – Q4)

**Internal Audit Goals and Performance Measures  
Fiscal Year 2020 – 1st Quarter Ending November 2019**

Target Performance	2020 Cumulative Score	2020 Annual Target	2019 Cumulative Score	Activity / Comment	Status
<b>Goal 1: Facilitate Audit, Compliance and Ethics Committee Governance</b>					
1. Audit and advisory projects are completed in the fiscal year	15%	75%	100%	Plan status as of November 2019	On Task
2. Total available department hours are spent on direct audit and advisory services	72%	70%	77%	Calculated from 9/1/2019 to 10/31/2019	On Task
3. Internal audit processes are in accordance with internal auditing standards	NA	100%	100%	QAIP will be completed by Q4	On Task
4. Score received for overall satisfaction in post-audit client surveys	NA	75%	94%	Client surveys will be available in Q2	On Task
5. Post-audit survey scores on communication	NA	75%	93%	Client surveys will be available in Q2	On Task
6. Share “Tone at the Top” articles with Trustees and management via Diligent	25%	90%	100%	Score based on 25% per quarter	On Task
<b>Goal 2: Support TRS Initiatives</b>					
1. Post-project client surveys on TEAM-related projects, where applicable	NA	75%	N/A	Process under revision	On Task
2. Score for departmental organizational health on the annual Energage Survey	NA	80%	92%	Survey results will be available in Q2 FY 2020	On Task

**Internal Audit Goals and Performance Measures  
Fiscal Year 2020 – 1st Quarter Ending November 2019**

Target Performance	2020 Cumulative Score	2020 Annual Target	2019 Cumulative Score	Activity / Comment	Status
<b>Goal 3: Enhance Internal Audit Staff Competence and Expertise</b>					
1. Post-audit survey score on the usefulness of audit recommendations	NA	75%	90%	Client surveys will be available in Q2 2020	On Task
2. Audit staff completion of annual training plans	0%	90%	100%	Staff expected to complete 40 hours/each towards year end	On Task
3. Staff maintains/pursues professional certifications	NA	90%	92%	Staff survey conducted in Q2 and Q4 FY 2020	On Task
4. Staff participation in professional organizations	NA	90%	92%	Staff survey conducted in Q2 and Q4 FY 2020	On task
5. Audit staff acknowledge a career path	NA	90%	100%	Staff survey conducted in Q2 and Q4 FY 2020	On Task
6. Audit staff retention (within TRS) (excluding retirements)	100%	80%	85%		On Task

**Legend: Target Status**

	Target not achieved
	Below target but expect to achieve
	On task to achieve
	Achieved target

## Fiscal Year 2020 Audit Plan Status As of October 2019

Title	Type	Status
<b>Executive</b>		
Enterprise Risk Management (ERM) Program Maturity Assessment	<b>Consulting</b>	In Progress
Follow-up of Talent Management Audit	<b>Audit</b>	
Follow-up of Procurement and Contracts Audit	<b>Audit</b>	
Actuarial Audit Workgroup Participation	<b>Advisory</b>	
Committee and Workgroup Meetings Participation	<b>Advisory</b>	Ongoing
Special Requests and Emerging Issues	<b>Advisory or Consulting</b>	
<b>TEAM Program</b>		
TEAM Phase II Annuity Payroll Testing	<b>Advisory</b>	Ongoing
HILOB Pre-Cutover Reconciliation Process	<b>Advisory</b>	Ongoing
TEAM Independent Program Assessment (IPA) Vendor Support	<b>Advisory</b>	Ongoing
TEAM Committees, Projects and Controls Assessment Participation	<b>Advisory</b>	Ongoing
<b>Pension Benefits and Employer Audits</b>		
Review of the 1099-R Process	<b>Audit</b>	
Review of Collections	<b>Audit</b>	Complete
Annual Benefits Testing	<b>Agreed-Upon Procedures</b>	
Employer Testing	<b>Agreed-Upon Procedures</b>	In Progress
Employer Data Analysis and Testing	<b>Consultancy</b>	
TRS Reporting Entity Website Audit Information Update and Communication Activities	<b>Advisory</b>	
<b>Health Care</b>		
Review of Contract Oversight	<b>Audit</b>	
Review of Claims Data Warehouse	<b>Audit</b>	Complete
Review of Compliance with Federal Regulations	<b>Audit</b>	
Claims Data Analysis	<b>Consultancy</b>	
Pharmacy Rebate Audit Support	<b>Advisory</b>	

## Fiscal Year 2020 Audit Plan Status As of October 2019

Title	Type	Status
Health Care Vendor Update Meetings Attendance	<b>Advisory</b>	Ongoing
Health Care Vendor Selection Observation	<b>Advisory</b>	Ongoing
<b>Information Technology</b>		
Follow-up of HIPAA Security and Privacy Audit	<b>Audit</b>	
Review of Claims Data Warehouse	<b>Audit</b>	Complete
Review of Investment Data and Systems	<b>Audit</b>	
IT Risk Assessment	<b>Advisory</b>	
Disaster Recovery, Network Penetration Tests, Security Risk Assessment Review	<b>Advisory</b>	Ongoing
<b>Investment Management</b>		
Quantitative Equity Strategies (QES)	<b>Audit</b>	
Review of Energy, Natural Resources, and Infrastructure Operations	<b>Audit</b>	In Progress
Review of Cash Management	<b>Audit</b>	Complete
Follow-up of Derivatives Controls Audit	<b>Audit</b>	
Investment Committees Attendance	<b>Advisory</b>	Ongoing
<b>Internal Audit Department</b>		
Annual Internal Audit Report – FY2019	<b>Administrative</b>	Complete
Data Analysis Process Buildout	<b>Administrative</b>	Ongoing
Quarterly Audit Recommendations Follow-up	<b>Administrative</b>	Ongoing
Assurance Map	<b>Administrative</b>	
Fiscal Year 2021 Audit Plan	<b>Administrative</b>	
Audit, Compliance & Ethics Committee Meetings Preparation	<b>Administrative</b>	Ongoing
Staff Training Initiative	<b>Administrative</b>	
<b>Finance and Staff Services</b>		
Comprehensive Annual Financial Report (CAFR) testing of annuity payments	<b>Audit</b>	Complete
Review of Accounting Operations	<b>Audit</b>	



## Internal Audit Advisory Services<sup>1</sup>

### Fiscal Year 2020 – 1<sup>st</sup> Quarter

<b>BENEFIT SERVICES</b>
<ul style="list-style-type: none"> <li>• Participated in the TEAM Program <ul style="list-style-type: none"> <li>○ Enterprise Projects Oversight Committee (EPOC)</li> <li>○ Organizational Change Management Advisory Group (OCM)</li> <li>○ Monthly Employer Advisory Group meetings</li> <li>○ Monthly meetings with TEAM Program Manager and vendor personnel</li> <li>○ Independent Program Assessment (IPA) Vendor Coordination</li> <li>○ Pension Administration and Health Care Data Governance Team</li> <li>○ TRUST Phase II payroll data reconciliation meetings and status updates</li> </ul> </li> </ul>
<b>HEALTH INSURANCE BENEFITS (HIB)</b>
<ul style="list-style-type: none"> <li>• Participated in discussions related to HILOB pre-implementation status meetings</li> <li>• Participated in Ethics and Fraud Risk Assessment meetings</li> </ul>
<b>INVESTMENT MANAGEMENT DIVISION (IMD)</b>
<ul style="list-style-type: none"> <li>• Attended Internal Investment Committee (IIC) meetings</li> <li>• Participated in quarterly Proxy Voting Committee meeting</li> <li>• Participated in monthly Securities Lending monitoring calls</li> <li>• Participated in quarterly collaboration meetings with Investment Compliance and Investment Risk</li> </ul>
<b>FINANCIAL SERVICES</b>
<ul style="list-style-type: none"> <li>• Participated in a workgroup discussions relating to review of current agency-wide procurement guidance documents</li> </ul>
<b>EXECUTIVE</b>
<ul style="list-style-type: none"> <li>• Facilitated SAO's Quarterly Update Meetings</li> <li>• Participated in the Risk Oversight Committee</li> <li>• Participated in monthly collaboration meetings with Enterprise Risk Management (ERM) management</li> </ul>
<b>INFORMATION TECHNOLOGY (IT)</b>
<ul style="list-style-type: none"> <li>• Tracking outstanding audit recommendations from HIPAA Gap Assessment Project and Audit of On/Off Boarding Processes of Non-TRS Workers</li> <li>• Participated as core team members in TRS Pension Administration and Healthcare Data Governance Council</li> <li>• Observed TRS Disaster Recovery Exercise held in October 2019</li> </ul>

<sup>1</sup> Advisory Services (non-audit services) - The scope of work performed does not constitute an audit under Generally Accepted Government Auditing Standards (GAGAS).



# Internal Audit

# Year In Review FY 2019



Amanda Jenami

December 12, 2019



# 2019 YEAR IN REVIEW

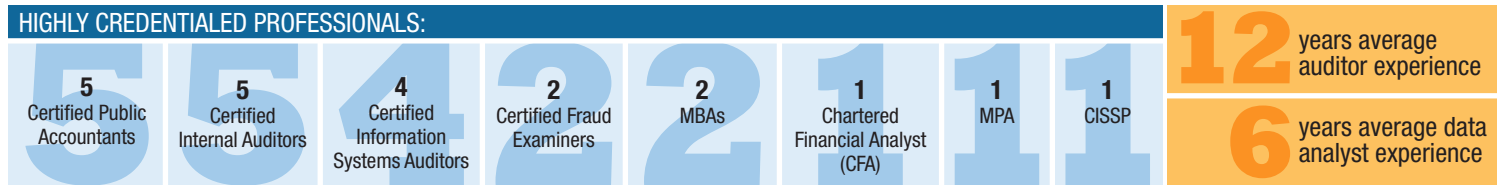


INDEPENDENT • OBJECTIVE • ASSURANCE • CONSULTING

## WHO WE ARE:



## WHAT WE BRING:



## DIVERSE BACKGROUNDS:

AUDIT EXPERIENCE	DIVERSE PROBLEM SOLVING SKILLS	WORK EXPERIENCE
<p>WITH <b>BIG FOUR</b> AUDIT FIRMS &amp; TEXAS STATE GOVERNMENT</p>	<p>BACKGROUNDS IN: AUDIT DATA ANALYSIS INFORMATION TECHNOLOGY ENGINEERING CRIMINAL JUSTICE</p>	<p>AUSTRALIA THE UK CHINA INDIA RUSSIA USA</p>

## WHAT WE DID IN 2019:

<p><b>6</b></p> <p>PROVIDED ASSURANCE on 6 TRS AUDITS</p>	<p><b>12</b></p> <p>PERFORMED DATA INTEGRITY TESTS on 12 REPORTING ENTITIES</p>	<p><b>13</b></p> <p>PROVIDED INSIGHTFUL ADVICE on 13 MANAGEMENT ADVISORY PROJECTS</p>
<p><b>777</b> HOURS of CONTINUING PROFESSIONAL EDUCATION (CPE) COMPLETED</p>		

### Q1

- Welcomed **Amanda Jenami** as Chief Audit Executive
- Nominated **Amy Barrett** for Outstanding Women in Texas Government Award
- Said goodbye and happy retirement to **Amy Barrett**
- **Nick Ballard** and **Cari Casey** served on panels at the APPFA conference
- **Nick Ballard** served as Vice President at APPFA
- **Art Mata** served on a panel on Employer Audits at the P2F2 Conference

### Q2

- **Kate Rhoden** was asked to serve on the Executive Board of the Texas Society of Certified Public Accountants
- Onboarded a new Benefit Services Audit Manager, **Andrea Morales**
- **Karen Marino** received the Bushel of Fun award

### Q3

- **Nick Ballard** completed the SAIAP 2019 Leadership Development Program
- Welcomed **Alejandra (Ale) Moreno** as Senior Investments Auditor and **Christopher Chan** as a Senior IT Auditor
- **Technology team** attended DIR's Annual Information Security Forum in Austin

### Q4

- **Amanda Jenami** attended the Gartner CAE Annual Roundtable on Building Audit Capability for a Digital Organization in Chicago
- **Art Mata** and **Amanda Jenami** attended the 30th Association of Certified Fraud Examiners Global Fraud Conference in Austin
- **Mary Presley** was awarded the designation of Analytics Certified Data Analyst (ACDA) Intermediate
- Onboarded a new Senior Data Analyst, **Rolando Delgado**

## New Hires

- Nathan Ward joined Internal Audit as a Senior Investment Auditor in October 2019. Nathan joins us from Wells Fargo, Wealth and Investment Management (WIM), where he worked as an investment manager and served as an SME on various investment operational and risk management initiatives
- Julie Toler joined Internal Audit as a Senior Investment Auditor in November 2019. Julie joins us from Lee Financial, Dallas, where she served in several roles including Compliance Officer, Knowledge Strategist, Senior Portfolio Manager and Investment Strategist. Julie is a past president of the CFA Society of DFW and currently serves as Board Chair for CFA Societies Texas.

## Participation in TRS Initiatives

- Rolando Delgado has been selected to participate in the TRS Mission Statement work group

## Professional Organization Activities and Conferences

- Cari Casey and Falguni Sampat attended the Public Pension Financial Forum (P2F2) conference in October. Alejandra Moreno attended the Public Pension Funds Auditors (APPFA) conference

## Promotions, Certification, Recognition

- Cari Casey and Lih-Jen Lan recently celebrated 15 years of service with TRS

## Transfers, Departures and Retirements

- Kate Rhoden and Nick Ballard transferred to Investment Management Division and Strategic Initiatives, respectively