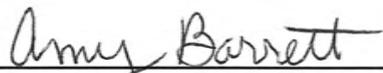


Fiscal Year 2015 Audit Plan

September 19, 2014


Amy Barrett, CIA, CISA, CPA
Chief Audit Executive


Christopher S. Moss
Chair, Audit Committee, Board of
Trustees


Brian Guthrie
Executive Director


R. David Kelly
Chair, Board of Trustees



Executive Summary

Professional and Statutory Requirements

This document provides the *Fiscal Year 2015 Audit Plan* (Audit Plan) as required by professional auditing standards, the *Texas Internal Auditing Act* (Act), and the *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 Committee of the Board of Trustees (Audit 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

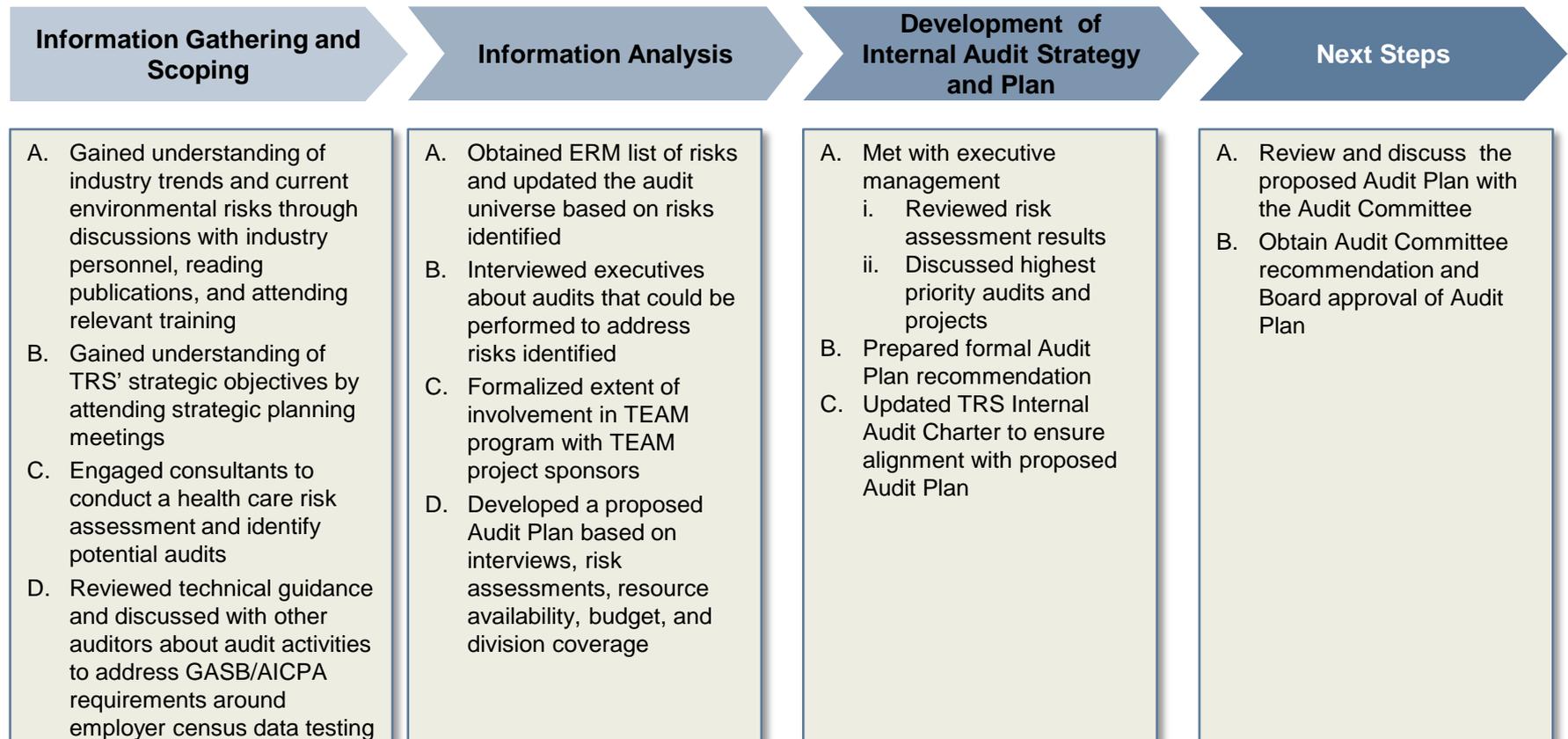
Our Audit Plan is designed to provide coverage of key risks, given the existing staff and approved budget. See the **Appendices** for information regarding the internal audit budget, performance measures, and audit universe.

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 senior management and present changes to the Audit Committee at the following quarterly Audit 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 Audit Committee for recommendation to the Board for approval. The State Auditor's Office also requires notification of material changes to the Audit Plan.

Risk Assessment & Audit Planning Approach

Risk assessments developed by the Enterprise Risk Management (ERM) team and a health care audit services vendor 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

Internal Audit considered ERM risk ranking when identifying and prioritizing various projects. 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 conclude 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 Audit 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: TEAM

The tables on this and the following pages summarize 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
TEAM Program Internal Controls Assessment	Advisory	Assist management in its evaluation of key internal controls, including security controls, incorporated into TRUST, the new benefits system, and business processes
TEAM Independent Program Assessment (IPA) Vendor Support	Advisory	Coordinate and monitor activities of the IPA vendor and ensure direct access to executive management and the board
TEAM Committees and TEAM Projects Participation	Advisory	Participate in TEAM Executive Steering Committee (ESC) and other committees in a non-voting capacity, and provide advisory services related to TEAM project activities

Audit Plan: Pension Benefits

Title	Type	Preliminary Scope
Follow-Up Audit on Significant Findings of Prior Benefits Audits	Audit	Follow-up on outstanding audit recommendations related to identified weaknesses with fraud prevention controls to determine whether mitigations have been implemented
Benefits Testing for State Auditor's Office (SAO) Audit of Comprehensive Annual Financial Report (CAFR)	Audit	Conduct benefit testing on behalf of the SAO to be used in completion of the CAFR audit
Semi-Annual Benefits Testing	Agreed-Upon Procedures	Recalculate a sample of benefit payments semi-annually and determine whether documentation on file supports the calculation

Audit Plan: Finance/Reporting Entities

Title	Type	Preliminary Scope
Payables Audit	Audit	Assess whether TRS received goods and services as invoiced and paid
Actuarial Data Controls	Audit	Assess whether data submitted to the actuary is complete and accurate and the controls surrounding the process are sufficient. Assess controls at actuary for complying with accounting standards and ensuring the completeness and accuracy of data reported to TRS for the financial audit.
Reporting Entity Audits (3-4) and investigations	Audit	Determine whether information reported to TRS is complete and accurate, especially in the areas of eligibility, compensation, employment after retirement and related surcharges
TRS Reporting Entity Website Audit Information	Advisory	Post 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.
State Auditor's Office (SAO) Financial (CAFR) Audit Coordination	Advisory	Coordinate activities of the SAO to ensure deadlines are met; coordinate quarterly update meetings with executive management and the SAO
Business Process Analysis of Activities Involving Multiple Departments	Consulting	In conjunction with Organizational Change Management, document and analyze business processes that overlap multiple departments; provide options to TRS management for realigning and streamlining process activities while considering segregation of duties requirements.

Audit Plan: Health Care

Title	Type	Preliminary Scope
Health Care Vendor Update Meetings	Advisory	Attend quarterly meetings with health care vendors to understand results, issues, and TRS management's monitoring controls
Health Care Vendor Selection Observation	Advisory	Observe selection process of large vendor and service providers
Health Care Audit Services Review	Consulting	Assess quality and scope of health care audit services procured by TRS management and provide feedback on approach and scope of future procurements by management for audit services

Audit Plan: Information Technology

Title	Type	Preliminary Scope
Electronic Records	Audit	Assess whether electronic records are maintained to enable business functionality and are in accordance with TRS requirements
Cloud Computing, Mobile Device Security, Co-Location/Disaster Recovery, IT Security	Consulting and Advisory	Provide additional advice or tools for implementing recommendations made in prior year's consulting and audit projects
Network Penetration Test; Security Risk Assessment Review	Advisory	Obtain, read, and follow-up on any issues identified during the network penetration tests and the security risk assessment conducted by the TRS Information Security Officer
Technology Committees Meeting Participation	Advisory	Participate (non-voting) in meetings to stay apprised of initiatives relating to enterprise security and information technology operations

Audit Plan: Investment Management

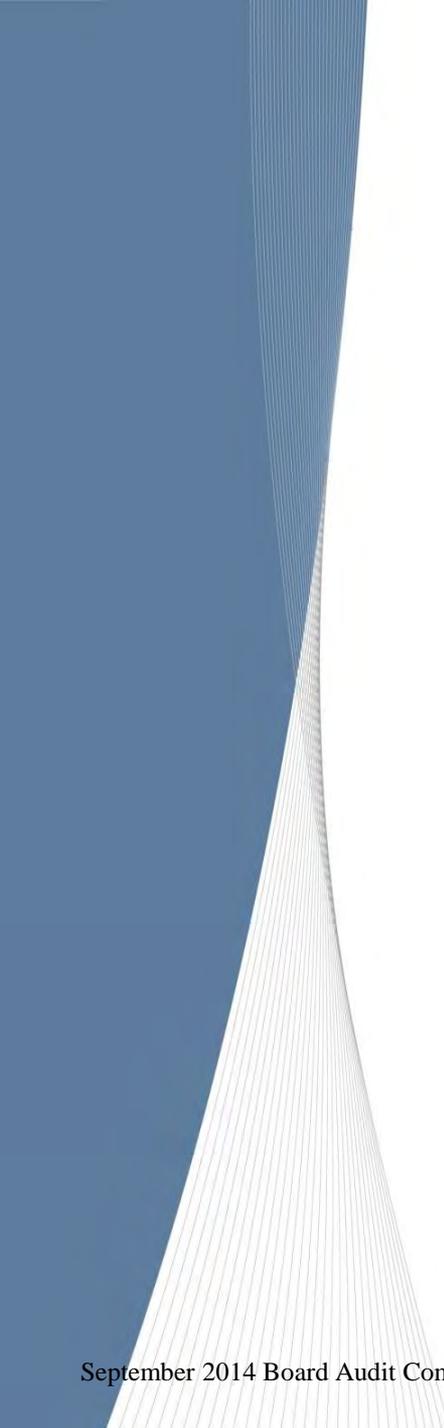
Title	Type	Preliminary Scope
Overall Internal Control Opinion on Investment Activities (includes periodic status reports)	Audit	Assess key operating, compliance, and reporting controls within the Investment Management Division and its service providers relating to private markets transactions. Private market activities to be assessed include due diligence, valuation, fees, fund transfers, risk management, governance, management and board reports, information systems, compliance, accounting, and investment operations.
Quarterly Investment Compliance and Ethics Policies Testing	Agreed-Upon Procedures	Assess compliance with TRS ethics policies and the Investment Policy Statement (IPS) requirements including placement agent disclosures and Internal Investment Committee (IIC) processes; test board report accuracy; test wire transfer compliance with internal procedures; provide input into IPS and other investment policy changes
Emerging Risk Reviews	Advisory	Stay current on changes in the Investment Management Division and review new initiatives when identified
Incentive Compensation Plan Review	Advisory	Prior to payment, recalculate the incentive compensation award amounts to determine if they are calculated in accordance with plan provisions; reconcile performance to the service provider
Investment Committees Attendance	Advisory	Stay current on Investment Management Division initiatives by attending IIC, Derivatives Operations, Monthly Staff, and other meetings including Annual Town Hall

Audit Plan: Internal Audit Activities

Title	Project Description
Internal Quality Assurance Review	Conduct a self-assessment of Internal Audit's compliance with professional auditing standards
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
Fiscal Year 2016 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 Committee Meetings Preparation	Prepare communications and attend Audit Committee and Board meetings
Internal Audit Vendor Request for Qualifications (RFQ)	Prepare an RFQ to select qualified vendors for conducting health care audits
Internal Ethics and Fraud Hotline Administration	Follow-up on hotline calls (both internal and external) including complaints disclosed to TRS Internal Audit through other communication means
Meetings Participation	Participate (non-voting) in various TRS-wide meetings such as Executive Council, Leadership Team, and Risk Oversight Committee
Special Requests and Surprise Inspections	Complete projects as requested by TRS management; complete surprise inspections (such as cashier's function) to gain an understanding of controls in an area and provide "perception of detection"
University of Texas Students' Projects	Policy reviews and benchmarking – policies TBD

Audit Plan: High Risk Areas (High, Elevated, or Caution) Excluded from the Audit Plan And Areas of Interest to the SAO

Area	Reason for Exclusion
Legacy Information Systems	Systems are in process of being replaced. Internal Audit staff will participate in advisory capacity in decommissioning process and assessment of transfer of internal controls, including security controls, to new systems.
Information Security and Confidentiality	Information security follow-up audit conducted in FY14. Assurance is not planned for FY14; however, advisory work will continue in FY15 regarding implementation of outstanding recommendations.
Public Markets Operations	Tested in FY14 without any reportable findings
Purchasing and Contract Administration	Tested in FY14 without any significant findings. Payables audit scheduled for fiscal year 2015.



Appendix A

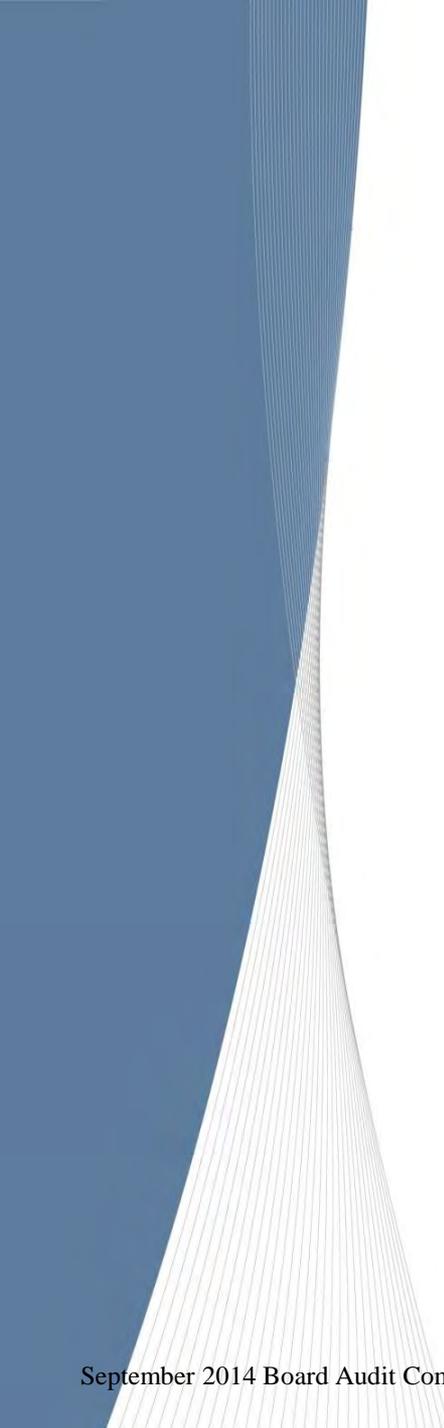
Internal Audit Operating Budget

Internal Audit Operating Budget

Line Item	Budget FY 2015	Budget FY 2014
000 – Salaries	\$977,204	\$949,133
000 – Benefits	230,556	236,053
200 – Professional Fees	652,500*	528,500
505 – Travel-In-State	14,500**	9,500
510 – Travel-Out-of-State	18,000	18,000
705 – Dues, Fees, and Staff Development	22,500	22,500
710 – Subscriptions and Reference Materials	4,500	4,500
Total Operating Budget (excluding indirect costs such as computers, office space, and utilities)	\$1,919,760	\$1,768,186
Full Time Equivalent (FTE) Positions	10.0	10.0

* Increase primarily due to SAO CAFR audit of employer (reporting entity) census data

** Increase primarily due to reporting entity audits



Appendix B Internal Audit Performance Measures

Internal Audit Goals and Performance Measures

For the internal audit function, the FY 2015 goals and performance measures are as follows:

Goal 1: Enhance Effectiveness of Internal Audit Organization

Performance Measures

- a. Spend a minimum of 75% of total available department hours (excludes uncontrollable leave) for professional staff on direct assurance, consulting, and advisory services
- b. Complete an internal self-assessment and report annually on the results of the Quality Assurance and Improvement Program

Goal 2: Develop and Implement Internal Audit Annual Audit Plan based on Formal Risk Assessment

Performance Measures

- a. Prepare an annual audit plan based on a documented risk assessment and obtain input from trustees and staff
- b. Execute 80% of audit and agreed-upon procedures projects (80% allows for flexibility due to changes in TRS business practices and special requests)
- c. Prepare a formal reporting entity risk assessment to identify reporting entities for audit.

Goal 3: Enhance Internal Audit Staff Skills and Knowledge in Emerging Risks and Controls with Emphasis on Information Technology, Investment and Health Care

Performance Measures

- a. Enhance staff knowledge of services provided to the Investment Management Division by visiting one TRS asset manager or service provider
- b. Engage a service provider for conducting or co-sourcing health care audits

Internal Audit Goals and Performance Measures, continued

Goal 4: Deliver Value-Added Consulting and Advisory Activities

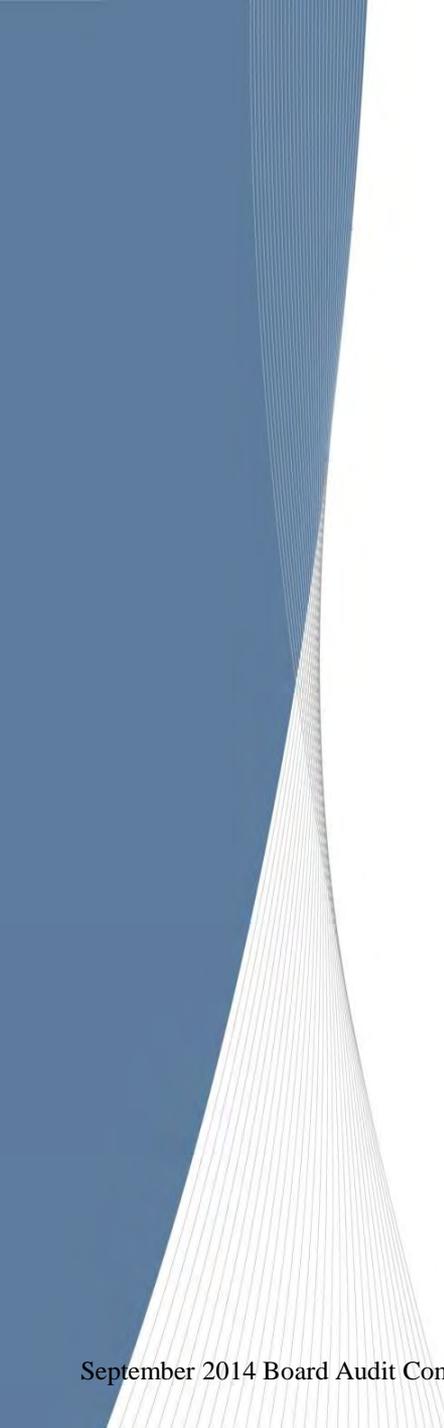
Performance Measures

- a. Facilitate coordination of TEAM Independent Program Assessment (IPA) Vendor by coordinating meetings with Executive Director, Executive Steering Committee (ESC) and Core Management Team (CMT), quarterly presentations to the TRS Board of Trustees, and other contractual activities
- b. Facilitate timely completion and success of State Auditor's Office (SAO) audits in fiscal year 2015 by effectively providing audit support, coordinating meetings, reserving facilities and gathering schedule and documentation requests

Goal 5: Enhance Participation in Professional and Peer Organizations

Performance Measures

- a. Participate in professional organizations (APPFA, IIA, ISACA, ACFE, SIAIF, CFA Institute) through monthly chapter meetings and participate in leadership roles in at least two of the professional organizations
- b. Support staff in obtaining additional certifications including the CFA, CPA, and CIA certifications and have a minimum of two staff seek additional professional certifications in fiscal year 2015



Appendix C Audit Universe

Audit Universe

Executive and Finance Divisions; Records Management			
Governance, strategy, and risk management			
Board governance (FY13)	Workforce Continuity		
Strategic planning and performance measures (FY13)			
Enterprise Risk Management			
Information technology governance (FY10)			
Open Government	Communications and External Relations		
Open meetings compliance			
Open records request compliance	403(b)		
Ethics and Fraud Prevention			
Employee ethics policies (FY13)	Records Management		
Fraud risk detection and prevention controls (FY14)			
Regulatory, Compliance, & Litigation	Accounting & Reporting		
Compliance: Pension Trust (FY14)			
Compliance: Health Care Trusts (FY13)			
Litigation risk management			
Business Continuity	Accounting & Reporting		
Business continuity plan (FY09)			
Risk management (health and safety, insurance) (FY12)			
Accounting & Reporting	Accounting & Reporting		
			Accounts receivable (FY14)
			Accounts payable (FY14)
			Travel (FY14)
Budget	Budget		
			Federal withholdings/tax compliance
			Inventory
Purchasing and Contracts	Purchasing and Contracts		
			Budget process and reporting (FY10)
			Vendor file, encumbrance, purchasing (FY14)
			Contract administration and monitoring (FY14)
Facilities and Facilities Planning	Facilities and Facilities Planning		
			Contract worker onboarding, monitoring and compliance (FY14)
			HUB program compliance and reporting
Government Relations and Legislation	Government Relations and Legislation		
			Facility planning and maintenance
			Mail room operations (FY10)
Government Relations and Legislation	Government Relations and Legislation		
			Security (FY12)

IMD Processes	
Governance - IMD	
	Investment Governance and Management (FY14)
IMD Processes	
	Internal Public Markets (FY14)
	External Public Markets (FY14)
	Private Equity (FY12)
	Real Assets (FY12)
	Trade Management (FY14)
	Emerging Manager Program (FY13)
	Energy/Natural Resources (ENR) (FY14)
	Strategic Partners (FY14)
	Strategic Asset Allocation/Stable Value (FY14)
	Tactical Asset Allocation (FY13)
	Risk Management (FY12)
	Performance Analytics and Operations (FY14)
	Information Systems (FY12)
	Business Center, Reporting, and HR (FY12)
	Investment Accounting (FY12)

(FY #) - indicates last year audited

Audit Universe

Benefits and Customer Service	
Pension Benefit Administration	Pension Benefit Administration and Customer Service
1099R	Statistical reporting (actuarial) (FY10)
Annuity payroll (FY14)	Web self service
Benefit adjustments (FY14)	Work flow (Imaging)
Benefit calculations (FY14)	TRS employee benefit administration (administered separately from non-TRS employees)
Benefit estimates	
Cash receipts (FY10)	Telephone Counseling Center (FY14)
Check payments (FY14)	
Contact management	Employer Reporting
Death benefits (FY13)	Employer setup, enrollment, and reporting (FY14)
Disability benefits (FY13)	Health Care Administration
Legal orders (FY13)	TRS-Care vendor selection and contract monitoring (FY13)
Member account maintenance (FY09)	TRS-Care TRS Administration (FY13)
Member statements	TRS-ActiveCare vendor selection and contract monitoring
Optional Retirement Plan	TRS-ActiveCare TRS Administration
Refunds (FY14)	Retiree Health Care Funding
Retirement application process	TRS-Care Finance (FY10)
Retirement system transfer	TRS-ActiveCare Sustainability
Service credit calculation and purchase	TRS-ActiveCare Finance (FY10)

Information Technology (IT) Processes and TEAM	
Governance - IT	IT Processes
Project prioritization (FY10)	Change & Configuration Management
IT risk management	Applications (FY12)
IT Strategy & Planning	Databases
Asset management	Infrastructure
Human resources	Data Center Operations
IT Security and Confidentiality	Archive management (FY13)
Identity and access management (FY14)	Facilities management (TAC202) (FY12)
Threat and vulnerability management (FY13)	Technology Management
Security awareness and training (FY11)	Standards
Security configuration management	Technology upgrades
Virtualization	User and Vendor Support
Cloud based computing (FY14 Consulting)	Problem management
Mobile device security (FY14 Consulting)	Incident response
Disaster Recovery Plan	
Co-location (FY14 Consulting)	
Disaster Recovery Management (FY09)	
TEAM	
Independent Program Oversight (FY14)	
Internal Controls Assessment	

(FY #) - indicates last year audited