

Fiscal Year 2016 Audit Plan

September 25, 2015



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 2016 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

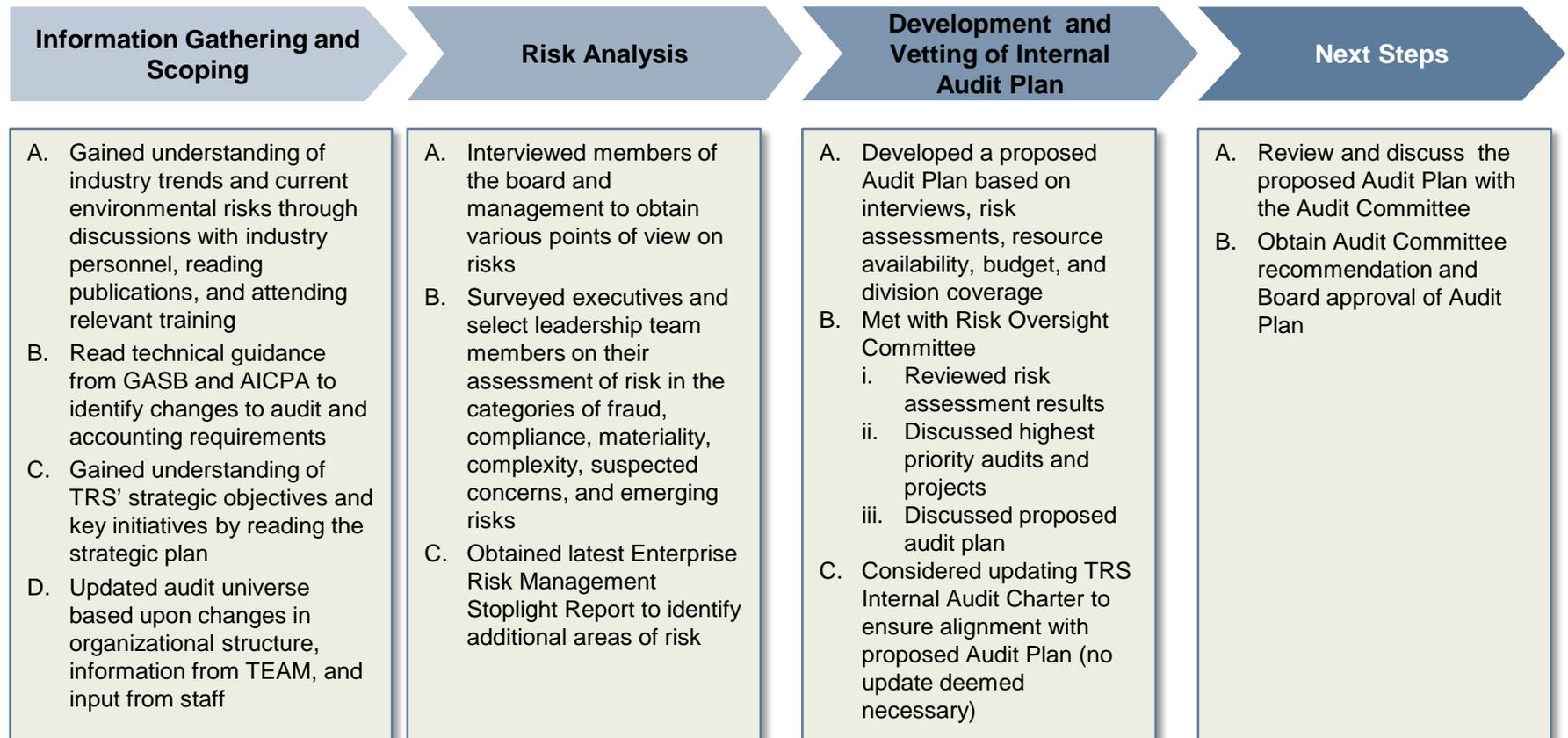
Our Audit Plan is designed to provide coverage of key risks, given the existing staff and approved budget. See the **Appendices** for information regarding the internal audit budget, performance measures, and audit universe.

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

Interviews, risk assessment surveys, and the Stoplight Report 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 balancing 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 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 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 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
TEAM Program Internal Controls Assessment	Advisory	Assist management in its evaluation of key internal controls incorporated into TRUST, the new benefits system, and business processes
TEAM Security and Access Controls Assessment	Advisory	Assist management in its evaluation of segregation of duties and security controls incorporated into TRUST
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
TEAM Committees and TEAM Projects Participation	Advisory	<p>Participate in TEAM Executive Steering Committee (ESC) and other committees in a non-voting capacity, and provide advisory services related to TEAM projects' activities as outlined in the TEAM projects' charters pertaining to internal audit activities. In FY 2015, Internal Audit participated in the following TEAM committees and projects:</p> <ul style="list-style-type: none"> • Executive Steering Committee • TEAM Budget Committee • Organizational Change Management Advisory Groups • Business Procedures and Training Project • Select Detailed Level Requirements sessions • Decommissioning Project • Security Architecture meetings • Monthly meetings with TEAM program manager and HP executives

Audit Plan: Pension Benefits

Title	Type	Preliminary Scope
Benefits Testing for State Auditor's Office (SAO) Audit of Comprehensive Annual Financial Report (CAFR)	Audit	Conduct pension benefits 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; scope in other tests related to benefits as agreed-upon with management
Reporting Entity Audits (6 – 8) and investigations	Audit	Determine whether information reported to TRS is complete and accurate, especially in the areas of eligibility (pension and health care), compensation, contributions, surcharges (pension and health care), and health care premiums paid
TRS Reporting Entity Website Audit Information	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.
Benefits Data Analysis Pilot Project	Advisory	Develop data analysis capabilities of Internal Audit staff and analyze benefits data to identify potential errors or omissions

Audit Plan: Finance and Executive

Title	Type	Preliminary Scope
Actuarial Data Controls	Audit (Carryover Project from FY 2015)	Assess whether internal controls are in place and working effectively to determine the accuracy and completeness of the fiscal year 2014 actuarial data files for the pension trust fund (final audit objective)
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; maintain SAO document request SharePoint site
Special Requests and Emerging Issues	Advisory	Address special requests and emerging issues during the year in coordination with management
Internal Ethics and Fraud Hotline Administration	Advisory	Follow-up on hotline calls (both internal and external) including complaints disclosed to TRS Internal Audit through other communication means
Meetings Participation	Advisory	Participate (non-voting) in various TRS-wide meetings such as Executive Council, Leadership Team, and Risk Oversight Committee

Audit Plan: Health Care

Title	Type	Preliminary Scope
Health Care Risk Assessment Follow Up	Consulting	Update health care risk assessment; identify key processes and controls that mitigate risks; assess control design; make recommendations for inclusion into a short-term and long-term work plan to be utilized by Health Insurance Benefits staff. Provide feedback for updating security contract language with third party vendors for purposes of annual confirmation.
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, when applicable

Audit Plan: Information Technology

Title	Type	Preliminary Scope
SharePoint Governance Audit	Audit	Assess effectiveness of SharePoint governance, access controls, and protection of confidential and sensitive data
Wi-Fi Vulnerability Assessment	Agreed-Upon Procedures	Assess security/vulnerability of Wi-Fi connections
Data Protection Project	Advisory	Provide technical expertise to Enterprise Risk Management staff in a TRS-wide project for all departments to identify, document, classify, and control sensitive and confidential data
Disaster Recovery, Network Penetration Tests; Security Risk Assessment Review	Advisory	Obtain, review, 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

Audit Plan: Investment Management

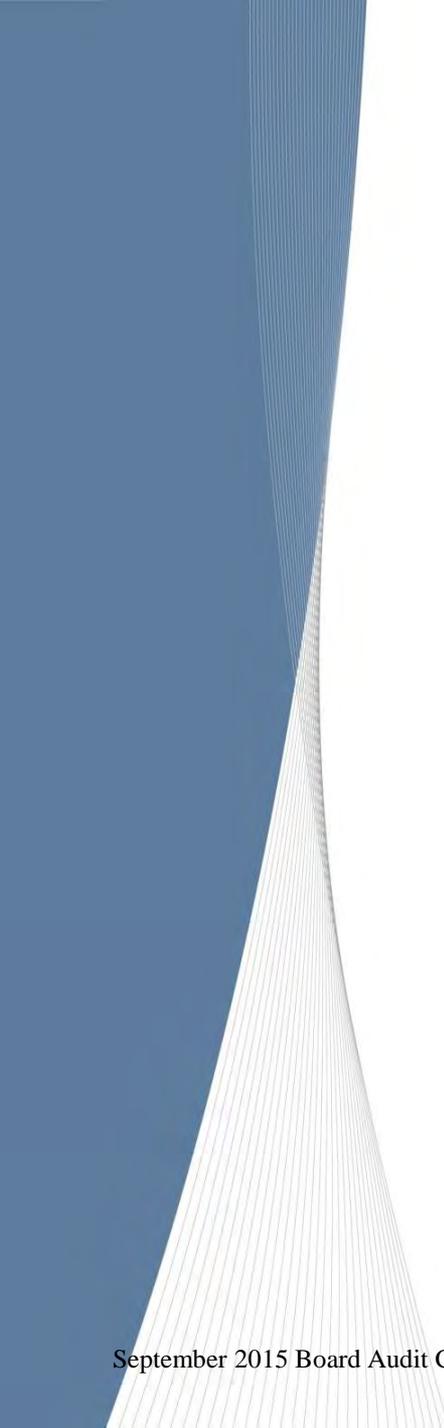
Title	Type	Preliminary Scope
Overall Internal Control Opinion on Investment Activities (focus on external public markets, strategic partners, and asset allocation)	Audit	Assess key operating, compliance, and reporting controls within the Investment Management Division and its service providers relating to external public markets, strategic partners, and asset allocation activities. Activities to be assessed relating to those areas include, but are not limited to, due diligence, valuation, fees, fund transfers, risk management, governance, management and board reports, information systems, compliance, accounting, investment operations, and investment accounting.
Quarterly Investment Compliance, Incentive Pay, Ethics Policies, and Budget Testing	Agreed-Upon Procedures	Assess compliance with TRS ethics policies and the Investment Policy Statement (IPS) requirements; incorporate other tests such as board report accuracy, wire transfer compliance with internal procedures, incentive pay results, and budget report and transfer accuracy
Annual Incentive Compensation Plan Testing	Agreed-Upon Procedures	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, and calculated in accordance with plan provisions
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
Investments Data Analysis Pilot Project	Advisory	Develop data analysis capabilities of Internal Audit staff and analyze external public markets data to identify anomalies and unusual trends for follow up in conjunction with the overall internal controls opinion

Audit Plan: Internal Audit Activities

Title	Project Description
Internal and External Quality Assurance Review	Prepare an internal assessment and engage an independent evaluation of that assessment and of Internal Audit's compliance with professional auditing standards as required every three years by the Texas Internal Auditing Act
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 2017 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)	Post an RFQ and select qualified vendors for conducting and participating in investment , technology, health care audits and to support other audit activities such as data analysis, as needed
Data Analytics Capabilities Development	Utilize an outside vendor to develop internal auditors processes and expertise around data analytics

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

Area	Reason for Exclusion
Records Management	Audited in FY 2015. TRS is in process of implementing audit recommendations.
Purchasing and Contracts	Audited in FY 2014. TRS is in process of implementing audit recommendations.



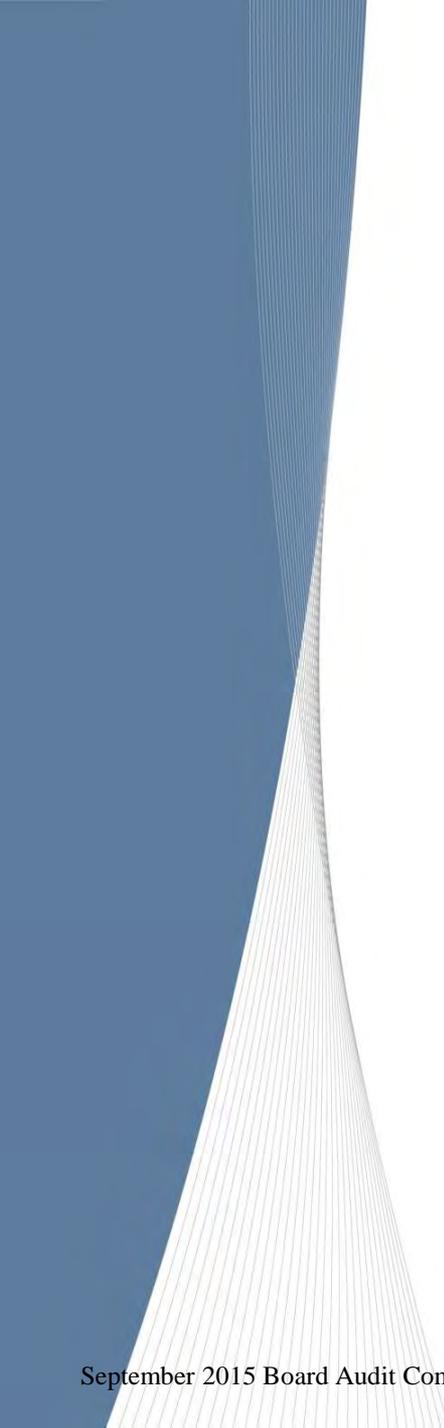
Appendix A

Internal Audit Operating Budget

Internal Audit Operating Budget

Line Item	Budget FY 2016	Budget FY 2015
000 – Salaries	\$998,762	\$977,204
000 – Benefits	226,847	230,556
200 – Professional Fees	681,500	652,500
505 – Travel-In-State	14,500	14,500
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)	\$1,966,609	\$1,919,760
Full Time Equivalent (FTE) Positions	10.0 – 11.0*	10.0

*Excludes interns. Internal Audit anticipates one retirement and two new staff hired in FY 2016, with no overall impact to the budget.



Appendix B Internal Audit Performance Measures

Internal Audit Goals and Performance Measures

For the internal audit function, the FY 2016 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 independent external assessment and report 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. Update 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 developing data analytics capabilities

Internal Audit Goals and Performance Measures, continued

Goal 4: Deliver Value-Added Consulting and Advisory Activities

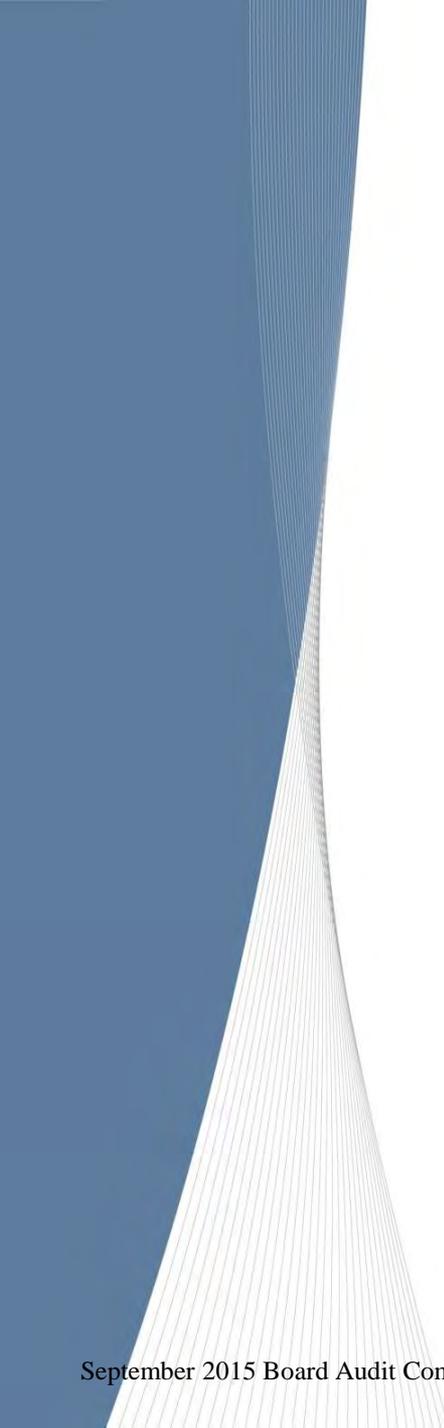
Performance Measures

- 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 2016 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 participation in leadership roles in at least one professional organization
- b. Support staff in obtaining additional certifications such as the CFA, CPA, and CIA certifications and have all staff obtain a minimum of 40 continuing professional education hours



Appendix C

Audit Universe

Executive and Finance Divisions				IMD Processes			
Governance, strategy, and risk management		Talent Continuity		Accounting & Reporting		Governance - IMD	
	Board governance (FY13)		Employee recruiting and hiring practices (FY10)		Accounts receivable		Investment Governance and Management (FY15)
	Strategic planning and performance measures (FY13)		Employee training compliance (FY11)		Accounts payable (FY15)	IMD Processes	
	Enterprise Risk Management		Internal policy setting and monitoring		Travel (FY14)		Internal Public Markets (FY14)
	Information technology governance (FY10)	Communications and External Relations			Federal withholdings/tax compliance		External Public Markets (FY13)
Open Government			Social media		Inventory		Private Equity (FY15)
	Open meetings compliance		Information and communication	Budget			Real Assets (FY15)
	Open records request compliance	403(b)			Budget process and reporting (FY10)		Trade Management (FY14)
Ethics and Fraud Prevention			403(b) certification process	Purchasing and Contracts			Emerging Manager Program (FY13)
	Employee ethics policies (FY15)	Records Management			Vendor file, encumbrance, purchasing (FY14)		Energy/Natural Resources (ENR) (FY14)
	Fraud risk detection and prevention controls (FY15)		Records management (FY15)		Contract administration and monitoring (FY14)		Strategic Partners (FY14)
Regulatory, Compliance, & Litigation					Contract worker onboarding, monitoring and compliance (FY14)		Strategic Asset Allocation/Stable Value (FY14)
	Compliance: Pension Trust (FY15)	Accounting & Reporting			HUB program compliance and reporting		Tactical Asset Allocation (FY13)
	Compliance: Health Care Trusts (FY13)		Financial/CAFR reporting including, new accounting pronouncements, reconciliations, general ledger, closing process (FY15)	Facilities and Facilities Planning			Risk Management (FY15)
	Litigation risk management		Other reporting (non-financial / CAFR)		Facility planning and maintenance		Performance Analytics and Operations (FY14)
Business Continuity			Employee leave, timekeeping, and payroll (FY12)		Mail room operations (FY10)		Information Systems (FY15)
	Business continuity plan (FY09)		Cashier (FY10)		Security (FY12)		Business Center, Reporting, HR, Incentive Pay (FY15)
	Risk management (health and safety, insurance) (FY12)			Government Relations and Legislation			Investment Accounting (FY15)
				Pension Funding			(FY #) - indicates last year audited

