

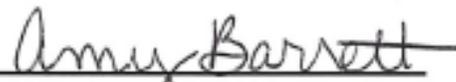


Fiscal Year 2017 Audit Plan

September 23, 2016

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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



Professional and Statutory Requirements

This document provides the *Fiscal Year 2017 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.

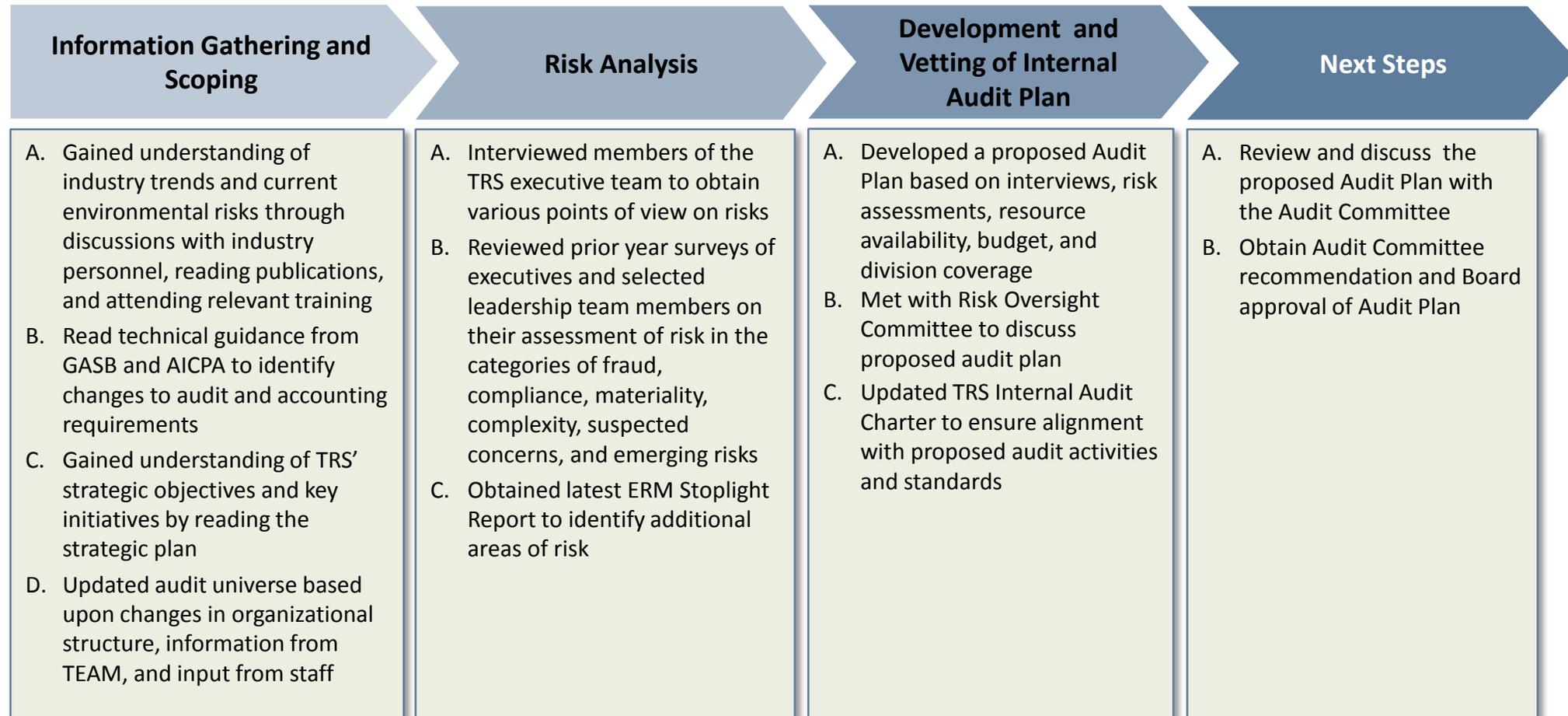
Changes Subsequent to Approval

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 of TRS executives and external service providers, risk assessment surveys from the prior year, and the current 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 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 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: Pension Benefits and Employer Audits

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
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
Employer Audits (6-10 Independent School Districts)	Audit	Determine whether information reported to TRS is complete and accurate, especially in the areas of eligibility, compensation, contributions, surcharges (pension and healthcare), and premiums paid
Employer Audit of Pension and TRS-Care Surcharges	Audit	Conduct a desk audit across multiple entities targeted at surcharge reporting and collections with the goal of collecting significantly underreported amounts to the trust.
Employer Audit Follow-Up	Audit	Follow-up and report on the status of outstanding audit recommendations related to reporting entities
Higher Education Pilot and Audit Program Development	Advisory	Select a higher education institution to pilot an audit in order to develop an audit program for future audits and for requesting internal auditors at higher education institutions to conduct
TRS Reporting Entity Website Audit Information and Communication	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.



Audit Plan: Health Care

Title	Type	Preliminary Scope
Health Insurance Portability and Accountability Act (HIPAA) Gap Assessment and Validation	Audit	Conduct a gap assessment and validation of TRS' compliance with HIPAA, especially in the areas of privacy, breach notification, and IT security. Incorporate assessment of third party monitoring of business associates and their subcontractors and cybersecurity risks and controls.
Trust Expense Allocation Audit	Audit	Assess reasonableness of expenses allocated between pension and health care trusts
TRS-ActiveCare Open Enrollment Readiness Assessment Follow-Up	Audit	Follow up on outstanding action items significant to open enrollment
TRS-ActiveCare Eligibility Pilot and Audit Program Development	Advisory	Conduct a second pilot audit of a school district to determine whether any dependents are ineligible for participating in TRS-ActiveCare. Provide results to management to determine whether audits on a larger scale are beneficial.
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: Investment Management

Title	Type	Preliminary Scope
Private Equity Fees	Audit	Verify the accuracy of private equity fees and compliance with investment management agreements for 1 – 2 private equity funds.
Soft Dollars and Commission Sharing Arrangements (CSA's)	Audit	Assess compliance with soft dollar policies; assess effectiveness and efficiencies of processes for accounting and reporting soft dollars and CSA's. Assess compliance with TRS travel policies
Quarterly Investment and Ethics Policies Compliance Testing	Agreed-Upon Procedures	Assess compliance with TRS ethics policies and the Investment Policy Statement (IPS) requirements
Annual Testing of Investment Incentive Pay Plan	Agreed-Upon Procedures	Prior to payment, recalculate the investment 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 Fiduciary Audit Coordination	Advisory	Coordinate the audit of the auditors hired by the SAO to assess TRS' fiduciary activities around real assets
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

Audit Plan: Finance

Title	Type	Preliminary Scope
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
CAFR Audit Coordination (SAO, auditors)	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
Teacher Retirement Investment Company of Texas (TRICOT) Financial Audit Coordination (Grant Thornton, auditors)	Advisory	Coordinate a financial audit of TRICOT, a wholly-owned subsidiary of TRS in London



Audit Plan: Executive

Title	Type	Preliminary Scope
Records Management Audit Follow-Up	Audit	Follow up on outstanding action items significant to records management
403(b) Program Controls Assessment, including Provider Compliance	Audit	Assess the design and effectiveness of controls at TRS in meeting 403(b) program objectives, including 403(b) providers' compliance with program requirements
Contractor Onboarding and Off-boarding Processes	Audit	Assess sufficiency of processes for onboarding and off-boarding contractors
Federal Labor Standards Act (FLSA) Compliance	Consulting	Analyze hourly and salaried employees and compare with requirements of the FLSA
Executive Incentive Pay	Agreed-Upon Procedures	Independent recalculate executive incentive pay in order to test the accuracy of the calculation by management
The University of Texas at Austin (UT) Student Project	Consulting	Assess a TRS policy and provide recommendations for enhancing it.
Enterprise Risk Management (ERM) Fraud Risk Assessment	Advisory	Partner with ERM to update the TRS fraud risk assessment and identify mitigating controls
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
Meetings Participation	Advisory	Participate (non-voting) in various TRS-wide meetings such as Executive Council, Leadership Team, and Risk Oversight Committee

Audit Plan: TEAM and Technology

Title	Type	Preliminary Scope
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, 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 FY 16, 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 - Decommissioning Project - Enterprise Security Team meetings - Monthly meetings with TEAM program manager and HPE executives
Disaster Recovery, Network Penetration Tests; Security Risk Assessment Review	Advisory	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

Audit Plan: Internal Audit Activities

Title	Project Description
Internal Quality Assurance Review	Assess Internal Audit's Quality Assessment and Improvement Program
ERS Audit Quality Assurance Review	TRS participates in a state program to receive and provide audit quality assessment reviews (QAR) required by auditing standards. ERS has requested that TRS lead its required QAR
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 Processes	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
Fiscal Year 2018 Audit Plan	Prepare annual audit plan based on a documented risk assessment in accordance with professional auditing standards and the Texas Internal Auditing Act
Internal Audit Strategic Plan Update	Bi-annual update of the Internal Audit Strategic Plan to consider changes in the department and continuing alignment with the TRS strategic plan
Audit Committee Meetings Preparation	Prepare communications and attend Audit Committee and Board Meetings



Audit Plan: High Risk Areas (High, Elevated, or Caution) and Areas of Interest to the SAO (Procurement and IT Security) excluded from the Audit Plan

Area	Reason for Exclusion
Purchasing Compliance Audit	Allow time for more health care procurements to be processed under new legislative requirements





Appendix A

Internal Audit Operating Budget



Appendix A

Internal Audit Operating Budget

Line Item	Budget FY 2017	Budget FY 2016
000 – Salaries	\$1,086,970	\$998,762
000 – Benefits	279,344	226,847
200 – Professional Fees (Increase due to investment fiduciary audit)	950,000	681,500
505 – Travel-In-State	13,500	14,500
510 – Travel-Out-of-State	23,000	18,000
705 – Dues, Fees, and Staff Development	25,000	22,500
710 – Subscriptions and Reference Materials	2,000	4,500
Total Operating Budget (excluding indirect costs such as computers, office space, and utilities)	\$2,379,814	\$1,966,609
Full Time Equivalent (FTE) Positions (excluding interns)	12.0	11.0

Resources are sufficient to complete the annual audit plan.



Appendix B

Internal Audit Performance Measures



Appendix B

Internal Audit Goals and Performance Measures

For the internal audit function, the FY 2017 goals and performance measures are as follows:

Goal 1: Ensure 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 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 the formal reporting entity risk assessment to identify reporting entities for audit

Goal 3: Enhance Internal Audit Staff Skills and Knowledge in Assurance Practices

Performance Measures

- a. Update data analytics roadmap identified by external advisor and complete year 2 activities
- b. Collaborate with an institution of higher education to pilot a reporting entity audit program; develop and distribute the audit program to other higher education auditors and request that they conduct these audits



Appendix B

Internal Audit Goals and Performance Measures

(continued)

Goal 4: Support Activities of External Service Providers

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, fiduciary audits, and Grant Thornton financial audit of TRICOT in fiscal year 2017 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, SAIAP, 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 24 continuing professional education hours in a fiscal year and a minimum of 80 hours for a two year period



Appendix C

Audit Universe

Appendix C

Audit Universe



Executive and Finance Divisions; Records Management		
Governance, Strategy, and Risk Management	Workforce Continuity	Accounting & Reporting
Board governance (FY13)	Employee recruiting and hiring practices (FY10)	Accounts receivable
Strategic planning and performance measures (FY13)	Employee training compliance (FY11)	Accounts payable (FY15)
Enterprise Risk Management	Internal policy setting and monitoring	Travel (FY16)
Information technology governance (FY10)	Communications and External Relations	Federal withholdings/tax compliance
Open Government		Social media
Open meetings compliance	Information and communication	Budget
Open records request compliance	403(b)	Budget process and reporting (FY10)
Ethics and Fraud Prevention	403(b) certification process	Purchasing and Contracts
Employee ethics policies (FY16)	Records Management	Vendor file, encumbrance, purchasing (FY14)
Fraud risk detection and prevention controls (FY15)		Records retention (FY15)
Regulatory, Compliance, & Litigation	Accounting & Reporting	Contract administration and monitoring (FY14)
Compliance: Pension Trust (FY15)	Financial/CAFR reporting including, new accounting pronouncements, reconciliations, general ledger, closing process (FY16)	Contract worker onboarding, monitoring and compliance (FY14)
Compliance: Health Care Trusts (FY13)	Other reporting (non-financial / CAFR)	HUB program compliance and reporting
Litigation risk management		Facilities and Facilities Planning
Business Continuity	Employee leave, timekeeping, and payroll (FY12)	Facility planning and maintenance
Business continuity plan (FY09)	Cashier (FY10)	Mail room operations (FY10)
Risk management (health and safety, insurance) (FY12)		Government Relations and Legislation

IMD Processes
Governance - IMD
Investment Governance and Management (FY16)
IMD Processes
Internal Public Markets (FY14)
External Public Markets (FY16)
Private Equity (FY15)
Real Assets (FY15)
Trade Management (FY14)
Emerging Manager Program (FY13)
Energy/Natural Resources (ENR) (FY14)
Strategic Partners (FY14)
Strategic Asset Allocation/Stable Value (FY14)
Tactical Asset Allocation (FY16)
Risk Management (FY16)
Performance Analytics and Operations (FY14)
Information Systems (FY15)
Business Center, Reporting, HR, Incentive Pay (FY16)
Investment Accounting (FY16)

(FY #) - indicates last year audited

Appendix C

Audit Universe

Benefits and Customer Service	
Pension Benefit Administration	Pension Benefit Administration and Customer Service
1099R	Statistical reporting (actuarial) (FY15)
Annuity payroll (FY16)	Web self service
Benefit adjustments (FY16)	Work flow (Imaging)
Benefit calculations (FY16)	TRS employee benefit administration (administered separately from non-TRS employees)
Benefit estimates	
Cash receipts (FY10)	
Check payments (FY16)	Telephone Counseling Center (FY14)
Contact management	Employer Reporting
Death benefits (FY16)	Employer setup, enrollment, and reporting (FY16)
Disability benefits (FY16)	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 (FY16)
Refunds (FY15)	TRS-Care Funding
Retirement application process	TRS-Care Finance (FY10)
Retirement system transfer	TRS-ActiveCare Affordability
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 (FY16)	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	TEAM
Co-location (FY14 Consulting)	Independent Program Oversight (FY16)
Disaster Recovery Management (FY09)	Internal Controls Assessment, including security controls

(FY #) - indicates last year audited