

# **Internal Audit Annual Report**

## **Fiscal Year 2014**

**October 2014**



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

# **TEACHER RETIREMENT SYSTEM OF TEXAS**

## **BOARD AUDIT COMMITTEE (As of October 15, 2014)**

Christopher Moss, Chair  
T. Karen Charleston  
David Corpus  
Anita Smith Palmer  
Nanette Sissney

## **BOARD MEMBERS (As of October 15, 2014)**

R. David Kelly, Chair  
Nanette Sissney, Vice Chair  
Todd Barth  
T. Karen Charleston  
Joe Colonna  
David Corpus  
Christopher Moss  
Anita Smith Palmer  
Dolores Ramirez

## **EXECUTIVE DIRECTOR**

Brian Guthrie

## **INTERNAL AUDIT DEPARTMENT**

Amy L. Barrett, CIA, CISA, CPA, Chief Audit Executive  
Karen Morris, CIA, CISA, CRMA, Director of Pension Audit Services  
Jan Engler, CIA, CISA, CFE, Audit Manager  
Lih-Jen Lan, CIA, CPA, CISA, CISSP, CCSA, Information Technology (IT)  
Audit Manager  
Hugh Ohn, CFA, CPA, CIA, FRM, Director of Investment Audit Services  
Dinah G. Arce, CIA, CPA, CFE, CIDA, Senior Auditor  
Toma Miller, CGAP, Senior Auditor  
Dorvin Handrick, CISA, Senior IT Auditor  
Nick Ballard, CFA, Senior Investment Auditor  
Art Mata, CEBS, CPM, Internal Audit Consultant  
Valerie Robateau, Administrative Assistant



**Brian K. Guthrie**  
*Executive Director*

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512.542.6400      Austin, Texas 78701-2698

**Amy L. Barrett, CIA, CISA, CPA**  
*Chief Audit Executive*

October 27, 2014

Honorable Rick Perry, Governor  
Members of the Legislative Budget Board  
Members of the Sunset Advisory Commission  
Mr. John Keel, CPA, State Auditor  
Mr. R. David Kelly, Chair, TRS Board of Trustees  
Mr. Christopher Moss, Chair, TRS Board Audit Committee  
Members of the Board of Trustees, Teacher Retirement System of Texas

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 requirement of the Texas Internal Auditing Act (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 guideline requirements:

- I. Compliance With House Bill 16 (Government Code, Section 2102.015)
- II. Planned Work Related to Proportionality of Higher Education Benefits
- III. Internal Audit Plan for Fiscal Year 2014
- IV. List of consulting and Nonaudit Services Completed
- V. External Quality Assurance Review
- VI. Internal Audit Plan for Fiscal Year 2015
- VII. External Audit Services Procured in Fiscal Year 2014
- VIII. 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 2014 projects contributed to the improvement of risk management, control, and governance processes. Internal Audit issued eight assurance and six agreed-upon procedures reports, followed-up and reported quarterly on the status of all outstanding audit recommendations, and performed advisory services in various areas including TEAM (TRS Enterprise Application Modernization) Program initiatives and Executive areas.

For further information about the contents of this report or to request copies of Internal Audit reports, please contact Amy Barrett at (512) 542-6559.

Sincerely,

  
Amy L. Barrett, CIA, CISA, CPA  
Chief Audit Executive

cc: Executive Council Members  
Internal Audit Staff Members

**TEACHER RETIREMENT SYSTEM OF TEXAS**

**INTERNAL AUDIT ANNUAL REPORT**

**FISCAL YEAR 2014**

**October 2014**

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**I. Compliance with House Bill 16:  
Posting Information on Internet Website**

# **Teacher Retire Teacher Retirement System of Texas Internal Audit Annual Report for Fiscal Year 2014**

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## **Section 1: Texas Internal Auditing Act – Compliance with House Bill 16: Publication of Internal Audit Plan, Internal Audit Annual Report, and Other Audit Information on Internet Website**

House Bill 16 (83rd Legislature, Regular Session) amended the Texas Internal Auditing Act, by adding section 2102.015, which requires state agencies and institutions of higher education, as defined in the bill, to post agency internal audit plans and internal audit annual reports on the agency's internet website within 30 days of approval. House Bill 16 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 House Bill 16:

- The **TRS Annual Internal Audit Plan** is approved each fiscal year by the TRS Board of Trustees as recommended by the TRS Audit 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, the Legislative Budget Board, the Sunset Advisory Commission, the State Auditor's Office and the TRS' Board of Trustees by November 1<sup>st</sup> 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 Committee materials. The audit 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 Committee materials are posted to the TRS Website, after dissemination to TRS Board of Trustees, through an administration process of board and committee materials prior to the scheduled board meeting.

**II. Planned Work Related to the Proportionality of Higher  
Education Benefits**

Not applicable to TRS

**Teacher Retirement System of Texas**  
**Internal Audit Annual Report for Fiscal Year 2014**

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**III. Internal Audit Plan for Fiscal Year 2014**

**Teacher Retirement System of Texas  
Internal Audit Annual Report for Fiscal Year 2014**

**Status of Fiscal Year 2014 Planned Assurance, Consulting, and  
Advisory Services as of August 2014**

<b>Title</b>	<b>Project #</b>	<b>Type</b>	<b>Status</b>	<b>Report Date</b>
<b>Executive</b>				
Electronic Records	N/A	Audit	<b>Deferred to FY 2015 Approved at June 2014 Audit Committee</b>	N/A
Fraud Investigation Procedures Development	N/A	Advisory	<b>Complete</b>	N/A
Internal Ethics and Fraud Hotline Administration	N/A	Advisory	<b>Complete</b>	N/A
University of Texas Students' Project – Best Practices for Social Media	14-606 (2)	Consulting (Added)	<b>Complete</b>	4/22/14
Meetings Participation	N/A	Advisory	<b>Complete</b>	N/A
Special Requests	N/A	Advisory	<b>Complete</b>	N/A
<b>Finance</b>				
Purchasing and Contract Administration	14-401	Audit	<b>Complete</b>	9/17/14
GASB 67 and 68 Implementation Status	N/A	Advisory	<b>Complete</b>	N/A
State Auditor's Office (SAO) Financial Audit Coordination	N/A	Advisory	<b>Complete</b>	N/A
Meetings Participation	N/A	Advisory	<b>Complete</b>	N/A
Special Requests and Surprise Inspections	N/A	Advisory	<b>Complete</b>	N/A
<b>TEAM Program</b>				
TEAM Independent Program Assessment (IPA) Vendor Support	N/A	Advisory	<b>Ongoing</b>	N/A
TEAM Committees Participation	N/A	Advisory	<b>Complete</b>	N/A
TEAM Internal Controls Project	N/A	Consulting (Added)	<b>Continue to FY 2015 Approved at June 2014 Audit Committee</b>	N/A
<b>Pension Benefits</b>				
Cost of Living Adjustment (COLA) Calculation	14-404	Audit	<b>Complete</b>	9/18/14
Refunds, Inactive and Escheated Accounts	14-104	Audit	<b>Complete</b>	5/21/14
Special Service Buy Back Process	14-103	Audit	<b>Complete</b>	9/22/13

## Teacher Retirement System of Texas Internal Audit Annual Report for Fiscal Year 2014

Title	Project #	Type	Status	Report Date
Telephone Counseling Center Follow-up (outsourced)	14-102	Audit	<b>Complete</b>	3/5/14
Benefits Payment Testing for SAO Financial Audit	14-100	Audit	<b>Complete</b>	N/A
Semi-annual Benefits Testing	14-101	Agreed-Upon Procedures	<b>Complete</b>	2/28/14 and 8/28/14
<b>Employer Reporting</b>				
TRS Employer Reporting Controls	N/A	Advisory	<b>Complete</b>	N/A
Employer Self-Audit Program	N/A	Advisory	<b>Complete</b>	N/A
Employer Reviews/Special Projects	N/A	Various	<b>Complete</b>	N/A

Title	Project #	Type	Status	Report Date
<b>Health Care Benefits</b>				
Health Care Governance, Risk Management, and Reporting	N/A	Consulting	<b>Deferred Approved at June 2014 Audit Committee</b>	N/A
Health Care Vendor Update Meetings	N/A	Advisory	<b>Complete</b>	N/A
Health Care Vendor and Auditor Selection Observation	N/A	Advisory	<b>Complete</b>	N/A
<b>Information Technology</b>				
Identity and Access Management, and Contractor Onboarding Process (Renamed "Contractor Onboarding and System Access")	14-502	Audit	<b>Complete</b>	5/15/14
Information Technology (IT) Security Program Follow-up (outsourced)	14-505	Audit	<b>Complete</b>	9/19/14
Emerging IT Risks (outsourced): (1) Cloud Computing (2) Mobile Device Security	14-503 and 14-504	Consulting	<b>(1) Complete (2) In Progress</b>	1.) 8/1/14 2.) N/A
University of Texas Students' Project – Best Practices and Policies for Cloud Computing and Mobile Devices	14-606 (1)	Consulting (Added)	<b>Complete</b>	December 2013
Co-Location/Disaster Recovery Planning (outsourced)	14-501	Consulting	<b>Complete</b>	4/18/14
Network Penetration Test; Security Risk Assessment Review	N/A	Advisory	<b>Complete</b>	N/A
Technology Committee Meetings Attendance	N/A	Advisory	<b>Complete</b>	N/A
<b>Investment Management</b>				
Overall Internal Control Opinion on Investment Activities (includes periodic status reports)	14-301	Audit	<b>Complete</b>	3/5/14 5/16/14 9/13/14
Quarterly Investment Testing	14-302	Agreed-Upon	<b>Complete</b>	11/20/13

## Teacher Retirement System of Texas Internal Audit Annual Report for Fiscal Year 2014

Title	Project #	Type	Status	Report Date
		Procedures		3/5/14 5//20/14 9/3/14
Private Strategic Partner Network (SPN) Fee Calculations	14-303	Advisory	<b>In Progress</b>	N/A
Incentive Compensation Plan Review	N/A	Advisory	<b>Complete</b>	N/A
Investment Committees Attendance	N/A	Advisory	<b>Complete</b>	N/A
<b>Internal Audit Department</b>				
Internal Quality Assurance Review	14-605	Administrative	<b>Complete</b>	8/22/14
External Quality Assurance Reviews	N/A	Administrative	<b>Complete</b>	N/A
Annual Internal Audit Report	14-603	Administrative	<b>Complete</b>	10/15/13
Quarterly Audit Recommendations Follow-up	N/A	Administrative	<b>Complete</b>	N/A
Fiscal Year 2015 Audit Plan	N/A	Administrative	<b>Complete</b>	N/A
Health Care Audit Risk Assessment, Model 3Year Audit Plan Project	14-201	Consulting	<b>Complete</b>	May 2014
Audit Committee Meetings Preparation	N/A	Administrative	<b>Complete</b>	N/A
Internal Audit Strategic Plan	14-604	Administrative	<b>Complete</b>	9/19/14

**Advisory and consulting projects are not assigned project numbers and are typically not reported to the Audit Committee.**

**IV. Consulting Services  
and Nonaudit Services Completed**

# **Teacher Retirement System of Texas**

## **Internal Audit Annual Report for Fiscal Year 2014**

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### **IV. Consulting Services and Nonaudit Service Completed**

During fiscal year 2014, Internal Audit conducted (or hired consultants to conduct) the following consulting (nonaudit services) projects resulting in formal recommendations to management.

#### **1. Report on Health Care Audit Risk Assessment and Model Three-Year Audit Plan Project**

(Project #: 14-201, Memorandum date: May 2014)

Objective: To identify and prioritize risks related to the process used in administering health care benefits provided under TRS-Care and TRS-ActiveCare to employees, retirees, and their dependents; develop a project report and model three-year audit program.

Strengths identified include tone at the top, leadership commitment to meet needs of plan participants, close working relationship between management and vendors, and focus on continuous improvement.

Top potential risk areas were identified along with associated potential control weaknesses or deficiency risk drivers to be considered for future health care audits and consulting projects, which were ranked in priority order.

#### **2. University of Texas Students' Consulting Projects on Best Practices Policies for Cloud Computing and Mobile Devices**

(Project #14-606 (1), PowerPoint presentation, December 2013)

Objective: To research and identify best practices for the use of cloud computing and mobile devices among other business and/or government organizations and compare to TRS current policies and provide suggestions for improvement.

Strengths identified included employee signed agreements of use of mobile devices, strong passwords and encryption software, required protection of confidential information and corrective action for those not adhering to policy.

Suggestions for improvement include oversee data deletion from mobile devices, audit use of employee personal mobile devices, and install mobile device management software.

#### **3. University of Texas Students' Consulting Projects on Best Practices Policies**

(Project #14-606 (2), PowerPoint presentation, May 2014)

# **Teacher Retirement System of Texas**

## **Internal Audit Annual Report for Fiscal Year 2014**

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Objective: To research and identify best practices for the use of social media among other business and/or government organizations and compare to TRS current policies and provide suggestions for improvement.

Strengths identified include deletion/response guidelines, permissible/non-permissible guidelines for comments, and working closely with IT.

Suggestions for improvement include security training for staff who administers the TRS social media site, adding software that reduces likelihood and impact of having social media accounts compromised, implementing a “social media crisis” policy, policy to limit use of hashtags, and changing passwords in accordance with the TRS Information Security Manual.

#### **4. Co-Location/Disaster Recovery Planning (outsourced)**

(14-501, PowerPoint presentation, April 18, 2014)

Objective: To review current TRS co-location plans, strategies, and assumptions making recommendations for improvement; assist and make recommendations on the issues of distance, data security/encryption, support and staffing, provide insight on how other organizations are co-locating, document concerns and review roles/responsibilities.

Strengths included an overall sound approach to a disaster recovery (DR) plan and a solid beginning in architecting and piloting new DR approach.

Suggestions included formalize and document analysis of options and costs, document logic behind decisions made, ensure provisions of contracts are appropriate to meet TRS’ needs, and develop and implement monitoring procedures.

#### **5. Emerging IT Risks with Cloud Computing (outsourced)**

(14-503, Memo, August 1, 2014)

Objective: To review TRS’ current use of cloud-based technologies, future directions, current policies and make recommendations on policies and procedures that need to be updated or put in place to protect TRS; document security concerns, create a cloud computing checklist, document factors and risks when deciding between different deployment methods, provide insight on how other organization are using cloud computing, document additional roles and responsibilities needed to support cloud computing.

Strengths include TRS’ commitment to evaluating the risk components of cloud-based solutions.

Suggestions included continue to refine and strengthen the vendor assessment process, develop cloud policies related to the use and selection of cloud-based solutions, and develop a governance process related to cloud-based solution selection.

# **Teacher Retirement System of Texas**

## **Internal Audit Annual Report for Fiscal Year 2014**

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### **6. Emerging IT Risks with Mobile Device Security (outsourced)**

(14-504, ongoing)

Objective: Work with TRS to create a vision and guiding policy for supporting mobile devices, review current TRS policies related to mobile devices and make recommendations, review user agreement, provide insight on how other organizations are supporting mobile devices, document security concerns, and reviewing remote access policies.

Strengths – N/A

Suggestions – N/A

# **Teacher Retirement System of Texas**

## **Internal Audit Annual Report for Fiscal Year 2014**

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# **Teacher Retirement System of Texas**

## **Internal Audit Annual Report for Fiscal Year 2014**

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Strengths – N/A

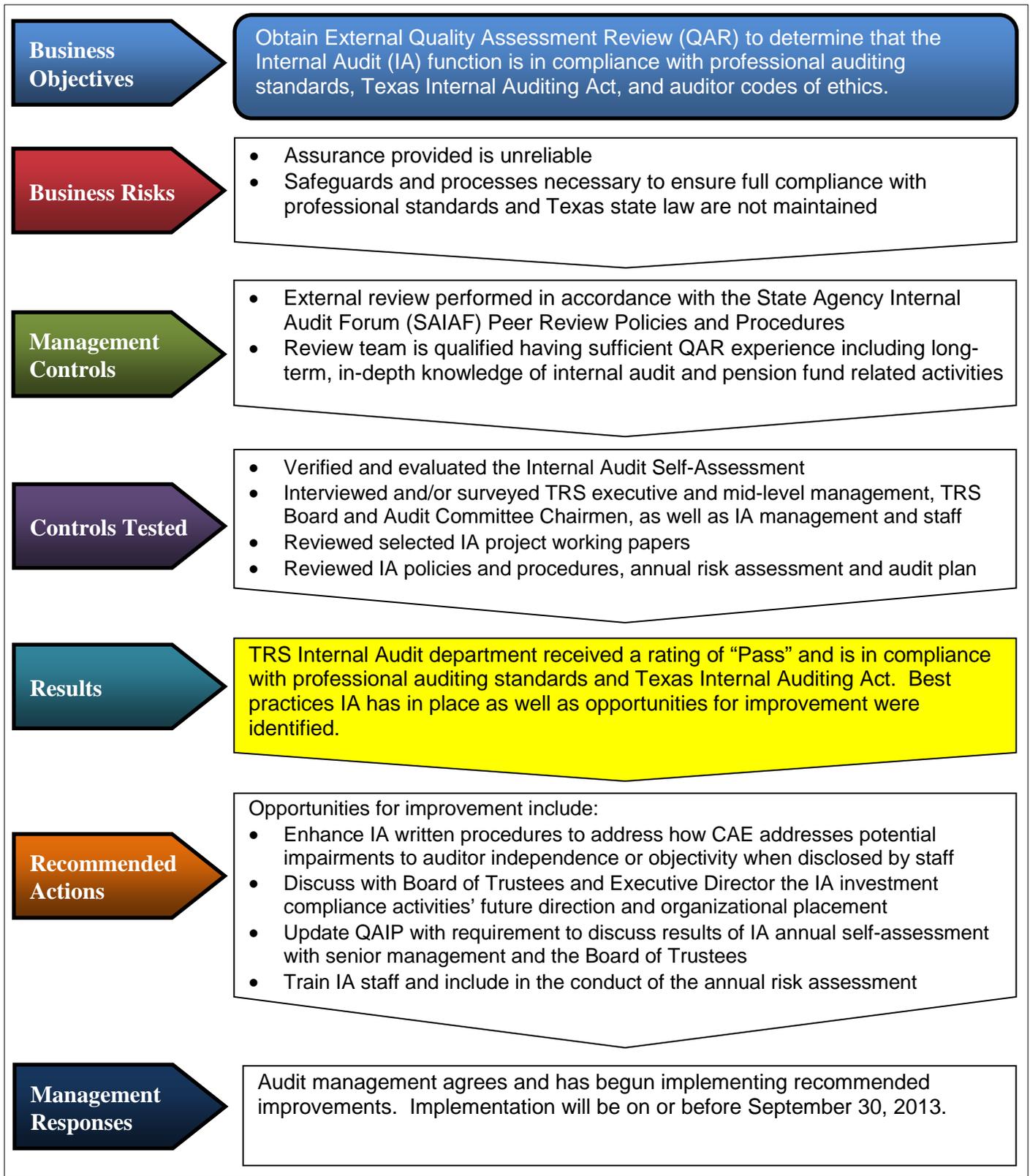
Suggestions – N/A

## **V. External Quality Assurance Review**

# INTERNAL AUDIT EXTERNAL QUALITY ASSURANCE REVIEW

JUNE 2013

## TRS Internal Audit Department



Legend of Results:

**Red** - Significant to TRS  
**Yellow** - Other Reportable Issue

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

**REPORT ON THE  
EXTERNAL QUALITY ASSURANCE REVIEW  
OF THE TEACHER RETIREMENT SYSTEM'S  
INTERNAL AUDIT DEPARTMENT**

*June 2013*



**Performed by**

Karin Hill, CIA, CGAP, CRMA  
Director of Internal Audit  
Texas Department of Assistive and Rehabilitative Services

Jennifer Hymel  
Director of Compliance and Assurance  
Texas County and District Retirement System

Nicki Russell, MPA, CIA, CPA  
Internal Auditor  
Missouri State Employees Retirement System

## OVERALL OPINION

Based on the information received and evaluated during this external quality assurance review, it is our opinion that the Teachers Retirement System of Texas' Internal Audit Department receives a rating of "Pass" and is in compliance with the Institute of Internal Auditors (IIA) *International Standards for the Professional Practice of Internal Auditing* 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 means that policies, procedures, and practices are in place to implement the standards and requirements necessary for ensuring 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 and the Department is supported in obtaining additional expertise as necessary. Individual audit projects are planned using risk-based internal auditing; 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 an effective relationship with the Board of Trustees and is well respected and supported by management. Surveys and interviews conducted during the quality assurance review indicate that management considers Internal Audit an integral part of the overall agency operations and finds that the audit process and report recommendations add value and help improve the agency's operations.

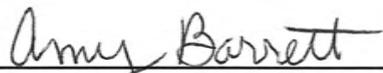
**Teacher Retirement System of Texas**  
**Internal Audit Annual Report for Fiscal Year 2014**

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**VI. Internal Audit Plan for Fiscal Year 2015**

# 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

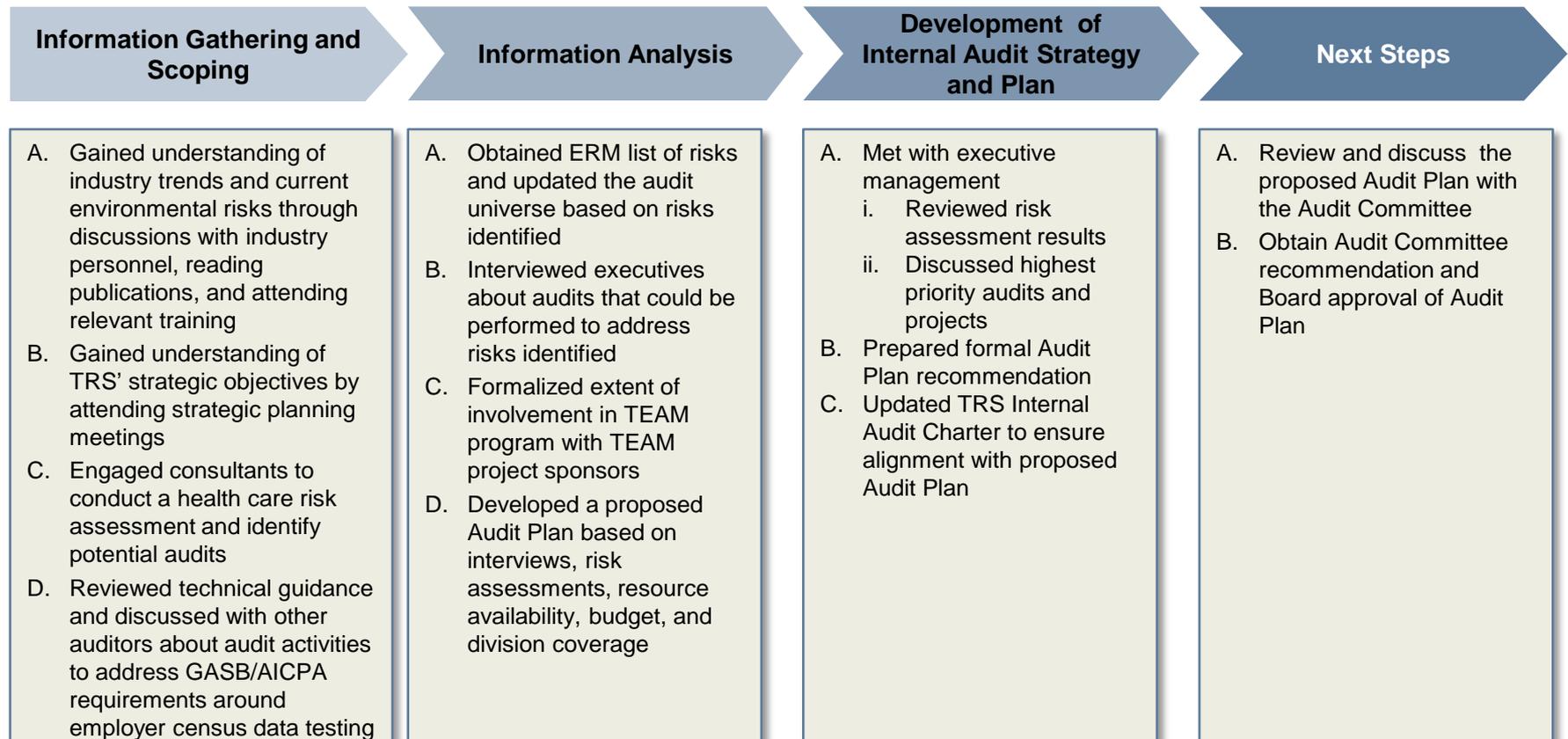
Our Audit Plan is designed to provide coverage of key risks, given the existing staff and approved budget. See the **Appendices** for information regarding the internal audit budget, performance measures, and audit universe.

## 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

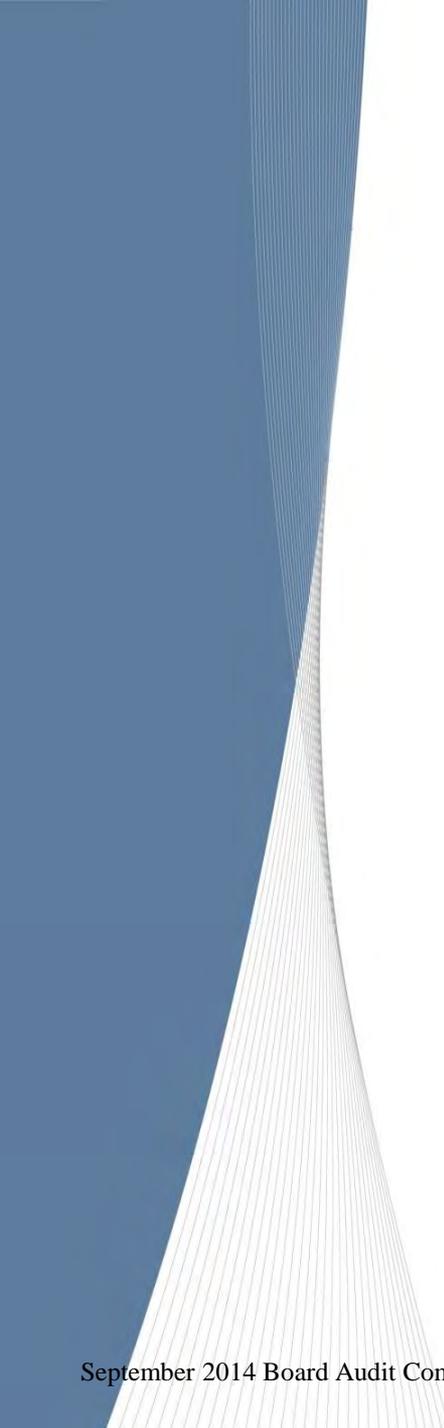
Title	Type	Preliminary Scope
Overall Internal Control Opinion on Investment Activities (includes periodic status reports)	Audit	Assess key operating, compliance, and reporting controls within the Investment Management Division and its service providers relating to private markets transactions. Private 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**

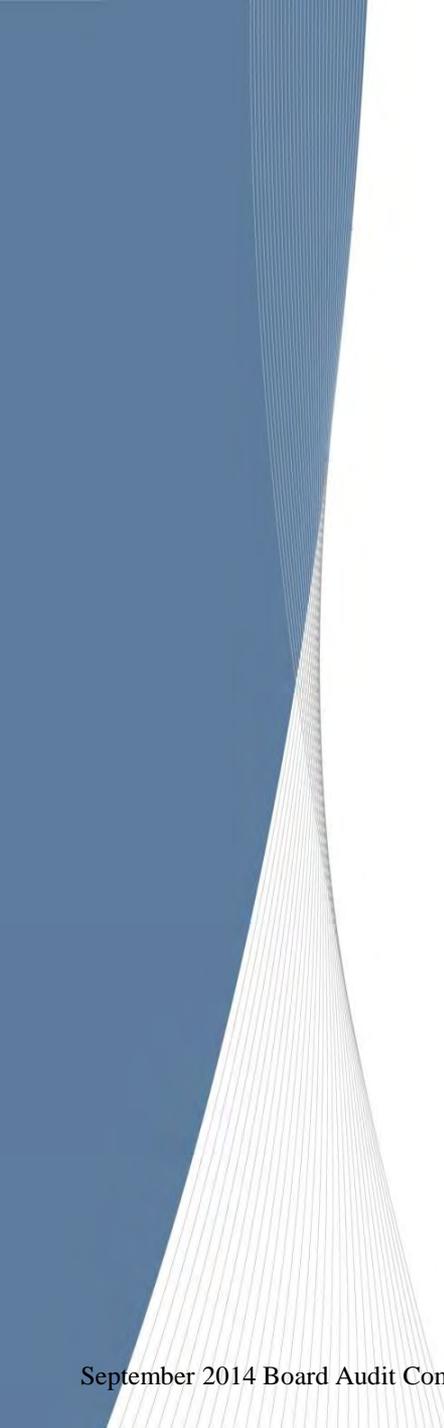
## **Internal Audit Operating Budget**

# 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**

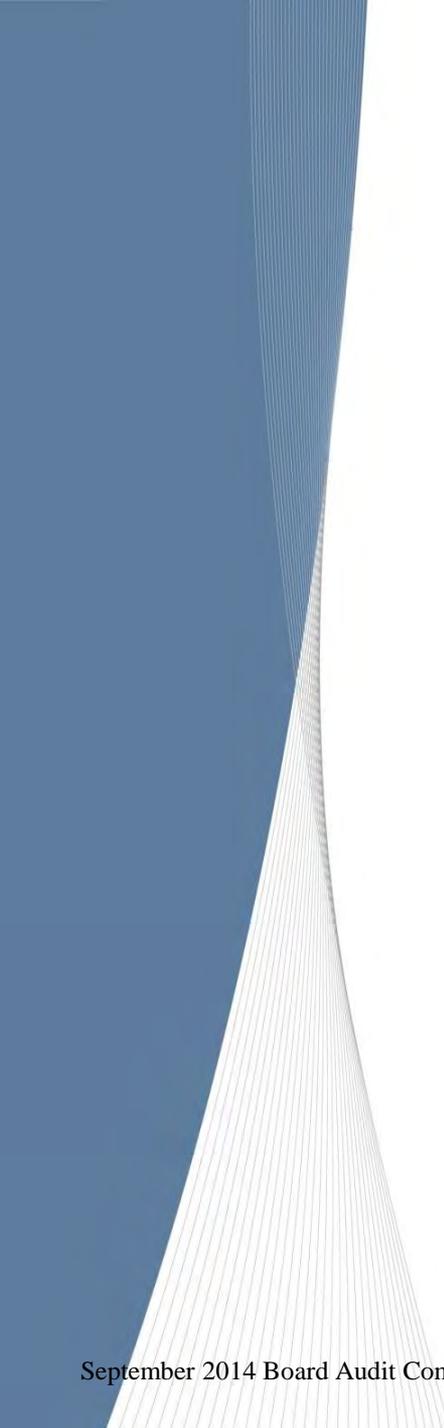
### *Performance Measures*

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

IMD Processes	
<b>Governance - IMD</b>	
	Investment Governance and Management (FY14)
<b>IMD Processes</b>	
	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

# **Teacher Retirement System of Texas**

## **Internal Audit Annual Report for Fiscal Year 2014**

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### **Budget Hours for Fiscal Year 2015 Audit Plan Projects**

As part of our annual audit plan development, we establish estimated budgets and timelines for completing assurance, consulting, advisory, and administrative projects. This information is used internally as project management tools and is not published in the annual audit plan. The chief audit executive (CAE) and audit managers review the status of scheduled projects on an ongoing basis throughout the fiscal year. The CAE must approve changes to scheduled audit projects.

The status of each audit plan project as well as projects added during the year is published quarterly in the TRS Board Audit Committee board books. The Audit Committee reviews these status reports in the quarterly Audit Committee meetings.

### **Projects Related to Expenditure Transfers, Capital Budget Controls, or any other limitation or restriction in the General Appropriations Act**

TRS does not have any projects planned related to expenditure transfers, capital budget controls, or any other limitation or restriction in the General Appropriations Act.

# 2015 - 2019

TRS' Internal Audit Strategic Plan



*Looking Towards the Future*

*Trusted Assurance,  
Trusted Assurance,  
Valued Advice  
Valued Advice*

# TRS INTERNAL AUDIT STRATEGIC PLAN FY2015 – 2019

## Our Mission

The mission of the Internal Audit department is to provide independent, objective assurance and consulting services designed to add value and improve the organization's operations. Internal Audit helps the organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

## Our Vision

We strive to provide ***trusted assurance and valued advice*** through our services to the Board of Trustees, the Audit Committee, and executive management:

- Assurance that TRS' risk management, governance, and control processes support achievement of TRS mission and business objectives
- Advice and consultation for improving processes through business partnerships and collaboration

## Our Stakeholders

One of our priorities is to assess key stakeholder expectations, identify gaps, and implement a comprehensive strategy for improvement. Our primary stakeholders include:

- TRS Board of Trustees, and the Board Audit Committee
- Executive Director
- Executive Management

# TRS INTERNAL AUDIT STRATEGIC PLAN FY2015 – 2019

## STRATEGIC GOALS

Our four strategic goals were developed to ensure that Internal Audit supports the changing needs of TRS' stakeholders in achieving business goals and objectives. These goals represent a strategy for enhancing our contribution to the TEAM Program success, supporting effective Audit Committee governance processes, improving internal audit business expertise, and integrating TRS core values into internal audit processes.

- Goal 1 Assist with the Success of the TRS Enterprise Modernization Application (TEAM) Program
- Goal 2 Support Audit Committee Governance
- Goal 3 Enhance Internal Audit Staff's Competence and Expertise in Support of TRS Risk Management, Control, and Governance Processes
- Goal 4 Support Agency Culture Initiatives

The **table** on the following pages identifies the objectives and related strategies and tactics for each goal.

## TRS INTERNAL AUDIT STRATEGIC PLAN FY2015 – 2019

GOAL 1: ASSIST WITH THE SUCCESS OF THE TRS ENTERPRISE APPLICATION MODERNIZATION (TEAM) PROGRAM	
Objective 1: Facilitate independent oversight for Board and external oversight agencies	
Strategy	Tactics
S1. Provide contract oversight and monitoring of Independent Program Assessment (IPA) vendor	T1: Obtain deliverables, schedule required meetings, and approve invoices for payment T2: Monitor hours incurred and contract performance
S2. Coordinate communication process between IPA vendor and key stakeholders	T1: Obtain and address feedback from stakeholders and IPA regarding communications process and access requests T2: Clarify audit's role relating to IPA in Internal Audit Charter update
S3. Coordinate with State Auditor's Office (SAO) for testing of Financial System Replacement (FSR) software application for financial and other future audits	T1: Participate in status update and key decision-making meetings on FSR T2: Communicate documentation requirements for SAO future audits T3: Review sufficiency of documentation in preparation for SAO future audits
Objective 2: Provide input and assistance during development and implementation of TRUST (new Benefits system)	
Strategy	Tactics
S1. Define involvement in TEAM program related to TRUST system	T1: Participate in TEAM committees and other activities, as requested, and ensure Internal Audit (IA) role is stated clearly in TEAM documents such as project charters T2: Allocate resources in annual audit plan to provide coverage of significant committees and projects activities T3: Participate in review of documents by established TEAM deadlines
S2. Assist management in evaluating key <u>internal</u> controls incorporated in TRUST system and business processes	T1: Allocate/schedule IA resources in annual audit plan T2: Obtain list of key controls from management where assistance in validation is desired T3: Assist management in evaluating selected key controls, participate in controls testing, review test results and follow-up on test exceptions T4: Formally communicate observations from testing participation to project management
S3. Assist management in evaluating key <u>security</u> controls incorporated in TRUST system and business processes	T1: Allocate/schedule IA resources in annual audit plan T2: Obtain list of key security controls from management where assistance in validation is desired T3: Assist management in evaluating selected key security controls, participate in controls testing, review test results, and follow-up on test exceptions T4: Formally communicate observations from testing participation to project management

## TRS INTERNAL AUDIT STRATEGIC PLAN FY2015 – 2019

<b>Objective 3: Use TRUST in future audits</b>	
<b>Strategy</b>	<b>Tactics</b>
S1. Obtain training on using TRUST	T1: Coordinate with Business Process Managers (BPMs) to ensure Internal Audit (IA) training needs are identified and scheduled T2: Allocate/schedule IA resources in annual audit plan for TEAM training T3: Augment IA TEAM training with internal meetings as needed by IA Subject Matter Experts T4: Maintain IA repository for “training” documents as a permanent file for future use
S2. Utilize data analytics and continuous auditing	T1: Participate in TEAM program requirements gathering and detailed reviews to ensure that the TRUST system has the capability of providing data to perform data analysis T2: Based on knowledge obtained from training, identify potential new data analytic tests in the TRUST system T3: Incorporate data analytics and continuous auditing into projects associated with TRUST system
<b>Objective 4: Provide input during development and implementation of the Financial System Replacement (FSR) software application</b>	
<b>Strategy</b>	<b>Tactics</b>
S1. Define involvement in TEAM program related to the FSR software application	T1: Participate in TEAM committees and other activities, as requested, and ensure Internal Audit (IA) role is stated clearly in TEAM documents such as project charters T2: Allocate resources in annual audit plan to provide coverage of significant committees and projects activities T3: Participate in review of documents by established TEAM deadlines
S2. Assist management in evaluating key internal controls incorporated in the FSR software application and business processes	T1: Allocate/schedule IA resources in annual audit plan T2: Obtain list of key controls from management where assistance in validation is desired T3: Assist management in evaluating selected key controls, participate in controls testing, review test results and follow-up on test exceptions T4: Formally communicate observations from testing participation to project management
S3. Assist management in evaluating <u>security</u> controls incorporated in the FSR software application and business processes	T1: Allocate/schedule IA resources in annual audit plan T2: Obtain list of key security controls from management where assistance in validation is desired T3: Assist management in evaluating selected key security controls, participate in controls testing, review test results, and follow-up on test exceptions T4: Formally communicate observations from testing participation to project management

## TRS INTERNAL AUDIT STRATEGIC PLAN FY2015 – 2019

Objective 5: Use FSR software application in future audits	
Strategy	Tactics
S1. Obtain training on using new FSR software application	T1: Coordinate with Business Process Managers (BPMs) to ensure Internal Audit (IA) training needs are identified and scheduled T2: Allocate/schedule IA resources in annual audit plan for TEAM training T3: Augment IA TEAM training with internal meetings as needed by IA Subject Matter Experts T4: Maintain IA repository for “training” documents as a permanent file for future use
S2. Utilize data analytics and continuous auditing	T1: Participate in TEAM program requirements gathering and detailed reviews to ensure that the FSR application has the capability of providing data to perform data analysis T2: Based on knowledge obtained from training, identify potential new data analytic tests in the FSR application T3: Incorporate data analytics and continuous auditing into projects associated with the FSR application
GOAL 2: SUPPORT AUDIT COMMITTEE GOVERNANCE	
Objective 1: Provide assurance to the Audit Committee and executive management on risk mitigation activities related to the pension and healthcare trusts	
Strategy	Tactics
S1. Conduct assurance activities relating to the completeness and accuracy of Reporting Entity information submitted to TRS	T1: Conduct audits and investigations of Reporting Entities as requested or as scheduled on the annual audit plan based on an objective risk assessment T2: Conduct internal audits of controls maintained by TRS or its vendors over completeness and accuracy of Reporting Entity data T3: Communicate to Reporting Entities regarding issues found during audits via presentations, the TRS website, and direct communication T4: Coordinate with the SAO to facilitate their audit of the TRS financial statements and with other interested organizations conducting reporting entity audits T5: Monitor changes in auditing requirements of professional organizations and the SAO
S2. Provide assurance on investment risk mitigation activities	T1: Issue an overall opinion annually on the effectiveness of internal controls relating to investment activities for the past three years T2: Test investment compliance, cash transfers, and ethics controls quarterly T3: Continuously monitor changes to the investment environment by analyzing investment data, attending important meetings, reading relevant documents, utilizing consultants, networking, attending relevant training, and maintaining certifications

## TRS INTERNAL AUDIT STRATEGIC PLAN FY2015 – 2019

Strategy	Tactics
S3. Provide assurance on health care risk mitigation activities	T1: Stay current on legislative changes impacting TRS health plans and associated risks T2: Utilize TRS and vendor health care risks assessments to develop a reasonable and flexible approach for performing routine audits of the health care trusts T3: Procure health care expertise to execute risk-based audit plans, if needed T4: Obtain training for dedicated Internal Audit staff on health care risks and compliance requirements
S4. Coordinate with Enterprise Risk Management (ERM) on risk assessment activities	T1: Enhance collaboration with ERM through regular meetings and information sharing T2: Utilize risk assessments developed by management through the ERM program as the basis of the annual audit plan T3: Provide feedback after each audit to ERM about the completeness of management's risk assessments for future consideration T4: Participate in internal Risk Oversight Committee meetings
<b>Objective 2: Improve Internal Audit communication</b>	
Strategy	Tactics
S1. Refine report format of Internal Audit reports and Audit Committee materials	T1: Review current materials for possibilities for improvement T2: Survey Audit Committee members and management on report format and incorporate feedback T3: Review other entities' presentations for ideas
S2. Improve delivery of information	T1: Survey Audit Committee and management for improvement on delivery of information and incorporate feedback T2: Identify and participate in public speaking training/opportunities T3: Maintain Internal Audit intranet and internet sites
<b>Objective 3: Provide information on effective Audit Committee practices</b>	
Strategy	Tactics
S1. Obtain and provide information to the Audit Committee on best practices of audit committees	T1: Designate a portion of the spring meeting to Audit Committee education during legislative session years T2: Provide Audit Committee orientation to new trustees
S2. Consider using Audit Committee self-evaluation tool	T1: Present and explore concept of self-evaluation with the Audit Committee chair T2: Develop a self-evaluation tool for consideration by the Audit Committee chair
S3. Explore sharing governance resources through Diligent	T1: Meet with Diligent owner to discuss ideas and potential resources T2: Discuss idea of sharing information with the Audit Committee chair

## TRS INTERNAL AUDIT STRATEGIC PLAN FY2015 – 2019

Objective 4: Improve governance on fraud awareness, prevention, and detection activities	
Strategy	Tactics
S1. Develop fraud detection activities	T1: Document standard procedures for Internal Audit fraud investigations T2: Provide input into updates to the TRS Fraud Policy T3: Provide assistance in investigations as formally requested T4: Incorporate control tests in assurance projects to ensure controls are there to prevent or timely detect unusual “fraud” red flag activity
S2. Improve fraud awareness and prevention program	T1: Administer the TRS Fraud and Ethics Hot Line, including updating promotional materials
GOAL 3: ENHANCE INTERNAL AUDIT STAFF’S COMPETENCE AND EXPERTISE IN SUPPORT OF TRS RISK MANAGEMENT, CONTROL, AND GOVERNANCE PROCESSES	
Objective 1: Cultivate in-house Subject Matter Experts	
Strategy	Tactics
S1. Deepen knowledge of TRS laws (federal and state), rules, and internal policies	T1: Pilot new auditor rotation into operational functions T2: Participate in internal training in business units T3: Hold lunch-and-learn knowledge transfers sessions at audit meetings T4: Analyze other audit reports and share best practices identified in those reports T5: Leverage knowledge transfer from contractors
S2. Broaden foundational skills in data analytics	T1: Prepare and present training programs (e.g., Audit Command Language, Microsoft Access, Computer-Aided Audit Tools) to Internal Audit (IA) staff T2: Add a project scoping step in TeamMate to include data analytics on every project T3: Identify data analytics mentors for IA staff T4: Attend and apply external data analysis training in projects
Objective 2: Ensure continued competence and expertise of Internal Audit	
Strategy	Tactics
S1. Develop workforce continuity plans	T1: Work with Human Resources to develop a continuity plan for Internal Audit (IA) T2: Establish a cross training policy within IA T3: Participate in the TRS Leadership Development Program

## TRS INTERNAL AUDIT STRATEGIC PLAN FY2015 – 2019

<b>GOAL 4: SUPPORT AGENCY CULTURE INITIATIVES</b>	
<b>Objective 1: Integrate TRS Core Values into Internal Audit activities</b>	
<b>Strategy</b>	<b>Tactics</b>
S1. Explore opportunities and methods to tie audit findings into TRS core values	T1: Recognize Internal Audit and client actions that demonstrate TRS core values T2: Identify in audit activities when positive findings directly demonstrate a TRS core value
S2. Integrate TRS Core Values into IA policies and procedures	T1: Incorporate TRS core values into the internal Ethics and Fraud Hot Line materials T2: Update job descriptions and performance evaluations to include TRS core values (Human Resources led initiative)

## **VII. External Audit Services**

**Teacher Retirement System of Texas**  
**Internal Audit Annual Report for Fiscal Year 2014**

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**External Audit Services Procured in Fiscal Year 2014**

<b>External Audit Services Procured by Internal Audit</b>	<b>Provided by</b>	<b>Report Date</b>
Comprehensive Annual Financial Report (CAFR) – Fiscal Year 2013	State Auditor’s Office	11/15/2013

<b>External Audit and Consulting Services Procured by Internal Audit for Internal Audit Projects</b>	<b>Provided by</b>	<b>Report Date</b>
Follow-Up Audit of Telephone Counseling Center Performance Measures	Myers and Stauffer LC	3/05/2014
Overall Internal Control Opinion on Investment Activities (includes periodic status reports)	Lenox Park LLC	11/21/13 3/5/14 5/16/14 9/3/14
TRS Information Security Follow-Up Audit	Myers and Stauffer LC	9/19/2014

<b>External Audit Services Procured by TRS</b>	<b>Provided by</b>	<b>Report Date</b>
TRS-Care Service Providers	Sagebrush Solutions, LLC	10/17/2014

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

# **Teacher Retirement System of Texas**

## **Internal Audit Annual Report for Fiscal Year 2014**

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### **VIII. 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:

- Adopted in January 2006, *TRS Fraud, Waste, and Abuse Policy* established 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.
- In compliance with the reporting requirement of fraud, waste, and abuse, TRS reports all instances of suspected fraud, waste, and abuse to SAO.