

# **Internal Audit Annual Report**

## **Fiscal Year 2016**

**October 2016**



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, 2016)**

Christopher Moss, Chair  
T. Karen Charleston  
David Corpus  
Greg Gibson  
Anita Smith Palmer

## **BOARD MEMBERS (As of October 15, 2016)**

R. David Kelly, Chair  
Dolores Ramirez, Vice Chair  
T. Karen Charleston  
Greg Gibson  
John Elliott  
Joe Colonna  
David Corpus  
Christopher Moss  
Anita Smith Palmer

## **EXECUTIVE DIRECTOR**

Brian Guthrie

## **INTERNAL AUDIT DEPARTMENT**

Amy L. Barrett, CIA, CISA, CPA, Chief Audit Executive  
Jan Engler, CIA, CISA, CFE, Director of Benefit Services  
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, CIA, CGAP, Senior Auditor  
Dorvin Handrick, CISA, IT Audit Manager  
Simin Pang, CIA, CISA, Senior IT Auditor  
Anandhi Mani, CIA, CPA, Senior Investment Auditor  
Art Mata, CEBS, CPM, Senior Internal Audit Benefit Consultant  
Carol Casey, CPM, Internal Audit Benefit Consultant  
Rodrigo Dominguez, Investment Auditor



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

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[www.trs.texas.gov](http://www.trs.texas.gov)

1000 Red River Street  
Austin, Texas 78701

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

October 15, 2016

Honorable Greg Abbott, Governor  
Members of the Legislative Budget Board  
Members of the Sunset Advisory Commission  
Ms. Lisa R. Collier, CPA, First Assistant State Auditor  
Mr. 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  
Mr. Brian Guthrie, Executive Director, TRS

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

- I. Compliance With Texas Government Code, Section 2102.015: Posting the Internal Audit Plan, Internal Audit annual report, and Other Audit Information on Internet Website
- II. Internal Audit Plan for Fiscal Year 2016
- III. Consulting Services and Nonaudit Services Completed
- IV. External Quality Assurance Review (Peer Review)
- V. Internal Audit Plan for Fiscal Year 2017
- VI. External Audit Services Procured in Fiscal Year 2016
- VII. Reporting Suspected Fraud and Abuse

The work performed by TRS Internal Audit contributes toward accountability, integrity, and good management practices within TRS operations. Fiscal year 2016 projects contributed to the improvement of risk management, control, and governance processes. Internal Audit (or those engaged by Internal Audit) issued 10 assurance and 8 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.

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

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

**FISCAL YEAR 2016**

**October 2016**

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

# Teacher Retirement System of Texas

## Internal Audit Annual Report for Fiscal Year 2016

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

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

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

- The **TRS Annual Internal Audit Plan** is approved each fiscal year by the TRS Board of Trustees as recommended by the TRS Audit 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.

**Teacher Retirement System of Texas**  
**Internal Audit Annual Report for Fiscal Year 2016**

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**II. Internal Audit Plan for Fiscal Year 2016**

## Fiscal Year 2016 Audit Plan Status As of August 2016

Title and Project #	Type	Status
<b>Executive and Finance</b>		
Actuarial Data Controls (15-402)	<b>Audit</b>	<b>Complete</b>
State Auditor's Office (SAO) Financial (CAFR) Audit Coordination	<b>Advisory</b>	<b>Complete</b>
Internal Ethics and Fraud Hotline Administration	<b>Advisory</b>	<b>Complete. Transferred to Compliance</b>
Meetings Participation	<b>Advisory</b>	<b>Ongoing</b>
Special Requests and Emerging Issues	<b>Audit/Consulting/Advisory</b>	
• Innovation Best Ideas (16-605) - Board Chair Request	<b>Consulting</b>	<b>Complete</b>
Testing of Executive Performance Incentive Pay Calculations	<b>Agreed-Up Upon Procedures</b>	<b>Complete</b>
<b>TEAM Program</b>		
TEAM Program Internal Controls Assessment	<b>Advisory</b>	<b>In Progress</b>
TEAM Security and Access Controls Assessment	<b>Advisory</b>	<b>In Progress</b>
TEAM Independent Program Assessment (IPA) Vendor Support	<b>Advisory</b>	<b>Ongoing</b>
TEAM Committees and TEAM Projects Participation	<b>Advisory</b>	<b>Ongoing</b>
<b>Pension Benefits</b>		
Benefits Testing for State Auditor's Office (SAO) Audit of Comprehensive Annual Financial Report (CAFR) (16-100)	<b>Audit</b>	<b>Complete</b>
Annual Benefits Testing (16-101)	<b>Agreed-Up Upon Procedures</b>	<b>Complete</b>
Reporting Entity Audits (6-8) and Investigations (16-401)	<b>Audit</b>	<b>Complete (Completed 7 REs)</b>
TRS Reporting Entity Website Audit Information	<b>Advisory</b>	<b>Complete</b>
Benefits Data Analysis Pilot Project	<b>Advisory</b>	<b>Deferred to FY17</b>
<b>Health Care</b>		
Health Care Audit Risk Assessment Follow Up	<b>Consulting</b>	<b>Complete</b>
Open Enrollment and Billing Readiness Review	<b>Consulting</b>	<b>Complete</b>
Health Care Vendor Selection Observation	<b>Advisory</b>	<b>Complete</b>
Health Care Vendor Update Meetings	<b>Advisory</b>	<b>Ongoing</b>

## Fiscal Year 2016 Audit Plan Status As of August 2016

Title and Project #	Type	Status
<b>Information Technology</b>		
SharePoint Governance and Security Audit (16-501)	<b>Audit</b>	<b>Complete</b>
Wireless Network Security Assessment (16-502)	<b>Agreed-Up On Procedures</b>	<b>Complete</b>
Data Protection Project	<b>Advisory</b>	<b>Complete</b>
Disaster Recovery, Network Penetration Tests; Security Risk Assessment Review	<b>Advisory</b>	<b>Ongoing</b>
<b>Investment Management</b>		
Overall Internal Control Opinion on Investment Activities (16-301)	<b>Audit</b>	<b>Complete</b>
Quarterly Investment Compliance, Incentive Pay, Ethics Policies and Budget Testing (16-302)	<b>Agreed-Up On Procedures</b>	<b>Complete</b>
Annual Incentive Compensation Plan Testing (16-303)	<b>Agreed-Up On Procedures</b>	<b>Complete</b>
Coordination of SAO Audit of Incentive Pay	<b>Advisory</b>	<b>Complete</b>
Investments Data Analysis Pilot Project	<b>Advisory</b>	<b>Complete</b>
Investment Committees Attendance	<b>Advisory</b>	<b>Ongoing</b>
Coordinate the TRICOT Financial Audit	<b>Advisory</b>	<b>In Progress</b>
<b>Internal Audit Department</b>		
Annual Internal Audit Report (16-603)	<b>Audit</b>	<b>Complete</b>
Data Analytic Development Project	<b>Advisory</b>	<b>In Progress</b>
Quarterly Audit Recommendations Follow-up	<b>Audit</b>	<b>Ongoing</b>
External Quality Assurance Review	<b>Audit</b>	<b>Complete</b>
Internal Quality Assurance Review (16-602)	<b>Advisory</b>	<b>Complete</b>
Fiscal Year 2017 Audit Plan	<b>Advisory</b>	<b>Complete</b>
Internal Audit Vendor Request for Qualifications (RFQ)	<b>Advisory</b>	<b>Complete</b>
Audit Committee Meetings Preparation	<b>Advisory</b>	<b>Ongoing</b>

**Teacher Retirement System of Texas**  
**Internal Audit Annual Report for Fiscal Year 2016**

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**Deviations from Fiscal Year 2016 Audit Plan**

*As Approved by TRS Board of Trustees in the April 2016 Board Meeting*

<b>Project</b>	<b>Proposed Change</b>	<b>Reason</b>
Semi-Annual Benefits Testing (Agreed-Upon Procedures)	Change to Annual Benefits Testing	<ul style="list-style-type: none"><li>• To reduce reporting requirement to once per year instead of twice per year. The project will cover the same time-period as the semiannual testing, but results will only be reported once. (Completed August 2016)</li></ul>
Testing of Executive Performance Incentive Pay Calculations (Agreed-Upon Procedures)	Added	Management request as a result of overall discussion with the Board of Trustees. (Completed July 2016)

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

# **Teacher Retirement System of Texas**

## **Internal Audit Annual Report for Fiscal Year 2016**

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

During fiscal year 2016, Internal Audit conducted (or hired consultants to conduct) the following consulting (nonaudit services) projects resulting in formal recommendations to management.

#### **1. Special Requests and Emerging Issues – Innovation Best Ideas**

(Project #16-605, PowerPoint presentation to Board, December 14, 2015)

Objective: Gathered information on TRS manual processes to make recommendations for processes to be automated in the next two years.

Obtained information on current manual processes, researched best practices to identify ways in which TRS can become more efficient through those processes being automated.

#### **2. TRS-ActiveCare enrollment and billing readiness review**

(PowerPoint presentation to the Board, dated August 14, 2016)

Objective: Assessing the design effectiveness of the controls implemented by Aetna at WellSystems to address completeness and accuracy of electronic file transmissions, discrepancy identification and resolution, and customer quality monitoring.

The following elements were completed:

A. Performed inquiry and testing to assess the root cause of identified enrollment and billing issues.

B. Performed inquiry and testing to assess whether or not known issues in the enrollment and billing process have been remediated by the action plans implemented by WellSystems and Aetna Inc. (Aetna).

#### **3. Health Care Audit Risk Assessment Follow Up**

(Project #16-201, PowerPoint presentation to Health Insurance Benefits (HIB), May 5, 2016)

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Objective: In 2015 Protiviti was engaged to update the risk assessment and provide action plan recommendations to Health Insurance Benefit Management.

The proposed action plans could provide a higher sense of assurance to TRS that risks inherent to healthcare are effectively monitored and controlled.

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

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

# INTERNAL AUDIT QUALITY ASSURANCE SELF-ASSESSMENT

March 22, 2016

## Teacher Retirement System Internal Audit Department

<p><b>Business Objectives</b></p>	<p>To determine whether Internal Audit (IA) function generally conforms with professional auditing standards, Texas Internal Auditing Act, auditor codes of ethics, and Internal Audit's Quality Assurance and Improvement Program (QAIP). (Professional audit standards consider Internal Audit function authority, independence, proficiency, quality assurance and improvement program, and how the audits are planned, performed, communicated, managed, and resolved.)</p>
<p><b>Inherent Risks Without Controls</b></p>	<ul style="list-style-type: none"> <li>• Audits may not address significant organizational risks</li> <li>• Audit processes may be inefficient and ineffective</li> <li>• Assurance could be unreliable without effective quality control</li> </ul>
<p><b>Internal Audit Controls</b></p>	<ul style="list-style-type: none"> <li>• Internal Audit charter, organizational chart, board minutes</li> <li>• Job descriptions, resumes, training records, performance evaluations</li> <li>• Work papers, work programs, reports, quality control processes</li> <li>• Annual risk assessment, audit plan</li> <li>• IA policies and procedures</li> <li>• TRS Internal Audit Quality Assurance and Improvement Program</li> </ul>
<p><b>Tests Performed</b></p>	<p>Conducted self-assessment to validate Internal Audit activities conform with applicable professional standards and state law using the self-assessment tool developed by the <i>State Agency Internal Audit Forum (SAIAF)</i>. These tests included steps to assess implementation of Internal Audit's QAIP.</p>
<p><b>Best Practices</b></p>	<ul style="list-style-type: none"> <li>• Board approved TRS Internal Audit Charter</li> <li>• Achievement of professional requirements for annual training</li> <li>• Supervisory review of all audit working papers</li> <li>• Management involvement in annual audit planning</li> <li>• IA Strategic Plan alignment with TRS Strategic Plan</li> </ul>
<p><b>Results</b></p>	<p>IA "generally conforms" with professional auditing standards, related codes of ethics, Texas state law, and Internal Audit's Quality Assurance and Improvement Program. Many best practices were identified. Opportunities for additional improvement were identified.</p>
<p><b>Recommended Actions</b></p>	<p>Update <i>TeamMate</i> (the electronic project work paper application) project templates to ensure documentation of:</p> <ul style="list-style-type: none"> <li>• Opportunities for making improvements to risk management/control processes</li> <li>• Protocols to follow if fraud activities are suspected</li> <li>• Assessment of IA's ability to perform non-audit services</li> <li>• Various understandings between auditor and client, for agreed-upon procedures engagements and include the word "independent" in the report title of these engagements</li> </ul>
<p><b>Internal Audit Responses</b></p>	<p>The Chief Audit Executive agrees with the recommendations and will ensure that the <i>TeamMate</i> project templates are updated by August 31, 2016.</p>

Legend of Results: **Red** - Does not conform      **Yellow** - Partially conforms      **Green** - Generally conforms

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

**April 2016**



**PERFORMED BY**

Benito Ybarra, CIA, CISA, CFE  
Chief Audit and Compliance Officer  
Texas Department of Transportation

Greg Royal, CPA, CIA, CRMA, CGAP  
Chief Audit Executive  
Texas Department of Insurance

Byron Williams, CPA  
Chief Audit Executive  
Oregon State Treasury

PERFORMED IN ACCORDANCE WITH THE  
STATE AGENCY INTERNAL AUDIT FORUM  
PEER REVIEW POLICIES AND PROCEDURES

## OVERALL OPINION

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

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

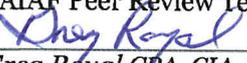
The Internal Audit Department is well-managed. In addition, the Department has effective relationships with the Board of Trustees and is well-respected and supported by Executive Council management. Surveys and interviews conducted during the quality assurance review indicate that management considers Internal Audit a useful part of the agency and demonstrated a knowledge of the audit team’s mission.

## ACKNOWLEDGEMENTS

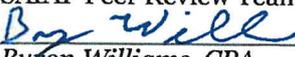
We appreciate the courtesy and cooperation extended to us by the Chief Audit Executive, Internal Audit staff, the Chairman of the Board of Trustees, the Audit Committee Chair, the Executive Director, and the executive managers who participated in the interview process. We would also like to thank each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

  
\_\_\_\_\_  
Benito Ybarra, CIA, CISA, CFE  
Chief Audit and Compliance Officer  
Texas Department of Transportation  
SAIAF Peer Review Team Leader

04/15/16  
Date

  
\_\_\_\_\_  
Greg Royal CPA, CIA, CRMA, CGAP  
Chief Audit Executive  
Texas Department of Insurance  
SAIAF Peer Review Team Member

4/13/16  
Date

  
\_\_\_\_\_  
Byron Williams, CPA  
Chief Audit Executive  
Oregon State Treasury  
SAIAF Peer Review Team Member

4/11/16  
Date

April 15, 2016

**Teacher Retirement System of Texas**  
**Internal Audit Annual Report for Fiscal Year 2016**

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**VI. Internal Audit Plan for Fiscal Year 2017**

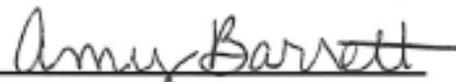


# Fiscal Year 2017 Audit Plan

## September 23, 2016

## Fiscal Year 2017 Audit Plan

*September 23, 2016*

  
\_\_\_\_\_  
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.

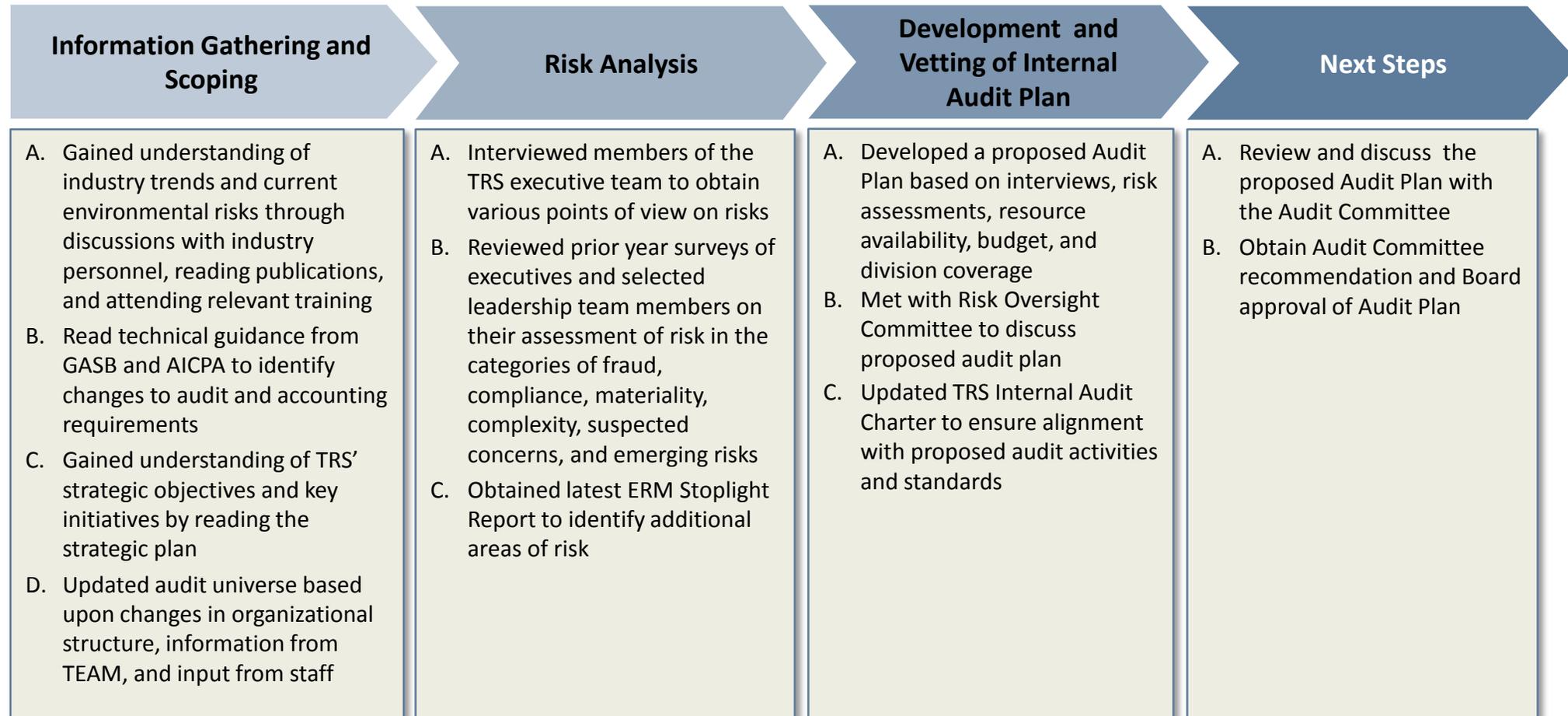
## Changes Subsequent to Approval

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"> <li>- Executive Steering Committee</li> <li>- TEAM Budget Committee</li> <li>- Organizational Change Management Advisory Groups</li> <li>- Business Procedures and Training Project</li> <li>- Decommissioning Project</li> <li>- Enterprise Security Team meetings</li> <li>- Monthly meetings with TEAM program manager and HPE executives</li> </ul>
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		
<b>Governance, Strategy, and Risk Management</b>	<b>Workforce Continuity</b>	<b>Accounting &amp; Reporting</b>
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)	<b>Communications and External Relations</b>	Federal withholdings/tax compliance
<b>Open Government</b>		Social media
Open meetings compliance	Information and communication	<b>Budget</b>
Open records request compliance	<b>403(b)</b>	Budget process and reporting (FY10)
<b>Ethics and Fraud Prevention</b>	403(b) certification process	<b>Purchasing and Contracts</b>
Employee ethics policies (FY16)	<b>Records Management</b>	Vendor file, encumbrance, purchasing (FY14)
Fraud risk detection and prevention controls (FY15)		Records retention (FY15)
<b>Regulatory, Compliance, &amp; Litigation</b>	<b>Accounting &amp; Reporting</b>	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		<b>Facilities and Facilities Planning</b>
<b>Business Continuity</b>	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)		<b>Government Relations and Legislation</b>

IMD Processes
<b>Governance - IMD</b>
Investment Governance and Management (FY16)
<b>IMD Processes</b>
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	<b>Employer Reporting</b>
Death benefits (FY16)	Employer setup, enrollment, and reporting (FY16)
Disability benefits (FY16)	<b>Health Care Administration</b>
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)	<b>TRS-Care Funding</b>
Retirement application process	TRS-Care Finance (FY10)
Retirement system transfer	<b>TRS-ActiveCare Affordability</b>
Service credit calculation and purchase	TRS-ActiveCare Finance (FY10)

Information Technology (IT) Processes and TEAM	
Governance - IT	IT Processes
Project prioritization (FY10)	<b>Change &amp; Configuration Management</b>
IT risk management	Applications (FY12)
<b>IT Strategy &amp; Planning</b>	Databases
Asset management	Infrastructure
Human resources	<b>Data Center Operations</b>
<b>IT Security and Confidentiality</b>	Archive management (FY13)
Identity and access management (FY14)	Facilities management (TAC202) (FY12)
Threat and vulnerability management (FY16)	<b>Technology Management</b>
Security awareness and training (FY11)	Standards
Security configuration management	Technology upgrades
Virtualization	<b>User and Vendor Support</b>
Cloud based computing (FY14 Consulting)	Problem management
Mobile device security (FY14 Consulting)	Incident response
<b>Disaster Recovery Plan</b>	<b>TEAM</b>
Co-location (FY14 Consulting)	Independent Program Oversight (FY16)
Disaster Recovery Management (FY09)	Internal Controls Assessment, including security controls

(FY #) - indicates last year audited

# 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)

**Teacher Retirement System of Texas**  
**Internal Audit Annual Report for Fiscal Year 2016**

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**VI. External Audit Services Procured in Fiscal Year 2016**

**Teacher Retirement System of Texas**  
**Internal Audit Annual Report for Fiscal Year 2016**

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**VI. External Audit Services Procured in Fiscal Year 2016**

<b>External Audit Services Procured and Outsourced by Internal Audit</b>	<b>Provided by</b>	<b>Report Date</b>
Wireless Network Security Assessment	Myers and Stauffer LC	11/09/2015
SharePoint Governance and Security Audit	Myers and Stauffer LC	11/17/2015

<b>External Audit Services Procured by TRS</b>	<b>Provided by</b>	<b>Report Date</b>
Review of Health Plan Administration	Truven Health Analytics	9/23/2016
Comprehensive Annual Financial Report (CAFR) – Fiscal Year 2015	State Auditor’s Office	11/16/2015
Comprehensive Annual Financial Report (CAFR) – Fiscal Year 2016	State Auditor’s Office	In Progress
TRS Investment Company (TRICOT) Financial Audit	Grant Thornton	In Progress

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

# **Teacher Retirement System of Texas**

## **Internal Audit Annual Report for Fiscal Year 2016**

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

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

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