



Internal Audit

Sept. 19, 2025

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Audit Plan for Fiscal Year 2026



Executive Summary



Professional and Statutory Requirements

This document provides the *Fiscal Year 2026 Audit Plan* (Audit Plan) as required by professional auditing standards, the *Texas Internal Auditing Act* (Act), and *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, Compliance and Ethics Committee of the Board of Trustees (ACE Committee) to the TRS Board of Trustees (Board). Internal Audit is independent of management and provides objective assurance and advisory 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 and audit plan mapped to the TRS Risk Assessment.

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 executive management and present changes to the ACE Committee at the next quarterly ACE Committee meeting. Amendments to the approved Audit Plan deemed to be significant (based on discussions with the Executive Director and ACE Committee Chair) will be submitted to the ACE Committee for recommendation to the Board for approval. We will also notify the State Auditor's Office of material changes to the Audit Plan.



Risk Assessment & Audit Planning Approach



Interviews of TRS trustees, executives and staff, risk assessment surveys from prior years, and the current TRS Risk Assessment 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



Audit



Agreed-Upon Procedures



Formal Advisory Services



Informal Advisory Services

| | Audit | Agreed-Upon Procedures | Formal Advisory Services | Informal Advisory Services |
|---------------------------|--|---|---|---|
| Focus | Assess evidence available to provide assurance on an audit objective | 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 | Respond to requests for formal study or assessment with recommendations; no assurance provided | Participate in activities in a non-voting capacity, e.g., provide training and input on policies and procedures |
| Deliverable | Audit report for public distribution unless protected by statute | Agreed-upon procedures report for public distribution (use is limited to those with understanding of procedures performed) Report does not provide an opinion or conclusion. | 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 | Verbal discussion or a brief memo to management |
| Estimated Level of Effort | 600 – 1,600 hours | 100 - 800 hours | 100 - 800 hours | 10 – 100 hours |

Audit Plan: Executive & Administrative Services



| Title | Type | Preliminary Objective | Timing |
|---|-----------------|--|---------|
| Review of Communications | Audit | To assess the effectiveness, efficiency, and compliance of TRS communications, including internal and external communications strategies, media relations, and stakeholder engagement, with applicable policies, procedures, and regulatory requirements. | Q2 |
| Review of the Ethics Program | Audit | To assess the effectiveness, transparency, and alignment of the ethics program with organizational values and regulatory standards, identifying opportunities for improvement in policy clarity, training engagement, reporting mechanisms, and overall ethical culture. | Q3 – Q4 |
| Review of Project Governance | Audit | To review and assess the effectiveness, transparency, and consistency of project governance processes. The review will examine decision-making frameworks, stakeholder engagement, and resource allocation practices, to identify opportunities for improving oversight, accountability, and operational efficiency. | Reserve |
| Follow-up of Prior Audits | Audit | Determine whether management has implemented recommendations from prior audits. | Q1 - Q4 |
| Special requests, initiatives and emerging issues | Formal Advisory | Set aside time to address special requests, initiatives and emerging issues during the year as requested by Management. | Q1–Q4 |



Audit Plan: Pension Services



| Title | Type | Preliminary Objective | Timing |
|----------------------------------|------------------|---|---------|
| ACFR 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 ACFR audit. | Q1 |
| Review of Death Claims | Audit | To assess the adequacy and effectiveness of internal controls, processes, and compliance mechanisms related to the administration of death benefits, ensuring that payments are accurate, timely, properly authorized, and made in accordance with applicable laws, regulations, and plan provisions. | Q3 – Q4 |
| Reporting Employer Data Analysis | Continuous Audit | Analyze Reporting Employer data within TRUST system for completeness, integrity, accuracy, and reasonableness. | Q1 - Q4 |



Audit Plan: Health Care



| Title | Type | Preliminary Objective | Timing |
|---|------------------|---|---------|
| Review of Enrollment and Eligibility File Processes | Formal Advisory | Review and advise on processes related to accuracy and timeliness of TRS-Care enrollment and eligibility files. | Q1 |
| Review of SB 1264 Processes | Formal Advisory | Review and advise on processes related to claim dispute resolution. | Q1 |
| Review of Mass Mailings | Audit | To evaluate the effectiveness, efficiency, and internal controls of mass mailing operations, including the processes for determining mailing content, preparation of physical mail, and the IT systems responsible for member targeting and data integrity. | Q2 |
| Healthcare Claims Data Analysis | Continuous Audit | Analyze medical and pharmacy claims for appropriate provider billing and compliance with regulations and TRS plan policies and alignment with health care industry standards. | Q1 – Q4 |
| Healthcare Claims Data Analysis | Continuous Audit | Analyze medical and pharmacy claims processed by TRS plan administrators for compliance with contract requirements. | Q1 – Q4 |

Audit Plan: Investments & Finance



| Title | Type | Preliminary Objective | Timing |
|---|-------------------|--|--------|
| Review of Custodian Controls | Audit | Determine whether custodian operations include sufficient controls to ensure investment support functions are executed effectively and in compliance with applicable requirements. | Q1--Q2 |
| Review of Fixed Income Portfolio Operations | Audit | Determine whether Fixed Income portfolio operations include sufficient controls to ensure investments are made and managed effectively, efficiently and in compliance with relevant policies, guidelines and procedures. | Q2--Q3 |
| Review of Real Estate Portfolio Operations | Audit | Determine whether Real Estate portfolio operations include sufficient controls to ensure investments are made and managed effectively, efficiently and in compliance with relevant policies, guidelines and procedures. | Q3--Q4 |
| Investment Committee attendance, etc. | Informal Advisory | Stay current on portfolio strategy and Investment Management Division initiatives by attending Internal Investment Committee, monthly staff and other meetings. | Q1--Q4 |
| Financial Services meetings, etc. | Informal Advisory | Stay current on Financial Services activities and strategic initiatives by attending quarterly staff meetings and monthly cross-functional TRICOT meetings. | Q1--Q4 |
| Special requests, initiatives and emerging issues | Formal Advisory | Set aside time to address special requests, initiatives and emerging issues during the year as requested by Management. | Q1--Q4 |



Audit Plan: Information Technology



| Title | Type | Preliminary Objective | Timing |
|---|-----------------|--|---------|
| Audit of Cloud Computing | Audit | To evaluate the effectiveness and efficiency of governance, security, and operational controls over TRS's Microsoft Azure environment. | Q1 – Q2 |
| Audit of Data Loss Prevention | Audit | Evaluate the effectiveness of the organization's data protection and visibility controls designed to identify, monitor, and safeguard sensitive information across environments, and assess whether these controls support compliance with internal policies and external regulatory requirements. | Q2 – Q3 |
| Review of Cyber Controls | Audit | Perform a penetration test of TRS's information technology infrastructure. | Q3 – Q4 |
| Audit of TRS Reporting Entity (RE) Portal | Audit | To evaluate the system's effectiveness in safeguarding data and maintaining security protocols, while also assessing its usability to ensure it supports user needs through intuitive design, accessibility, and ease of use. | Q3 – Q4 |
| Special requests, initiatives and emerging issues | Formal Advisory | Set aside time to address special requests, initiatives and emerging issues during the year as requested by Management. | Q1–Q4 |

Audit Plan: Internal Audit Activities



| Title | Project Description |
|---|---|
| Annual Internal Audit Report | Prepare annual report of audit activities in accordance with SAO instructions. |
| Annual Internal Audit Quality Assurance | Perform and Report on Internal Audit Quality Assurance Improvement Program (QAIP) Self –Assessment. |
| Quarterly Audit Recommendations Follow-Up | Follow-up and report on the status of outstanding audit recommendations. |
| Data Analysis Process Buildout | Continue to build out data analysis skills of audit staff; incorporate into audit projects and annual audit plan development. Continue to enhance the newly implemented continuous auditing program by researching and developing automated scripts for testing data related to health care, pension, and administrative areas such as PAVES. |
| Staff Training Initiative | Develop and launch auditor training in key areas including report writing, workpaper documentation, and audit risk assessment. |
| Fiscal Year 2027 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, Compliance & Ethics Committee Meetings Preparation | Prepare communications and attend Audit, Compliance & Ethics Committee and Board Meetings. |



Audit Plan: High Risk Areas



*High Risk Areas are defined as (High, Elevated, or Caution).
Areas of interest to the SAO (e.g., Procurement and IT Security) that are not included in the Audit Plan.*

| Area | Reason for Exclusion |
|------------------------------------|---|
| Records and Information Management | The area was audited in FY2022. Internal Audit plans to perform a follow-up review when most of the audit recommendations are implemented, around FY2027. |
| Pension Funding | Awaiting the results of and legislative action that will come out of the TRS Pension Study |



Appendix A

Proposed Data Analytics Projects for FY2026

Appendix A: Proposed Audit Plan for FY2026: Data Analytics

| Title | Project Type | Preliminary Objective |
|---|------------------|--|
| ACFR Testing of Annuity Payments | External Audit | Perform data analytics in support of pension benefits testing for the SAO ACFR audit. |
| Anti-Depression Pharmacy Claims Testing | Formal Advisory | Test for effectiveness of controls and potential improper payments for anti-depression drugs. |
| Benefit Matrices and Experimental Services Testing | Formal Advisory | Perform annual tests of limits, exclusions and adjustments to benefit matrices, including experimental, investigational, and/or unproven services. |
| Review of Enrollment and Eligibility File Processes | Formal Advisory | Review and advise on processes related to accuracy and timeliness of TRS-Care enrollment and eligibility files. |
| Hospital Claims Policy Testing | Formal Advisory | Test hospital service claims for compliance with relevant policies. |
| Psychotherapy Claims Testing | Formal Advisory | Test for effectiveness of controls and potential improper payments in psychotherapy services. |
| Review of SB 1264 Processes | Formal Advisory | Review and advise on processes related to claim dispute resolution. |
| PAVES Quality Assurance Bots | Formal Advisory | Partner with Procurement & Contracts team to develop automated reports to identify potential inaccuracies within PAVES. |
| Reporting Employer Data Analysis | Continuous Audit | Analyze Reporting Employer data within TRUST system for completeness, integrity, accuracy, and reasonableness. |



Appendix B

Internal Audit Operating Budget for FY2026

Appendix B: Internal Audit Operating Budget



| Line Item | Budget FY 2026 | Budget FY 2025 |
|--|----------------|----------------|
| 000 – Salaries | \$2,886,400 | \$2,644,187 |
| 000 – Benefits | \$739,000 | \$743,634 |
| 200 – Professional Fees for Internal Audit Services | \$350,000 | \$1,204,108 |
| 200 – Professional Fees for External Audit Services (ACFR, GASB Schedules, TRICOT) | \$646,000 | \$561,292 |
| 505 – Travel-In-State | \$6,500 | \$21,200 |
| 510 – Travel-Out-of-State | \$27,500 | \$50,400 |
| 705 – Dues, Fees, and Staff Development | \$50,000 | \$48,400 |
| 710 – Subscriptions and Reference Materials | \$2,500 | \$2,500 |
| 735-745 Other Operating/ Furniture | \$11,500 | \$8,600 |
| Total Operating Budget | \$4,719,400 | \$5,284,321 |
| Full Time Equivalent (FTE) Positions (excluding interns) | 19.0 | 19.0 |

Resources are sufficient to complete the Annual Audit Plan.



Appendix C

Audit Universe Mapped to TRS Risk Assessment

Appendix C: Audit Universe Mapped to TRS Risk Assessment

| # | TRS Risk Level | TRS Risk Category | TRS Goal | TRS-Assessed Overall Risk | Planned Approach | Project Type |
|---|----------------|--|---|---|---|-----------------------|
| 1 | Elevated | Cybersecurity | To prevent malicious attacks and unauthorized access of TRS information resources. | Ineffective cyber threat controls could lead to breaches or sabotage of TRS systems. | Penetration Testing; Cloud Computing; Data Loss Prevention; TRS Reporting Entity Portal | Audits |
| 2 | Elevated | Enterprise Technology | Provide information systems to meet TRS's business and customer service needs. | Inability to provide adequate and consistent information in a timely fashion via the preferred delivery mechanism. | Audits; EDGC and other committee participation, IT risk assessment. | Audits; Advisory |
| 3 | Elevated | Records & Information Management (RIM) | Manage the organization, retention and disposition of TRS information and records with adherence to laws, rules, policies and best practices. | An ineffective records and information management program results in wasted resources; and does not protect, preserve, retain, dispose, or make records accessible in an accountable or transparent manner. | None. RIM was audited in FY2022. Internal Audit to perform follow-up review of RIM around 2027. | N/A |
| 4 | Elevated | Pension Funding | Sustain a financially sound pension trust fund. | A lack of sound funding for the plan could lead to insufficient assets to pay for long-term benefits and financial obligations. | Data analytics of employer contributions; Review Actuarial Reports; | Advisory |
| 5 | Elevated | Procurement & Contracts | Maintain effective procurement and contract management systems. Inappropriate procurement practices could result in purchases of substandard products and services, unfavorable pricing or contract terms, and violation of laws, ineffective contract management could result in contractors not fulfilling their contractual obligations. | Inappropriate procurement practices could result in purchases of substandard products and services, unfavorable pricing or contract terms, and violation of laws, ineffective contract management could result in contractors not fulfilling their contractual obligations. | Follow-up on Review of Contract Oversight (Information Security), issued in April 2025. PAVES data analysis bots | Audit Advisory |
| 6 | Elevated | TRS-ActiveCare Affordability | Facilitate financial soundness of TRS-ActiveCare in order to provide affordable health care benefits. | Inadequate funding by the state and participating entities and/or unanticipated external forces could affect affordability. | Enrollment and eligibility file processes; Healthcare Claims Data Analysis | Advisory |
| 7 | Caution | Data Privacy & Confidentiality | Maintain the integrity, availability, and protection in the storage, use, and transfer of TRS information resources (in any form or medium). | Unauthorized or unintentional release/access of TRS confidential information could result in state or federal law violations, sanctions against TRS or its employees, and harm the best interests of TRS. | IT Risk Assessment | Advisory |
| 8 | Caution | Health Care Plans Administration | Administer retiree and active member health care programs that are valued by enrollees. | Inadequate administration of the health care programs could possibly affect the quality of health care services provided to those who depend on the delivery of TRS health care benefits which would in turn increase health care costs. | Healthcare Claims Data Analysis, Benefit matrices and experimental services testing; hospital claims policy testing; psychotherapy claims testing; antidepressant pharmacy claims testing. | Advisory |

Appendix C: Audit Universe Mapped to TRS Risk Assessment (continued)

| # | TRS Risk Level | TRS Risk Category | TRS Goal | TRS-Assessed Overall Risk | Planned Approach | Project Type |
|----|----------------|--------------------------------------|---|---|--|------------------|
| 9 | Caution | Communications & External Relations | Maintain effective communication and positive relations with members, retirees, employers, TRS employees, news media, and the public. | Poor communication could lead to confusion resulting in increased calls to TRS, poor or inappropriate decision-making regarding TRS benefits, and incorrect information provided to external parties. | Review of Communications | Audit |
| 10 | Caution | Business Continuity | Recover and resume operations in the event of a major business interruption. | Members do not receive statutorily required services timely. | Follow-up of Business Continuity and Disaster Recovery Audit | Audit |
| 11 | Caution | Facilities Management & Planning | Successfully complete a generational solution for housing all of TRS. Provide a physical work environment that is safe and enhances productivity. | Due to constraints, TRS is unable to execute the long-term facilities plan. Inadequate facilities management or ineffective space utilization could result in less than desirable conditions for TRS members, visitors, and staff and could jeopardize our ability to continue providing an exemplary level of service to our members. | Follow-up Review of Physical Security (Alpha), issued September 2025 | Audit |
| 12 | Guarded | TEAM Program | Implement cost effective, efficient, and sustainable processes and systems that enable TRS to serve its members, employers, and annuitants. | System design, implementation and functionality of the new processes and systems do not meet the growing demands of TRS in service of its members. Program/ project implementation schedule and cost exceeds original estimates. | EDGC and other committee participation. | Advisory |
| 13 | Caution | Talent Continuity | Attract, retain and develop a highly competent staff. | The delivery of member services and pension fund management could be negatively impacted by turnover, the inability to retain qualified staff, lack of a sufficient knowledge transfer program, and an inconsistent performance management process. | Risk assessment/ Risk monitoring | Advisory |
| 14 | Guarded | Employer Reporting | Accurately capture and utilize employer reported data to project and calculate future benefits of TRS members and to properly allocate the total pension liability across districts. | Incorrect reporting could lead to calculated benefits being inaccurate; Improperly allocating actuarial liability across districts. | Continuous audits of RE data for completeness, integrity and accuracy; data analysis of surcharges, etc. | Audits; Advisory |
| 15 | Guarded | Pension Services | Deliver accurate benefits and superior service to TRS participants and stakeholders. | Inadequate delivery of benefits or customer service could lead to inaccurate information or benefits/payments, dissatisfied participants, loss of credibility, adverse public perception, increased scrutiny, and oversight. | Benefit testing for SAO ACFR audit. | Audit |
| 16 | Guarded | Regulatory, Compliance, & Litigation | Adhere to and analyze current laws, rules, and policies (e.g., maintain tax qualification status); Render competent advice on legal risk management and awareness, manage litigation risks, and negotiate contracts to address risks. | Non-compliance with laws and rules could lead to penalties, fines, liability and litigation; impaired ability to conduct business; burdensome oversight; third-party investigations/audits; adverse legislation; increased scrutiny; or loss of tax qualification status. | As much as possible, include compliance as part of scope of individual audit projects. | Audits, Advisory |

Appendix C: Audit Universe Mapped to TRS Risk Assessment (continued)

| # | TRS Risk Level | TRS Risk Category | TRS Goal | TRS-Assessed Overall Risk | Planned Approach | Project Type |
|----|----------------|---------------------------|--|---|---|-------------------|
| 17 | Guarded | Ethics & Fraud Prevention | Maintain a culture that upholds ethical behavior and values that contribute and promote the fiduciary duties of prudence and loyalty and reduces fraud risks. | A lack of ethics could undermine the duties of prudence and loyalty and create fraud risks resulting in loss of assets, credibility, and business opportunities, adverse publicity, violations of law, and increased scrutiny and oversight. | Review of Ethics Program Hotline triage team participation. | Audit Advisory |
| 18 | Guarded | Global Operations | Ensure successful operation of TRS business around the world. | Failure to anticipate and/or mitigate risk could negatively impact TRS personnel, assets and business opportunities globally. Should TRS pursue a foreign office, any implementation plan would address the evolving global presence and world events, as well as the resolution of any conflicts between state, U.S. and foreign laws and regulations. | None. | N/A |
| 19 | Guarded | Financial Operations | Ensure TRS is fiscally responsible in budgeting, accounting, and financial reporting to successfully carry out TRS' mission, goals, and objectives to serve our members. | Material and/or inaccurate budgeting, accounting, or financial reporting could result in the board of trustees and Texas Legislature decisions being made on unsound data. | Participate in Annual Comprehensive Financial Report (ACFR) Audit Coordinate external auditor activities | Audit Advisory |
| 20 | Low | TRS-Care Funding | Facilitate long-term soundness of TRS-Care in order to provide sustainable retiree health care benefits. | Inadequate funding and/or unanticipated external forces would affect solvency of the program over the current biennium and future years, requiring significant premium increases or benefit reductions. | Data analytics of TRS-Care surcharges; Pharmacy claims data analysis. | Advisory |
| 21 | Low | Portfolio Exposure | Maintain market risk exposures consistent with investment objectives. | Too little or too much exposure to market risk could each lead to undesirable investment outcomes. | None. | N/A |

