Revisions to the Audit Plan For Fiscal Year 2022

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April 29, 2022

TRS
TEACHER RETIREMENT SYSTEM OF TEXAS

Overview

Consider recommending to the Board of Trustees proposed revisions to the Fiscal Year 2022 Audit Plan.

Background

Per the approved Fiscal Year 2022 Audit Plan, amendments to the approved Audit Plan deemed to be significant will be submitted to the Board of Trustees for approval. The State Auditor's Office also requires notification of material changes to the Audit Plan. Staff requests that the Audit, Compliance, and Ethics Committee approve the proposed amendments to the FY22 Audit Plan and recommend that the Board of Trustees adopt the proposed revisions.

Risk Considerations

The Revised Audit Plan is designed to provide coverage of key risks, given the existing staff and approved budget.

Staff Recommendation

Staff requests that the Committee recommends to the Board of Trustees the following proposed revisions to the FY2022 Audit Plan.

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Proposed Revisions to the Audit Plan for FY 2022

Project	Risk Level	Change	Reason
Executive and Finance			
Review of DE&I Program	🟡	Defer	Performing this audit after the DE&I performance tracking system has been in place for at least nine months will allow for a more comprehensive review of program effectiveness.
Pension Benefits and Reporting Employers			
Reporting Employer Processing	🟠	Defer	Benefit Services management is currently revamping Reporting Employer processing. An audit of the new processes (once complete) would add more value.
Annual Benefits Testing	🟠	Cancel	Internal Audit does benefit testing on behalf of the external auditors as part of the annual ACFR audit.
Health Care			
Review of Healthcare Claims Database	🟠	Reclassify to Consulting	The Healthcare Claims Data Warehouse is not expected to be fully implemented until FY 2023. Instead, Internal Audit is consulting on the accuracy and completeness of the current database.
Review of Eligibility	🟠	Defer	Internal Audit no longer has the resources to perform this project due to staff turnover.
Technology			
Post implementation review of PAVES	🟠	Defer	Internal Audit no longer has the resources to perform this project due to staff turnover.

Note: The proposed revisions will delay 20% (4 out of 20) of the audits in the original approved FY2022 Audit Plan. 🟠 Elevated 🟡 Caution
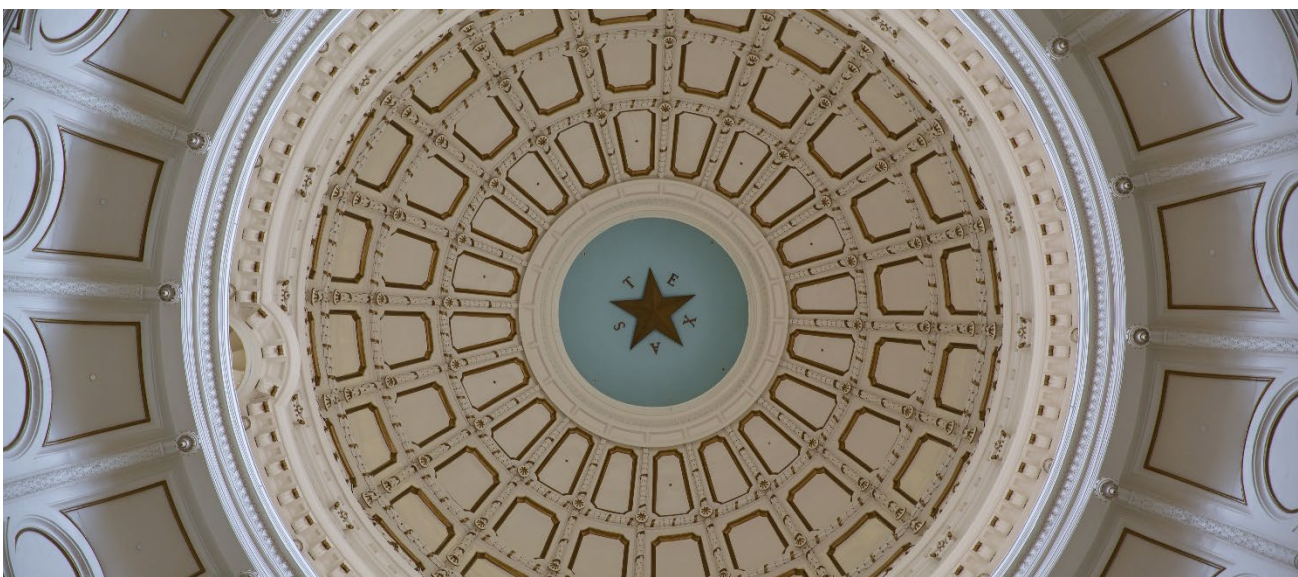
Revised Audit Plan Fiscal Year 2022

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TEACHER RETIREMENT SYSTEM of TEXAS

Executive Summary

Professional and Statutory Requirements

This document provides the *Fiscal Year 2022 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 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 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 Audit Committee at the next 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. 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:

Information Gathering and Scoping	Risk Analysis	Development and Vetting of Proposed Audit Plan	Next Steps
A. Gained understanding of industry trends and current environmental risks through training, publications, and discussions with Chief Audit Executives at peer institutions B. Reviewed technical guidance from GASB and AICPA to identify changes to audit and accounting requirements C. Gained understanding of TRS' strategic objectives and key initiatives by reading the strategic plan D. Updated audit universe based upon changes in organizational structure, information from TEAM, and input from staff	A. Interviewed trustees, members of the TRS executive team, and staff to obtain various points of view on risks B. Reviewed previous surveys of executives and selected leadership team members on their assessment of risk in the categories of fraud, compliance, materiality, complexity, suspected concerns, and emerging risks C. Reviewed latest ERM Stoplight Report for the Risk Oversight Committee's perception of key areas of risk	A. Developed a proposed Audit Plan based on interviews, risk assessments, resource availability, budget, and division coverage B. Discussed proposed Audit Plan with the Risk Oversight Committee/Executive Council	A. Review and discuss the proposed Audit Plan with the Audit, Compliance and Ethics (ACE) Committee B. Obtain ACE Committee recommendation and TRS Board approval of 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 provide assurance 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

Revised Audit Plan: Executive & Finance

Title	Type	Preliminary Scope	Timing
ACFR testing of annuity payments	Audit	Conduct pension benefits testing on behalf of the State Auditor's Office (SAO) as part of the Annual Comprehensive Financial Report (ACFR) audit.	Q1
IT Contract Oversight	Audit	Determine the extent to which IT contract administration and oversight activities ensure IT goals are accomplished effectively, efficiently and in compliance with relevant regulations, policies and procedures.	Q1 – Q2
Review of Records Management	Audit	Determine whether the records management program ensures TRS records are retained, stored, and disposed of effectively, efficiently and in compliance with state requirements.	Q3
Follow-up of Procurement Audit	Audit	Determine the extent to which management has implemented recommendations from Project # 21-401.	Q4
Special Requests and Emerging Issues	Advisory	Set aside time to address special requests and emerging issues during the year as requested by management.	Q1 - Q4
Meetings Participation	Advisory	Participate (non-voting) in various TRS-wide meetings such as Executive Council, Leadership Team, and Strategy and Risk Oversight Committee.	Q1 - Q4

Revised Audit Plan: Pension Benefits and Reporting Employers

Title	Type	Preliminary Scope	Timing
Reporting Employer Testing	Audit	Utilize data analytics and other tools to identify anomalies in employer reporting (to TRS), especially in the areas of eligibility, compensation, contributions, and surcharges (pension and healthcare).	Q3 - Q4
Employer Data Analysis and Testing	Consulting	Gather and use full payroll data to risk assess reporting entities for audit, to identify noncompliance with TRS Laws and Rules, and identify errors in system edit checks and missing data.	Q1 - Q4

Revised Audit Plan: Health Care

Title	Type	Preliminary Scope	Timing
Claims Data Analysis	Audit	Perform data analysis on health care claims and share results with management. Develop data analysis scripts for future automated tests.	Q1 - Q4
HILOB Data Analysis	Audit	Perform data analysis on health care membership and share results with management. Develop data analysis scripts for future automated tests.	Q1 - Q4
Review of the Healthcare Claims Database	Consulting	Consult on the accuracy and completeness of HIB's Healthcare Claims Database and relevant system documentation.	Q2

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Revised Audit Plan: Investment Management

Title	Type	Preliminary Scope	Timing
Review of Special Opportunities Portfolio Operations	Audit	Determine the extent to which TRS' Special Opportunities portfolio management operations include sufficient controls to ensure investments are made and managed effectively, efficiently and in compliance with relevant policies, guidelines and procedures.	Q1
Review of Strategic Asset Allocation Procedures and Governance	Audit	Determine whether TRS' Strategic Asset Allocation and governance processes include sufficient controls to ensure optimal design and asset allocation decisions for the trust.	Q1 - Q2
Review of Investment Performance Measurement	Audit	Determine the extent to which TRS portfolio performance measurement operations include sufficient controls to support portfolio governance, management, reporting and oversight effectively, efficiently and in compliance with relevant policies, guidelines and procedures.	Q3
Review of Internal Fundamental Public Equity Portfolio Operations	Audit	Determine whether Internal Fundamental Public Equity portfolio management 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.	Advisory	Stay current on Investment Management Division initiatives by attending the Internal Investment Committee, monthly staff, and other meetings.	Q1 - Q4

Revised Audit Plan: Technology

Title	Type	Preliminary Scope	Timing
Review of Information Security Training and Awareness Program	Audit	Determine whether TRS has a sufficient security training and awareness program that meets state requirements (HB 1118 and HB 3834), TRS policies and procedures, and industry best practices.	Q1
IT System Hardening and Software Patching	Audit	Obtain an understanding of the IT system hardening and software patching processes on Windows operating systems at TRS to determine whether they align with industry best practices.	Q4
Review of Cyber Controls	Audit	Perform a vulnerability assessment and penetration test of TRS's information technology infrastructure.	Q4
IT Risk Assessment	Advisory	Obtain an understanding of various IT processes that have not been audited in a while for purposes of determining their risk level.	Q1 - Q4
Disaster Recovery; Security Risk Assessment Review	Advisory	Observe, obtain, review, and follow-up on any issues identified during the network disaster recovery, and the security risk assessment conducted by the TRS Information Security Officer.	Q1 - Q4

Revised Audit Plan: TEAM

| Title	Type	Preliminary Scope	Timing
TEAM Testing and Reconciliation; Committee Meeting Attendance	Advisory	Participate in TEAM Testing team meetings and provide advisory services, as needed. 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.	Q1 - Q4
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.	Q1 - Q4

Revised 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.
External Quality Assurance Review	Obtain an independent assessment of Internal Audit's compliance with auditing standards and make recommendations for improvement.
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 health care and pharmacy claims.
Staff Training Initiative	Develop and launch auditor training in key areas including report writing, workpaper documentation, and audit risk assessment.
Fiscal Year 2023 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.

Revised Audit Plan: High Risk Areas

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

| Area	Reason for Exclusion
Long-term facilities	Management is developing a plan to address TRS' long-term space needs. The area will not be ready for audit for at least 3 years.
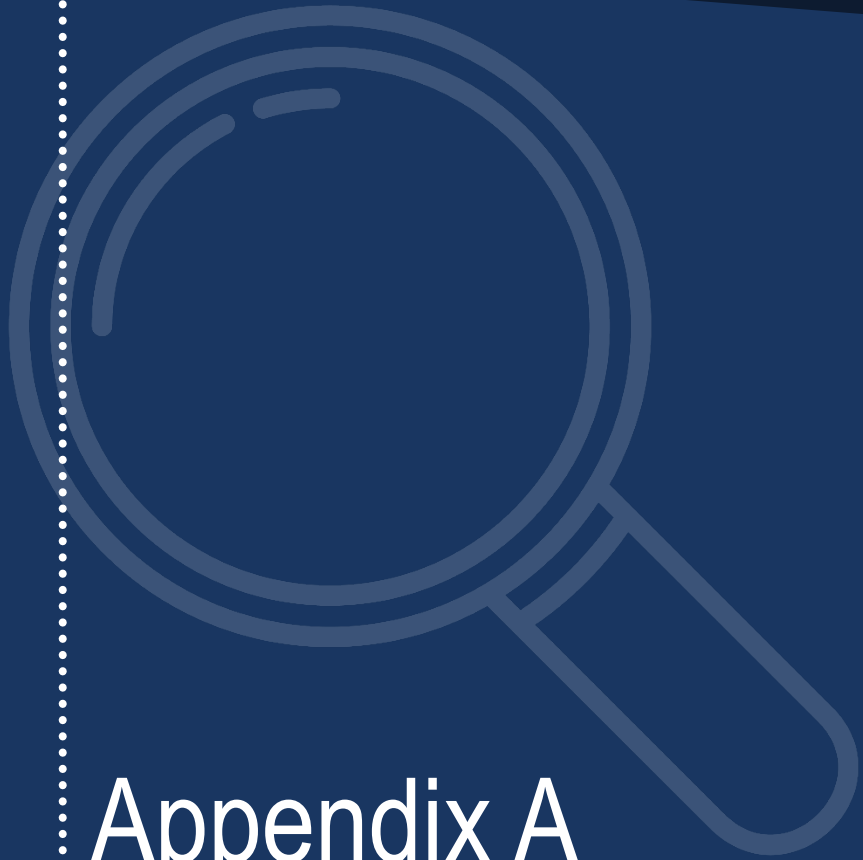
Appendix A

Appendix A: Revised Internal Audit Operating Budget

Line Item	Budget FY 2022	Budget FY 2021
000 – Salaries	$1,506,420	$1,409,749
000 – Benefits	$431,829	$416,621
200 – Professional Fees for Internal Audit Services	$979,500	$751,125
200 – Professional Fees for External Audit Services (ACFR, GASB Schedules, TRICOT)	$498,450	$421,706
505 – Travel-In-State	$13,000	$8,084
510 – Travel-Out-of-State	$20,700	$8,084
705 – Dues, Fees, and Staff Development	$34,279	$29,705
710 – Subscriptions and Reference Materials	$2,122	$2,122
735 & 745 – Other Operating	$5,000	$4,580
Total Operating Budget	$3,491,300	$3,051,782
Full Time Equivalent (FTE) Positions (excluding interns)	14.0	14.0

Resources are sufficient to complete the annual audit plan.
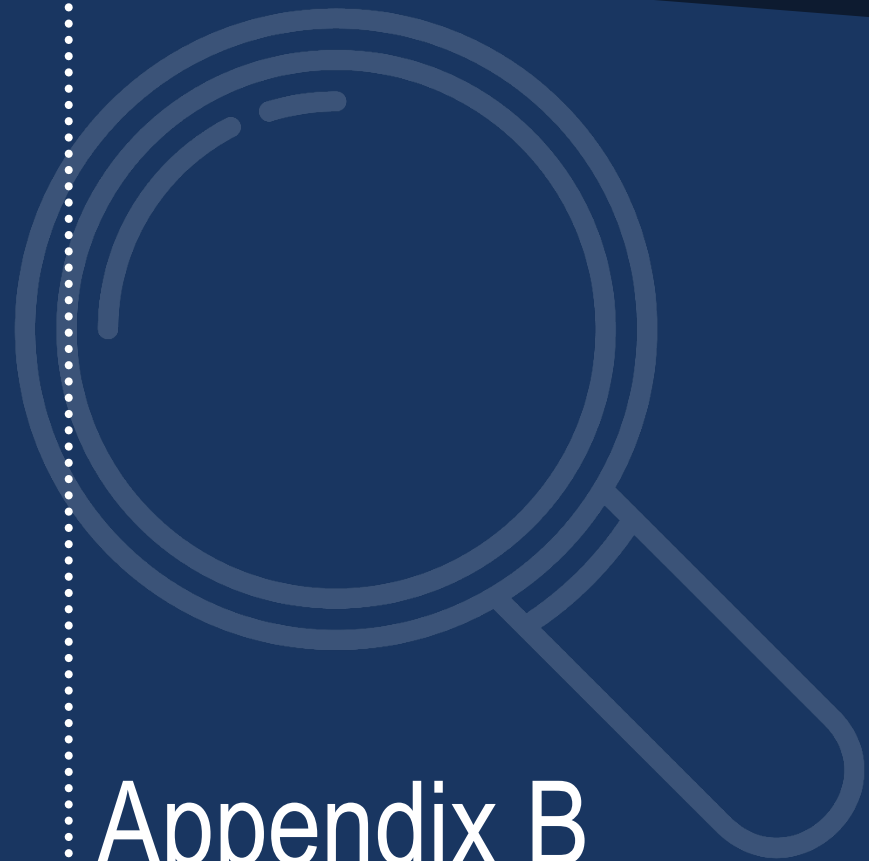
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Appendix B

Appendix B: 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	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.	Employer audits and data analytics of TRS-Care surcharges; Pharmacy claims data analysis, Pharmacy rebate audit participation.	Audits, AUP, Consulting, Advisory
2	Elevated	Records & Information Management	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.	Perform an audit of records management processes.	Audit
3	Elevated	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.	Employer audits and data analytics of TRS-Care surcharges.	Audits and AUP
4	Elevated	Pension Benefit 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 CAFR audit, benefit testing AUP.	Audits AUP
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 outstanding procurement audit recommendations. Perform IT Contract Oversight audit .	Audits
6	Elevated	Long Term Facilities	Successfully complete a generational solution for housing all of TRS.	Due to constraints, TRS is unable to execute the long-term facilities plan.	None. Management is developing a plan. Area will not be ready for an audit for at least another 3 years.	N/A
7	Elevated	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.	IPA vendor coordination, TEAM phase II annuity payment testing; EPOC and other committee participation.	Advisory
8	Elevated	Investment Accounting	Ensure all TRS Investments are properly and completely accounted for; Ensure investments are valued correctly; Ensure investment fees are accurately reported and disclosed; Ensure cash flows into and out of the Fund are complete and properly controlled; Accurately calculate performance incentive pay (PIP)	TRS investments are not properly accounted for, valued correctly or properly reported, and investment-related cash is not properly controlled.	Participate in meetings with custodian bank.	Advisory

#	TRS Risk Level	TRS Risk Category	TRS Goal	TRS-Assessed Overall Risk	Planned Approach	Project Type
9	Caution	TRS-ActiveCare Affordability	Facilitate financial soundness of TRS-ActiveCare in order to provide affordable heath care benefits.	Inadequate funding by the state and participating entities and/or unanticipated external forces could affect affordability.	Perform continuous auditing of healthcare claims.	Audit
10	Caution	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.	Employer audits and data analytics of employer contributions.	Audits and AUP
11	Caution	Enterprise Information Systems	Provide information systems to meet TRS' business and customer service needs.	Inability to provide adequate and consistent information in a timely fashion via the preferred delivery mechanism.	Audit of IT system hardening & software patching. EPOC and other committee participation, IT risk assessment.	Audit; Advisory
12	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.	Review of Information Security Training; IT Risk Assessment.	Audits and Consulting
13	Caution	Cyber Security	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; DIR's Cybersecurity Framework Assessment.	Audit
14	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, Pharmacy Rebate Audit Support.	Audits; Advisory
15	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.	Participate ERM discussions on Talent Management. Brief the Board on IIA's OnRisk 2022 Report	Advisory
16	Caution	Facilities Management & Planning	Provide a physical work environment that is safe and enhances productivity.	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.	Participate in discussions about headquarters building	Advisory
17	Caution	Accounting & Reporting	Maintain and monitor the integrity, accuracy, and completeness of financial information and timeliness of reporting.	Materially inaccurate financial information and reports would result in Board of Trustees and Texas Legislature decisions being made on flawed data and adverse or qualified audit opinions.	ACFR audit.	External Audit

#	TRS Risk Level	TRS Risk Category	TRS Goal	TRS-Assessed Overall Risk	Planned Approach	Project Type
18	Caution	Business Continuity	Recover and resume operations in the event of a major business interruption.	Members do not receive statutorily required services timely.	Consult on Data Center move.	Advisory
19	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.	None	n/a
20	Guarded	Open Government	Ensure compliance with laws and rules related to open records and meetings.	Non-compliance could lead to penalties and fines or voiding of board actions.	None	n/a
21	Guarded	Global Travel	Ensure employee safety by complying with laws and regulations and providing awareness of challenges when traveling or working abroad.	Not being aware of safety, compliance, and other challenges when traveling or working abroad could jeopardize the safety of our employees.	None	n/a
22	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.	Hotline triage team participation.	Advisory
23	Guarded	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.	None.	n/a
24	Guarded	Budget	Ensure TRS has appropriate budget to provide and sustain resources necessary to successfully carry out TRS' mission, goals, and objectives to serve our members.	Lack of a sufficient operating budget could jeopardize our ability to effectively serve our members.	Attend FTE Committee meetings.	Advisory

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

#	TRS Risk Level	TRS Risk Category	TRS Goal	TRS-Assessed Overall Risk	Planned Approach	Project Type
25	Guarded	Investment Operations	•Maintain the integrity of transaction, position, and investment reporting information in a risk-controlled environment for optimal investment management decisions. •To support the successful operation of the Investment Management Division.	•Inefficient or ineffective transaction or position management processes which could result in losses to the fund. •Investment reports contain material inaccuracies. •Inefficient and ineffective support of IMD operations.	None	n/a
26	Guarded	Sunset/ Legislative Implementation	Implement the Sunset management recommendations and legislation that was adopted by the 87th Legislature.	Not implementing legislation in a timely manner	None	n/a
27	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. The trend is going up based on the uncertainty of world events and the increased focus on business continuity and preparedness guidance.	None	n/a
28	Low	Credit	Maintain effective management of counterparty and securities lending risks.	Unmanaged counterparty and securities lending exposures could result in losses to the investment portfolio.	None	n/a
29	Low	Market	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
30	Low	Liquidity / Leverage	Maintain levels of liquidity appropriate for the support of fund disbursements, anticipated investment funding needs and trust level leverage.	Inadequate liquidity could lead to cash shortfalls.	None	n/a
31	Low	Governmental / Association Relations & Legislation	Maintain effective communications and positive relations with the Legislature, associations, and other public parties.	Poor communications could lead to adverse relations, unfavorable legislation, and restricted funding.	Quarterly SAO update meetings	Advisory