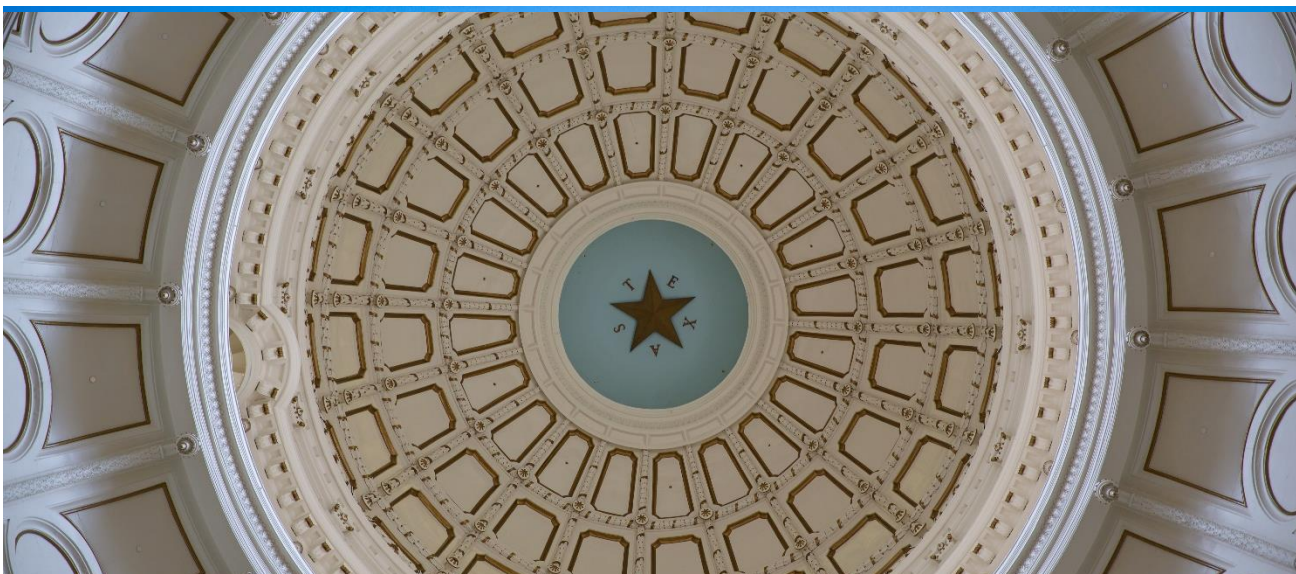




Internal Audit

Revisions to the Fiscal Year 2021 Audit Plan



Amanda Jenami, CIA, CISA, CPA,
CIDA, CFSA

July 15, 2021





Brian K. Guthrie
Executive Director

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Amanda Jenami,
CIA, CISA, CPA, CFE
Chief Audit Executive

MEMORANDUM

TO: Audit, Compliance and Ethics Committee
Brian Guthrie, Executive Director

FROM: Amanda Jenami, Chief Audit Executive

SUBJECT: Proposed Revisions to the Audit Plan for Fiscal Year 2021

DATE: July 15, 2021

Agenda Item

Consider recommending to the Board of Trustees the proposed revision to the Fiscal Year 2021 Audit Plan.

Background

Per the approved *Fiscal Year 2021 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 FY21 Audit Plan and recommend that the Board of Trustees adopt the proposed revisions.

Proposed Changes

Below are the proposed changes for your consideration:

Project	Change	Reason
Technology		
Review of Third-Party Vendor Risks	Reclassify to Consulting Project	<p>Our preliminary research into TRS' third-party risk management practices found insufficient structure to support a standard audit engagement. Instead, in partnership with management, the IT Audit Team is performing a Third-Party Risk Management Maturity Assessment to:</p> <ul style="list-style-type: none">• assess the maturity of TRS' Third Party Risk Management program,• identify gaps between current- and desired state,

		<ul style="list-style-type: none"> • identify improvement opportunities by benchmarking current against leading and peer practices, and, • provide management with recommendations. <p>The proposed project, the nature and scope of which are agreed upon with management, will be performed as a consulting engagement and in accordance with relevant standards.</p>
Internal Audit Activities		
Assurance Map	Cancel	Develop and maintain an assurance map. An assurance map is a matrix comprising a visual representation of the organization's risks and the related coverage provided by all internal and external providers of assurance services.

Staff Recommendation

Staff recommends approval of the Revised Audit Plan for FY2021, as attached.



APPENDIX

Proposed Changes To Audit Plan Fiscal Year 2021

Amanda Jenami, CPA, CISA, CIA,
CRMA, CFE, CGAP
July 15, 2021



Executive Summary

Professional and Statutory Requirements

This document provides the *Fiscal Year 2021 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

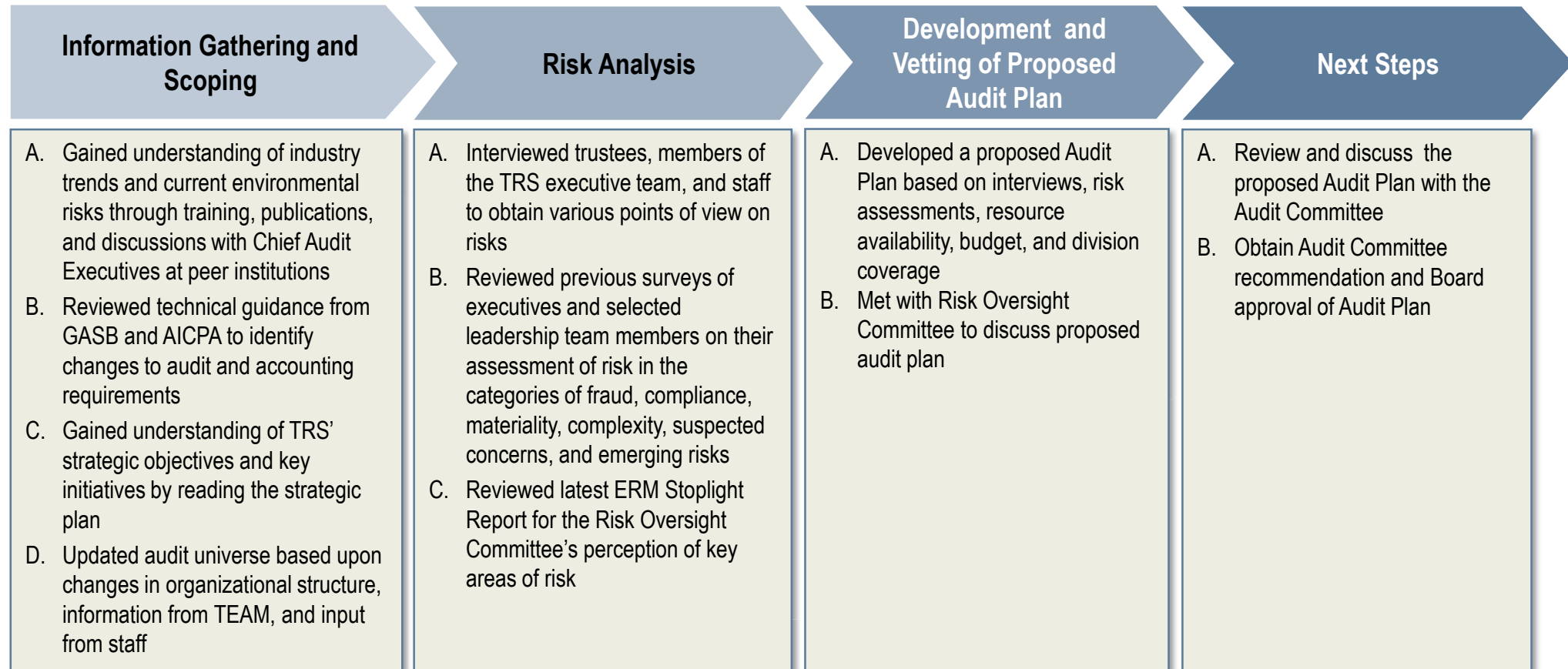
Our Audit Plan is designed to provide coverage of key risks, given the existing staff and approved budget. See the **Appendices** for information regarding the internal audit budget and audit plan mapped to the TRS Risk Assessment.

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:



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 - 900 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: Executive & Finance

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	Timing
Review of Procurement	Audit	Determine the extent to which TRS procurement processes ensure that agency goals are accomplished efficiently and effectively, and in compliance with relevant state laws, TRS policies and procedures.	Q1
Follow-up of Talent Management Audit	Audit	Determine the extent to which management has implemented recommendations from Project # 19-601.	Q4
Review of the HUB Program	Audit	Determine whether TRS has processes in place to ensure HUB related goals and state requirements are met effectively and efficiently.	Q2
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.	Q1
Review of non-TRS Employees' Management	Audit	Determine whether TRS has processes in place to ensure non-TRS workers' are managed effectively to ensure relevant contract deliverables are met.	Reserve
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.	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

Audit Plan: TEAM

Title	Type	Preliminary Scope	Timing
TEAM Testing and Reconciliation	Advisory	Participate in TEAM Testing team meetings and provide advisory services, as needed.	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
TEAM Committees, Projects, and Controls Assessment Participation	Advisory	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

Audit Plan: Pension Benefits and Employer Audits

Title	Type	Preliminary Scope	Timing
Annual Benefits Testing	Agreed-Upon Procedures	Recalculate a sample of annual benefit payments and agree to the supporting documentation on file. Scope in other tests related to benefits as agreed-upon with management.	Q4
Employer Testing	Agreed-Upon Procedures	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).	Q1 – Q4
Employer Data Analysis and Testing	Consultancy	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
TRS Reporting Entity Website Audit Information Update and Communication Activities	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.	Q1 – Q4

Audit Plan: Health Care

Title	Type	Preliminary Scope	Timing
Vendor Change Readiness Review	Advisory	Determine if TRS has processes in place to ensure a smooth transition to the newly selected health plan administrators for TRS ActiveCare, TRSCare Standard and Alternative Plans and TRS Medicare Advantage.	Q1
Review of Contract Oversight	Audit	Determine the extent to which HIB contract administration and oversight activities ensure HIB goals are accomplished effectively, efficiently and in compliance with relevant regulations, policies and procedures.	Q3
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
Pharmacy Rebate Audit Support	Advisory	Participate in external audit verifying accuracy of pharmacy rebates received by TRS-Care and TRS-ActiveCare.	Reserve
Health Care Vendor Update Meetings Attendance	Advisory	Attend quarterly meetings with health care vendors to understand results, issues, and TRS management's monitoring controls.	Q1-Q4

Audit Plan: Investment Management

Title	Type	Preliminary Scope	Timing
Review of the Use of Leverage in Asset Allocation	Audit	Determine the extent to which TRS's utilization of leverage in portfolio asset allocation includes sufficient controls including governance, reporting and oversight, policy limits, risk management and other controls to ensure portfolio goals are met effectively, efficiently and in compliance with relevant policies, guidelines and procedures.	Q2
Review of Real Estate Portfolio Operations	Audit	Determine the extent to which TRS's Real Estate portfolio management activities include sufficient controls to ensure investments are made and managed effectively, efficiently and in compliance with relevant policies, guidelines and procedures.	Q3
Review of Securities Lending	Audit	Determine whether TRS' securities lending activities include sufficient controls to ensure investment management goals are met effectively and efficiently, and in compliance with relevant policies, guidelines and procedures.	Q3
Review of Personal Trading	Audit	Determine the extent to which TRS has sufficient processes in place to ensure employees' personal trading and investment activities are conducted in compliance with relevant federal laws and TRS policies and procedures.	Q4
Review of the Special Opportunities Portfolio	Audit	Determine the extent to which TRS's Special Opportunities portfolio management activities include sufficient controls to ensure investments are made and managed effectively, efficiently and in compliance with relevant policies, guidelines and procedures.	Reserve
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

Audit Plan: Technology

Title	Type	Preliminary Scope	Timing
Review of Information Security Controls	Audit	Determine whether TRS has sufficient IT security processes, technologies and practices in place to protect IT systems and data from unauthorized digital access, attack and damage, and in compliance with industry standards and state requirements.	Q1-Q2
Review of Cyber Security	Audit	Perform a vulnerability assessment and penetration test of TRS's information technology infrastructure.	Q4
Review of Third-Party Vendor Risks	Audit	Partner with management to perform a maturity assessment of TRS' Third-Party Risk Management Program including assessing the maturity of TRS' Third-Party Risk Management program, identifying gaps between current- and desired state, identifying improvement opportunities by benchmarking against leading practices, and providing management with recommendations.	Q3-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

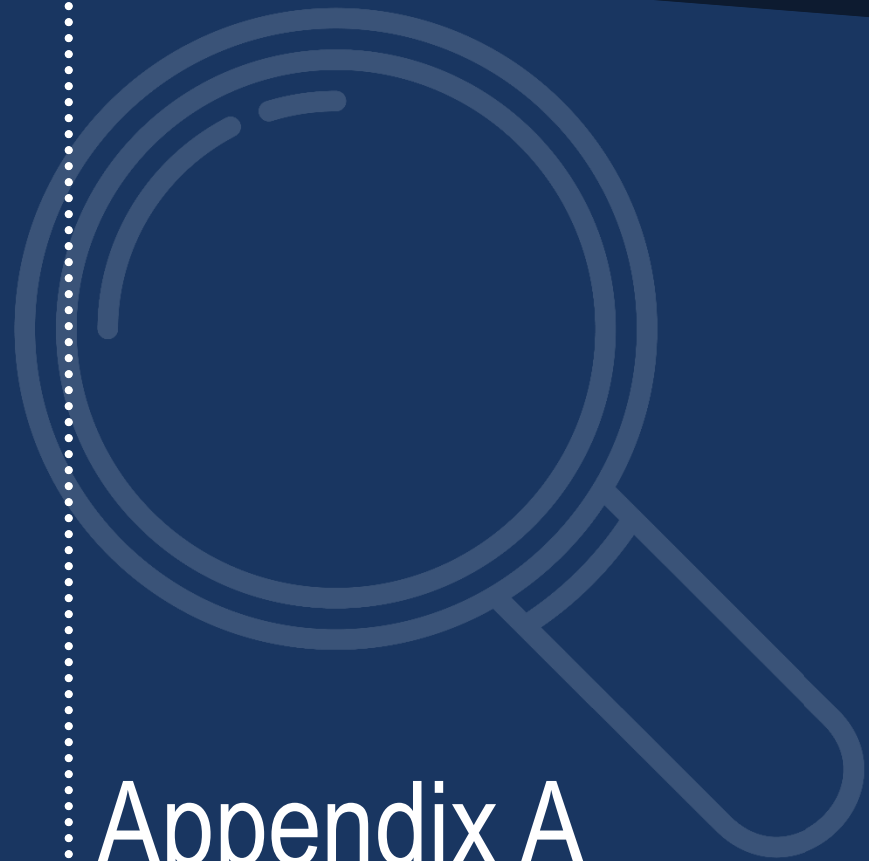
Audit Plan: Internal Audit Activities

Title	Project Description
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 Process Buildout	Continue to build out data analysis skills of audit staff; incorporate into audit projects and annual audit plan development. Enhance the newly implemented continuous auditing program by researching and developing a key risk indicator dashboard and automated scripts (reserve project).
Staff Training Initiative	Develop and launch auditor training in key areas including report writing, workpaper documentation, and audit risk assessment.
Fiscal Year 2022 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 Not Included in FY2021 Plan

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
Enterprise Information Systems	Planned for FY2022
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.
Records Management	Scheduled for FY2022



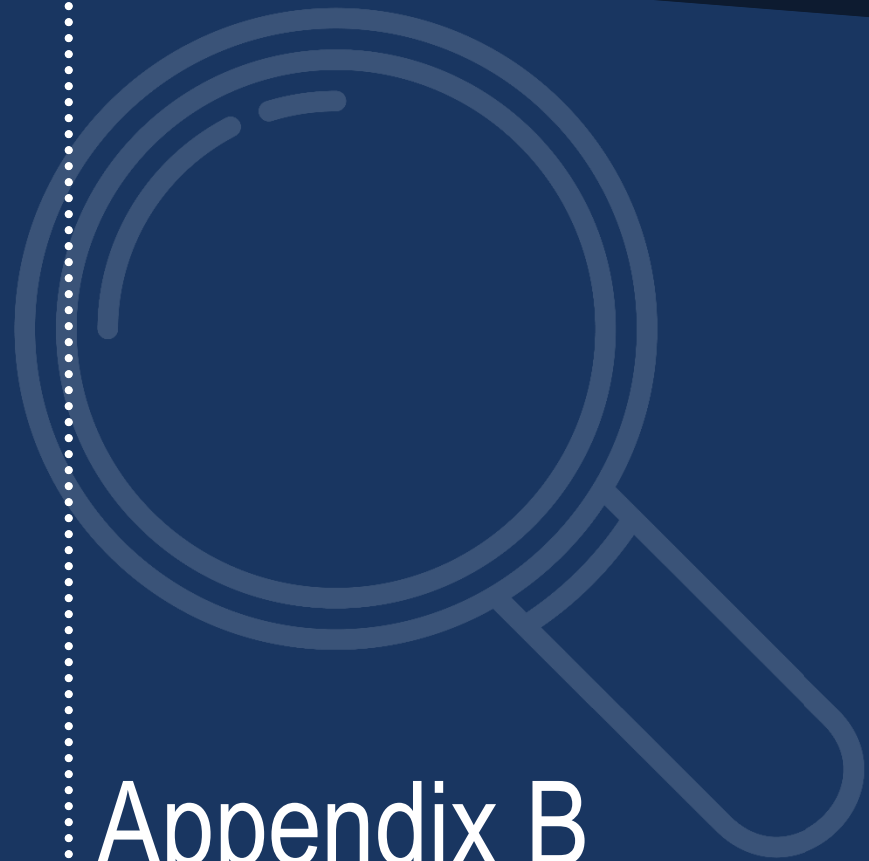
Appendix A

Internal Audit Operating Budget

Appendix A: Internal Audit Operating Budget

Line Item	Budget FY 2021	Budget FY 2020
000 – Salaries	\$1,509,300	\$1,415,900
000 – Benefits	387,872	329,400
200 – Professional Fees for Internal Audit Services	446,125	463,400
200 – Professional Fees for External Audit Services (CAFR, GASB Schedules, TRICOT)	421,706	464,600
505 – Travel-In-State	8,489	15,100
510 – Travel-Out-of-State	13,084	35,900
600 – Offsite Retreat	0	0
705 – Dues, Fees, and Staff Development	29,705	28,800
710 – Subscriptions and Reference Materials	7,122	2,100
Total Operating Budget	\$2,823,403	\$2,755,200
Full Time Equivalent (FTE) Positions (excluding interns)	14.0	14.0

Resources are sufficient to complete the annual audit plan.



Appendix B

Audit Universe Mapped to TRS Risk Assessment

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 rebate audit participation	Audits, AUP, 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.	None. TRS is completing implementation of major records management and communication systems	n/a
3	Elevated	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.	EPOC and other committee participation, IT risk assessment.	Advisory
4	Elevated	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.	Vulnerability assessment and penetration tests	Audit
5	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	Audits and AUP
6	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
7	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.	(i) Procurement Audit (ii) Contract Oversight Audit	Audits

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
8	Caution	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.	Pharmacy rebate audit participation	Advisory
9	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
10	Caution	Information Security & 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.	Information Security Audit	Audits
11	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.	Contract Oversight	Audit
12	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.	Follow-up of the Talent Management Audit	Audit
13	Caution	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, EPOC and other committee participation	Advisory
14	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.	None	n/a
15	Caution	Business Continuity (COVID-19)	Recover and resume operations in the event of a major business interruption.	Members do not receive statutorily required services timely.	Participate in EC stand up meetings on COVID-19.	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
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.	None	n/a
17	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
18	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
19	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
20	Guarded	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
21	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
22	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
23	Guarded	Business Continuity	Recover and resume operations in the event of a major business interruption.	Members do not receive statutorily required services timely.	Observation of offsite BCP tests	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
24	Guarded	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.	CAFR audit TRICOT	External Audit External Audit
25	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
26	Guarded	Investment Operations	<ul style="list-style-type: none"> •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. 	<ul style="list-style-type: none"> •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
27	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
28	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.	Rely on IMD Risk Management	n/a
29	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.	Review of the Use of Leverage in Asset Allocation	Audit
30	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