Audit Plan
Fiscal Year 2023

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TRS
TEACHER RETIREMENT SYSTEM OF TEXAS

Executive Summary

Professional and Statutory Requirements

This document provides the *Fiscal Year 2023 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 consulting services designed to add value and improve TRS operations.
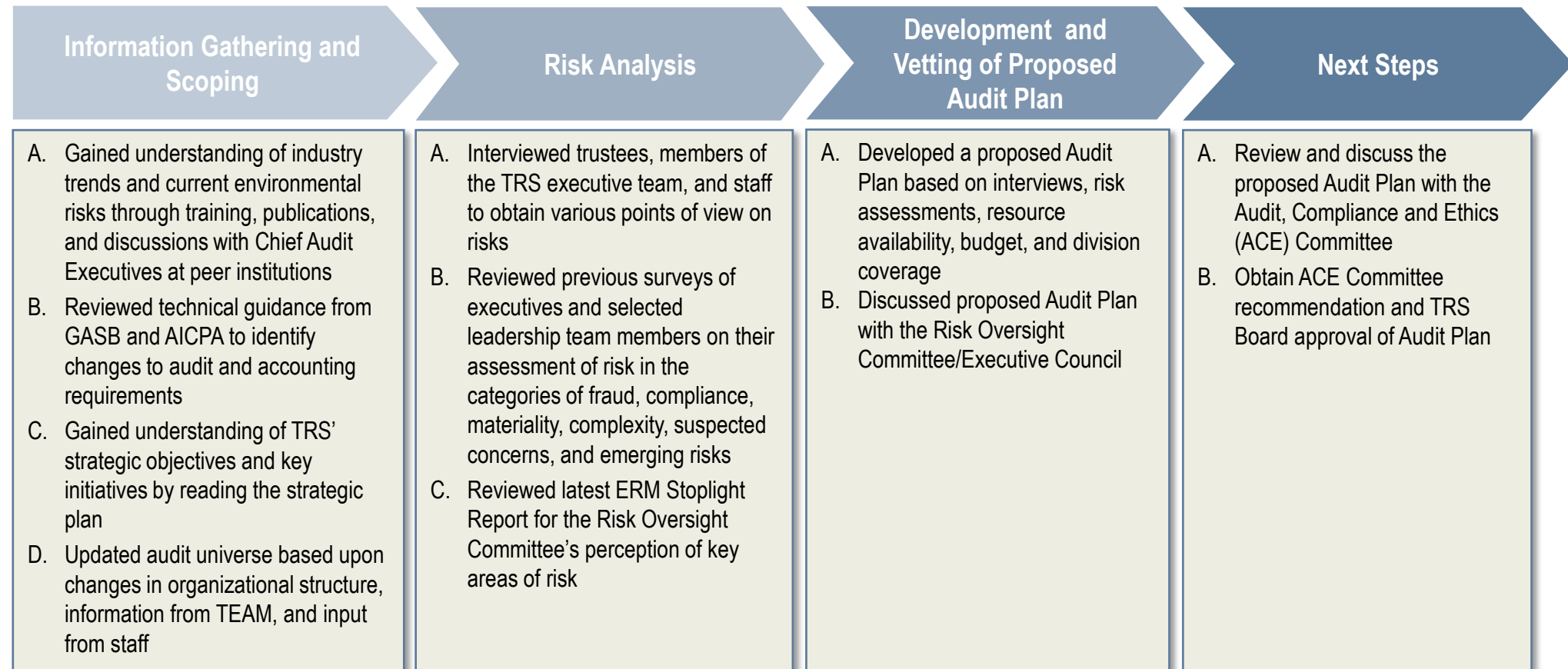
Audit Plan Development and Scope

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 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:

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: 600 – 1,600 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 - 600 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 - 600 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

Title	Type	Preliminary Scope	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
Follow-up Review of HUB Program	Audit	Determine the extent to which management has implemented recommendations from Project #21-402.	Q2
Follow-up of Prior Audits	Audit	Determine the extent to which management has implemented recommendations from prior audits.	Q2 - Q3
Post-implementation review of PAVES	Audit	Determine whether the project goals were achieved and conduct a gap analysis between the project charter, project results, and original objectives. Review expected deliverables. Identify areas for further development.	Reserve
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

Audit Plan: Pension Benefits and Reporting Employers

Title	Type	Preliminary Scope	Timing
Reporting Employer Processes	Audit	Determine whether the Reporting Employer processes are accomplished effectively, efficiently, and in compliance with relevant regulations, policies and procedures.	Q2
Reporting Employer Data Analysis	Continuous Audit	Analyze Reporting Employer data within TRUST system for completeness, integrity, accuracy, and reasonableness.	Q1 - Q4
Benefit Processing Data Analysis	Continuous Audit	Analyze retiree data within TRUST and ANPA systems for accuracy, member eligibility, refunds, and benefit payments.	Q1 - Q4
Reporting 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).	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

Audit Plan: Health Care

Title	Type	Preliminary Scope	Timing
Review of Eligibility	Audit	Determine whether TRS-Care processes include sufficient controls to ensure appropriate member eligibility classification.	Q1 – 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 services rendered to members for alignment with health care industry recommendations.	Q1 – Q4
Healthcare Claims Data Analysis	Continuous Audit	Review medical and pharmacy claims processed by TRS plan administrators for compliance with contract requirements.	Q1 – Q4
HILOB Data Analysis	Continuous Audit	Analyze data within HILOB and ANPA for accuracy of TRS-Care membership eligibility, premium payment and refunds.	Q1 - 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

Audit Plan: Investment Management

Title	Type	Preliminary Scope	Timing
Review of Investment Trading Operations	Audit	Determine whether investment trading systems and operations include sufficient controls to ensure trading activities are managed and conducted effectively, efficiently and in compliance with relevant policies, guidelines and procedures.	Q1
Review of Private Equity Portfolio Operations	Audit	Determine whether Private Equity 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 External Public Markets Global Equity Portfolio Operations	Audit	Determine whether External Public Markets global equity 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.	Advisory	Stay current on portfolio strategy and Investment Management Division initiatives by attending Internal Investment Committee, monthly staff and other meetings.	Q1 - Q4
Special requests, initiatives and emerging issues	Advisory	Set aside time to address special requests, initiatives and emerging issues during the year as requested by Management	Q1 - Q4

Audit Plan: Technology

Title	Type	Preliminary Objective	Timing
Audit of Information Systems Inventory and Data Classification	Audit	Determine whether TRS has processes in place to ensure a complete inventory of information assets is maintained and that data classification processes align with industry standards.	Q1
Audit of Malware Protection and Ransomware Readiness	Audit	Determine whether TRS has effective controls to prevent and detect malware and ransomware threats from infecting information systems.	Q2
Review of Cyber Controls	Audit	Perform a vulnerability assessment and penetration test of TRS's information technology infrastructure.	Q4
Audit of the Cybersecurity Incident Response Program	Audit	Determine whether TRS Cybersecurity Incident Response Program aligns with industry standards and is operating effectively.	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: 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

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 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 2024 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 (Procurement and IT Security) 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 the audit recommendations are fully implemented, around FY2026.
Talent Continuity	TRS Organizational Excellence is currently implementing some key initiatives and will not be ready for an audit until FY2024.

September 2022 Board Audit, Compliance and Ethics Committee Meeting
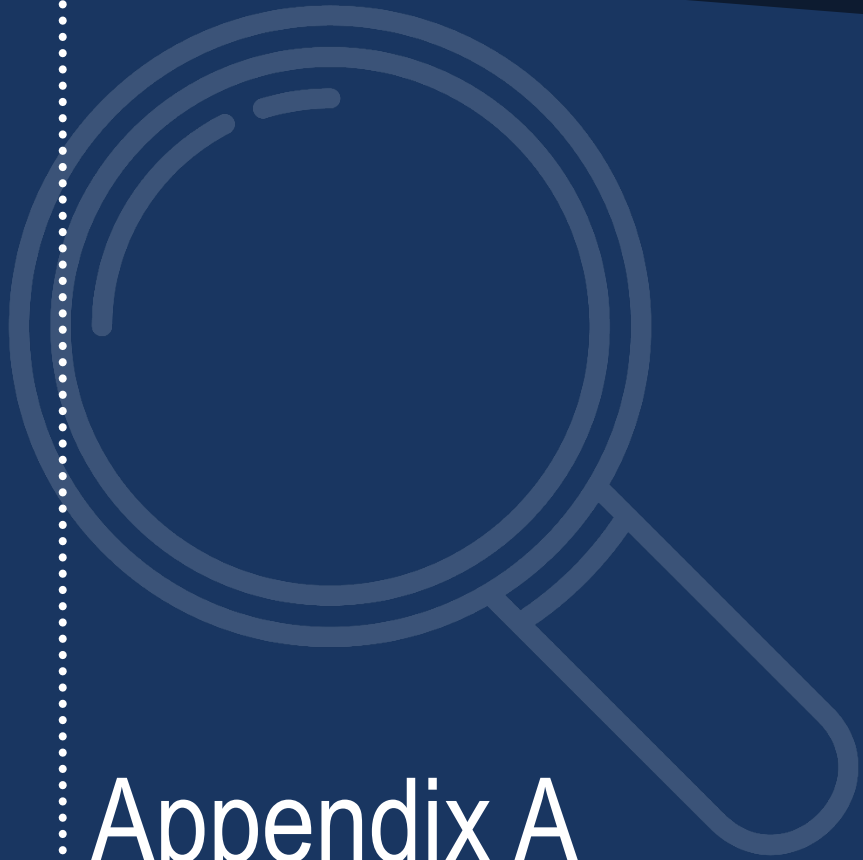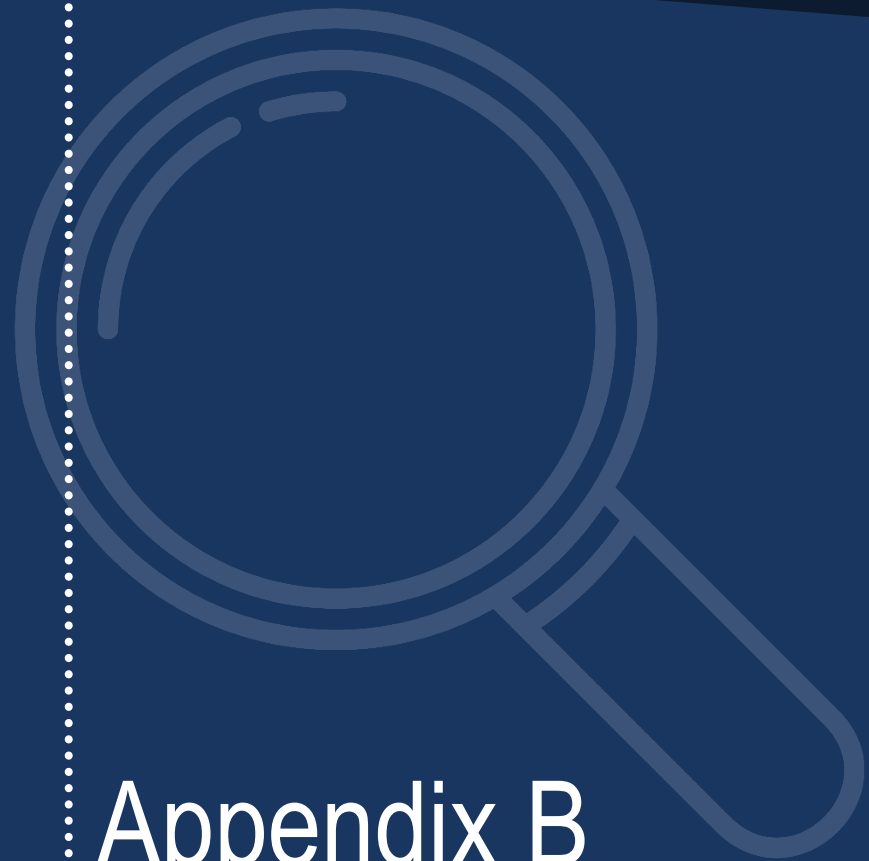
Appendix A

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	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; Review of Cybersecurity Incident Response Program.	Audit
2	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 2026.	N/A
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.	RE process audit; employer audits; continuous audits of RE data for completeness, integrity and accuracy; data analysis of TRS-Care surcharges.	Audits; 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.	Audits
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 implementation of FY2021 Procurement Audit. Follow-up on implementation of contract oversight audits.	Audits
6	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; EPOC and other committee participation.	Independent Program Assessment; Advisory
7	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.	Audit; EPOC and other committee participation, IT risk assessment.	Audit; Advisory
8	Elevated	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.	Pharmacy rebate audit participation.	Advisory
9	Elevated	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.	None. Organizational Excellence is currently implementing some key initiatives and will not be ready for an audit until FY2024.	N/A

#	TRS Risk Level	TRS Risk Category	TRS Goal	TRS-Assessed Overall Risk	Planned Approach	Project Type
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	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 Systems Inventory and Data Classification IT Risk Assessment.	Audits and Consulting
12	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.	Review of Eligibility; Healthcare Claims Data Analysis, Pharmacy Rebate Audit Support.	Audits; Advisory
13	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. | None. Management is in the process of implementing the TRS Headquarters Project, following Board approval.

Area will not be ready for an audit for at least another 3 years. | N/A |
| 14 | Caution | 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 |
| 15 | 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 Internal Audit projects. | Audits, Advisory |
| 16 | Guarded | Open Government/ Association Relations & Legislation | Ensure compliance with laws and rules related to open records and meetings.

Maintain effective communications and positive relations with the Legislature, associations, and other public parties. | Non-compliance could lead to penalties and fines or voiding of board actions.

Poor communications could lead to adverse relations, unfavorable legislation, and restricted funding. | None.

Quarterly SAO update meetings. | n/a

Advisory |

September 2022 Board Audit, Compliance and Ethics Committee Meeting

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
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.	Hotline triage team participation.	Advisory
18	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
19	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
20	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
21	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
22	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.	Employer audits; data analytics of TRS-Care surcharges; Pharmacy claims data analysis.	Audits; AUP; Consulting; Advisory
23	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