



# Internal Audit

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## **Audit Plan for Fiscal Year 2025**



# Executive Summary



## Professional and Statutory Requirements

This document provides the *Fiscal Year 2025 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.

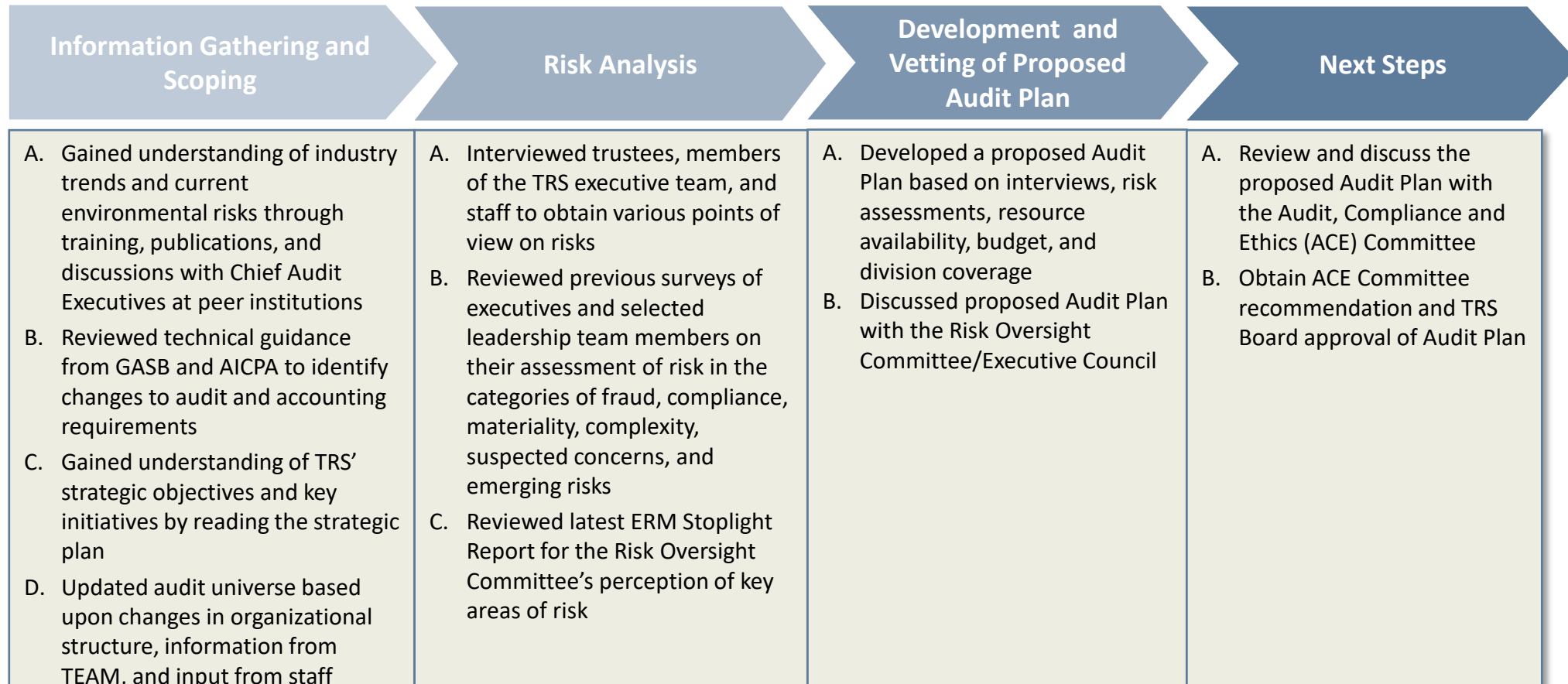




# Risk Assessment & Audit Planning Approach



*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:*



# Types of Projects to Cover Risk Areas



## Audit



## Agreed-Upon Procedures



## Formal Advisory Services



## Informal Advisory Services

<p>Audit Focus: Assess evidence available to provide assurance on an audit objective</p>	<p>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</p>	<p>Consulting Focus: Respond to requests for formal study or assessment with recommendations; no assurance provided</p>	<p>Advisory Focus: Participate in activities in a non-voting capacity, e.g., provide training and input on policies and procedures</p>
<p>Deliverable: Audit report for public distribution unless protected by statute</p>	<p>Deliverable: Agreed-upon procedures report for public distribution (use is limited to those with understanding of procedures performed)</p>	<p>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</p>	<p>Deliverable: Verbal discussion or a brief memo to management</p>
<p>Estimated level of effort per project: 600 – 1,600 hours</p>	<p>Estimated level of effort per project: 100 - 600 hours</p>	<p>Estimated level of effort per project: 100 - 600 hours</p>	<p>Estimated level of effort per year: 10 – 100 hours</p>

# Audit Plan: Executive & Business Administration

Title	Type	Preliminary Scope	Timing
Review of ERM Program	Audit	Determine whether the ERM Program includes sufficient controls to identify, assess, respond and report threats to enterprise goals, objectives and strategies.	Q2
Review of Safety and Physical Security (Alpha) (Reserve)	Audit	Determine whether TRS security processes include sufficient controls to ensure safety and security objectives are accomplished effectively, efficiently and in compliance with relevant requirements.	Q3
Review of Contract Oversight (Information Security)	Audit	Determine whether the Information Security Division's contract oversight activities include sufficient controls to ensure Information Security goals are accomplished effectively, efficiently and in compliance with applicable requirements.	Q2
Follow-Up of Prior Audits	Audit	Determine whether management has implemented recommendations from prior audits.	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
Meetings Participation	Advisory	Participate (non-voting) in various TRS-wide meetings such as Executive Council, Strategy and Risk Oversight Committee, Leadership Team, and.	Q1 - Q4



# Audit Plan: Pension Benefits and Reporting Employers



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
Reporting Employer Audits	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 – Q3
Reporting Employer Data Analysis	Continuous Audit	Analyze Reporting Employer data within TRUST system for completeness, integrity, accuracy, and reasonableness.	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: Health Care



Title	Type	Preliminary Scope	Timing
Dental/Vision LTEO Independent Testing	Advisory	Validate accuracy of premiums and resulting coverage combinations for TRS-Care's new dental, vision, and Limited Time Enrollment Opportunity programs.	Q1 – Q2
TRS-ActiveCare Dependent Eligibility Testing	Audit	Perform dependent eligibility testing.	Q2 – Q3
Benefit Matrix Testing	Audit	Test medical claims to ensure the carrier is adjudicating claims in compliance with TRS plan-specific benefit limitations and cost-sharing rules.	Q2 – Q3
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
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 Energy, Natural Resources and Infrastructure Portfolio Operations	Audit	Determine whether Energy, Natural Resources and Infrastructure (ENRI) 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 Investment Middle Office Operations	Audit	Determine whether activities related to Middle Office operations including Investment Book of Record (IBOR) data management, account management, and portfolio management services include sufficient controls to ensure activities are managed and conducted effectively, efficiently and in compliance with relevant policies, guidelines and procedures.	Q3
Review of the Innovation Portfolio Program	Audit	Determine whether governance and procedures related to the Innovation Portfolio Program include sufficient controls to ensure activities are managed and conducted effectively, efficiently and in compliance with relevant policies 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 & TEAM



Title	Type	Preliminary Objective	Timing
Access Control Management	Audit	Evaluate the processes and tools to create, assign, manage, and revoke access credentials and privileges for administrator, and service accounts to enterprise assets and software.	Q1 – Q2
Application Programming Interface	Advisory	Conduct a consulting engagement aimed at identifying opportunities to enhance security, scalability, and efficiency of Application Programming Interfaces (API) within TRS.	Q2 – Q3
Review of Cyber Controls	Audit	Perform a vulnerability assessment and penetration test of TRS's information technology infrastructure.	Q2 – Q3
Business Continuity Planning and Disaster Recovery	Audit	Assess the effectiveness and adequacy of TRS business continuity planning (BCP) and disaster recovery practices to ensure resilience (preparedness) and the ability to recover from disruptive events.	Q3 – Q4
Internet Service Provider	Advisory	Assist in ensuring the cybersecurity security requirements for TRS' new internet service provider (ISP) match or exceed current levels of services and protocols. Work will include verifying security measures are implemented effectively to maintain consistent levels of protection.	Reserve
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 2026 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.



## Appendix A

Internal Audit Operating Budget



# Appendix A: Internal Audit Operating Budget



Line Item	Budget FY 2025	Budget FY 2024
000 – Salaries	\$2,609,300	\$2,461,960
000 – Benefits	\$742,440	\$672,200
200 – Professional Fees for Internal Audit Services	\$1,204,108	\$1,051,434
200 – Professional Fees for External Audit Services (ACFR, GASB Schedules, TRICOT)	\$561,292	\$510,266
505 – Travel-In-State	\$21,200	\$15,700
510 – Travel-Out-of-State	\$50,400	\$56,500
600 – Offsite Retreat	\$48,400	\$55,000
705 – Dues, Fees, and Staff Development	\$2,500	\$2,300
710 – Subscriptions and Reference Materials	\$8,600	\$7,800
Total Operating Budget	\$5,248,240	\$4,833,160
Full Time Equivalent (FTE) Positions (excluding interns)	19.0	19.0

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	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; Access control management; Internet Provider Services; Application Programming Interface	Audits; Consulting; Advisory
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	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.	Review of Contract Oversight (Information Security)  Follow-up on IMD Contract Oversight, issued in September 2024.	Audits
4	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.	Audits; EPOC and other committee participation, IT risk assessment.	Audit; Advisory
5	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 Report; Actuarial Audit of 8/31/2023 Valuation (dated: March 2024); Reporting employer audits	Audits
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.	Dependent eligibility verification; Healthcare Claims Data Analysis	Audit; 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.	Access control management audit;  IT Risk Assessment.	Audits; Consulting
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, Dependent eligibility verification; Benefit matrix testing.	Audits; Consulting
9	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

# 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
10	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.	None.	N/A
11	Caution	Business Continuity	Recover and resume operations in the event of a major business interruption.	Members do not receive statutorily required services timely.	Business Continuity and Disaster Recovery	Audit
12	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.	Review of Physical Security (Alpha)	Audit
13	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
14	Guarded	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 ACFR audit.	Audit
15	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.	IPA vendor coordination, EPOC and other committee participation.	Independent Program Assessment; Advisory
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
17	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

# 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
18	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
19	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
20	Low	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
21	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.	Consulting; Advisory
22	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





## Appendix C

Proposed Data Analytics Projects for FY2025

# Appendix C: Proposed Audit Plan for FY2025: Data Analytics

Title	Project Type	Preliminary Objective
ACFR testing of annuity payments	External Audit	Perform data analytics in support of pension benefits testing (SAO's ACFR audit).
Dental/Vision Carrier Eligibility File Testing	Consulting/ Pre-implementation	Validate accuracy of member coverage for TRS-Care's new dental and vision program.
Dental/Vision Limited Time Enrollment Opportunity (LTEO) Independent HILOB Testing	Consulting/ Pre-implementation	Perform independent pre-implementation testing of LTEO (HILOB).
Benefit Matrix Testing	Consulting/ Vendor Compliance	Perform annual roving tests of limits, exclusions and adjustments to benefit matrices.
Double Payments Testing	Consulting/ Vendor Compliance	Testing for double payments for same services due to different reasons, such as providers with multiple IDs.
Maternity Claims Testing	Consulting/ Vendor Compliance/ Fraud, Waste & Abuse	Test for improper payments in maternity services, such as billing for pregnancy test after a hysterectomy or during menopause.
New CPT Codes Testing	Consulting (Vendor Compliance)	Perform control testing for CPT codes introduced in 2024.
Risk Analysis for Reporting Employers Audit	Assurance - Internal	Perform data analytics in support of the Reporting Employer audit risk assessment process.
Hospital Claims Policy Testing ( <b>Reserve</b> )	Consulting (Vendor Compliance)	Test hospital service claims for compliance with relevant policies.

