Teacher Retirement System of Texas – Internal Audit

Proposed Revisions to the Audit Plan for Fiscal Year 2019

Amanda Jenami

April 25, 2019

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 2019

DATE: April 25, 2019

Per the approved *Fiscal Year 2019 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 FY19 Audit Plan and recommend that the Board of Trustees adopt the proposed revisions. Below is a list of proposed changes for your consideration:

Project	Change	Reason
Health Care		
Pharmacy Rebate Audit Support	Defer	Management requires more time to procure a vendor. Management expects to complete the process by First Quarter, FY 2020.
Consult on TRS-Care Revenue Collection Processes	Add	Management Request
Data Analytics Projects (Advisory): 1. TRS-Care Surcharge payments 2. TRS-Care Coverage for Members in Pending Retirement Status	Add	Management Request
Pension Benefits and Employer Reporting		
Employer Testing	Expand Scope	Management Request to increase number of reporting entities tested by 50%
Investment Management		
Audit of Investment Valuation	Defer	IA no longer has the capacity to perform this audit. IA lost approximately 700 audit hours due to a vacancy in the Investment Auditor position (from December 2018 to April 2019).
Technology		
CAPPS IT Controls Audit	Cancel	IA will rely on the work of the State Auditor's Office, State Comptroller's Internal Audit Division and periodic SOC reports (from an independent third party) to provide the necessary assurance that IT controls within the CAPPS system are suitably designed and operating effectively

Fiscal Year 2019 Audit Plan
with proposed changes

April 25, 2019

Professional and Statutory Requirements

This document provides the *Fiscal Year 2019 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, performance measures, and audit plan mapped to the TRS Risk Assessment.
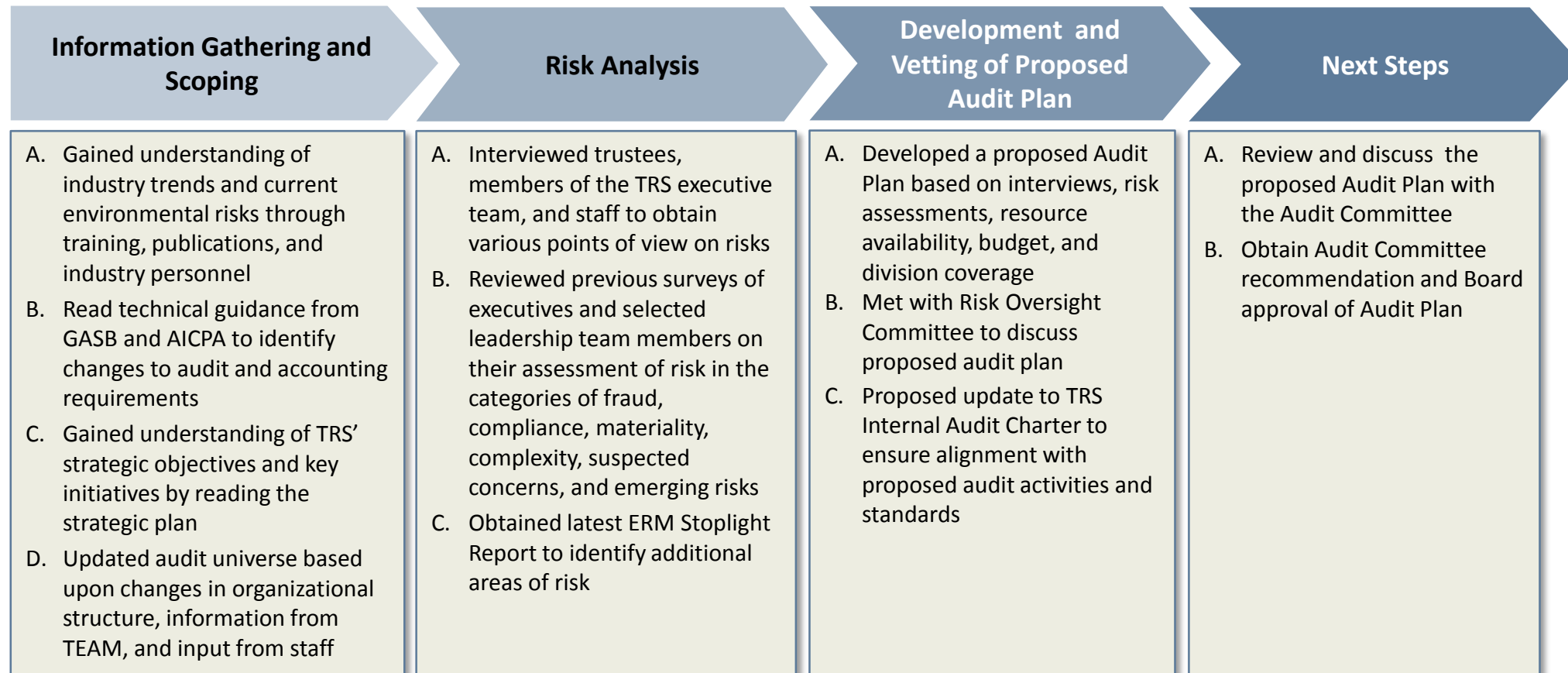
Changes Subsequent to Approval

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 industry personnel B. Read 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. Obtained latest ERM Stoplight Report to identify additional areas of risk	A. Developed a proposed Audit Plan based on interviews, risk assessments, resource availability, budget, and division coverage B. Met with Risk Oversight Committee to discuss proposed audit plan C. Proposed update to TRS Internal Audit Charter to ensure alignment with proposed audit activities and standards	A. Review and discuss the proposed Audit Plan with the Audit Committee B. Obtain Audit Committee recommendation and Board approval of Audit Plan

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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

Audit Plan: Executive

Title	Type	Preliminary Scope
Communications Audit	Audit	Assess effectiveness of external communications processes, including overall strategies/plans, policies, procedures, training/awareness program, and execution of communications plans to TRS stakeholders by TRS trustees, executives, employees, and vendors
Building the Fleet Readiness Audit	Audit	Assess TRS's preparedness to build the fleet. Talent areas to evaluate may include processes and controls related to human resource strategy, governance and operational processes (recruiting, hiring, onboarding, performance management and incentives, employee separation, and termination). Other areas to evaluate may include diversity and inclusiveness programs, organization culture, work-from-home program, and the linkage of division and department performance measures to headcount plans
Executive Incentive Pay Testing	Agreed-Upon Procedures	Independently recalculate executive incentive pay in order to test the accuracy of the calculation by management
Travel Consulting	Consulting	Benchmark board travel policy with other retirement systems; review implementation of Concur travel system processes and procedures for consistency with TRS travel requirements
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
Meetings Participation	Advisory	Participate (non-voting) in various TRS-wide meetings such as Executive Council, Leadership Team, and Strategy and Risk Oversight Committee

Audit Plan: TEAM

Title	Type	Preliminary Scope
TEAM Phase II Annuity Payroll Testing	Advisory	Assist management with testing of TEAM phase II annuity payroll conversion testing prior to go live
HILOB Pre-Cutover Reconciliation	Advisory	Assist with development of criteria to be used in the pre-cutover reconciliation for Health Insurance Line of Business application (HILOB)
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
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. In FY 17, Internal Audit participated in the following TEAM committees and projects: - Executive Program Oversight Committee (including TEAM budget) - Organizational Change Management Advisory Groups - Business Procedures and Training Project - Monthly meetings with TEAM program manager and DXC executives

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
Medical Board Audit	Audit	Assess the effectiveness of the process for approving disability retirements and benchmark our retirements with similar systems to determine reasonableness of payments
Annual Benefits Testing	Agreed-Upon Procedures	Recalculate a sample of benefit payments annually and determine whether documentation on file supports the calculation; scope in other tests related to benefits as agreed-upon with management
Employer Testing	Agreed-Upon Procedures	Test reports submitted to TRS based on procedures agreed to with management, especially in the areas of eligibility, compensation, contributions, and surcharges (pension and healthcare)
Employer Data Analysis Testing	Agreed-Upon Procedures	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 edit checks and missing data
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

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Title	Type	Preliminary Scope
Business Process Improvement Project	Consulting or Advisory	In conjunction with Enterprise Risk Management (ERM) staff, consult with Health Insurance Benefits (HIB) and Benefit Service (in areas overlapping HIB) on ways to improve efficiencies of operations and reduce rework
Pharmacy Rebate Audit Support	Advisory	Participate in external audit verifying accuracy of pharmacy rebates received by TRS-Care and TRS-ActiveCare
Health Care Vendor Update Meetings Attendance	Advisory	Attend quarterly meetings with health care vendors to understand results, issues, and TRS management's monitoring controls
Health Care Vendor Selection Observation	Advisory	Observe selection process of large vendor and service providers, when applicable

Audit Plan: Investment Management

Title	Type	Preliminary Scope
Derivatives Accounting Audit	Audit	Assess the accuracy of derivatives accounting and adequacy of processes supporting those activities
Valuations Audit	Audit	Assess the accuracy of investment valuations and adequacy of processes supporting those activities
Quarterly TRS Compliance and Ethics Policies Compliance Testing	Agreed-Upon Procedures	Test compliance with TRS policies including the Investment Policy Statement, ethics policies, and other policies as agreed upon with the TRS Compliance Officer
Annual Testing of Investment Incentive Pay Plan	Agreed-Upon Procedures	Prior to payment, recalculate the investment incentive compensation award amounts to determine if they are calculated in accordance with plan provisions; reconcile performance to the service provider.
Investment Committees Attendance	Advisory	Stay current on Investment Management Division initiatives by attending the Internal Investment Committee, Derivatives Operations, monthly staff, and other meetings such as the Annual Town Hall meeting and meeting with risk, compliance, and operations staff

Audit Plan: Technology

Title	Type	Preliminary Scope
CAPPS IT Controls Audit	Audit	Evaluate general IT controls relating to IT change management and IT security practices administered by the Comptrollers for the CAPPS financial application
Cloud Computing Consulting	Consulting	Assess whether TRS has an effective process for evaluating cloud vendors in terms of operational efficiency, IT security, and data protection
Active Directory Audit	Audit	Determine whether Active Directory is configured to ensure effective and efficient access control to TRS systems
IT Governance Consulting	Consulting	Assess the effectiveness of processes for identifying, evaluating, approving, funding, monitoring, and closing out major IT projects
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
Disaster Recovery, Network Penetration Tests; Security Risk Assessment Review	Advisory	Observe, obtain, read, and follow-up on any issues identified during the network disaster recovery, penetration tests, and the security risk assessment conducted by the TRS Information Security Officer

Audit Plan: Finance and Staff Services

Title	Type	Preliminary Scope
Comprehensive Annual Financial Report (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
CAFR Audit Coordination (SAO, auditors)	Advisory	Coordinate activities of the SAO to ensure deadlines are met; coordinate quarterly update meetings with executive management and the SAO; maintain SAO document request SharePoint site; walkthrough CAFR development process and identify opportunities for efficiencies
Teacher Retirement Investment Company of Texas (TRICOT) Financial Audit Coordination (Grant Thornton, auditors)	Advisory	Coordinate a financial audit of TRICOT, a wholly-owned subsidiary of TRS in London

Audit Plan: Internal Audit Activities

Title	Project Description
External Quality Assurance Review	Obtain an independent assessment of Internal Audit's compliance with auditing standards and make recommendations for improvement.
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; and pilot analysis projects in various business units
Staff training initiative	Develop and launch auditor training in key areas including report writing, workpaper documentation, and audit risk assessment
Fiscal Year 2020 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 Committee Meetings Preparation	Prepare communications and attend Audit Committee and Board Meetings

High Risk Areas are defined as (High, Elevated, or Caution). Areas of interest to the SAO (Procurement and IT Security) excluded from the Audit Plan.

Area	Reason for Exclusion
Records & Information Management	TRS is in process of revising its records management system and procedures
Procurement & Contracting	TRS in in process of implementing recommendations made in the prior year's procurement audit

Proposed Changes to Fiscal Year 19 Audit Plan

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Pharmacy Rebate Audit Support	Defer	• Management requires more time to procure a vendor • Management expects to complete the process by First Quarter, FY 2020
Consult on TRS-Care Revenue Collection Processes	Add	Management request
Data Analytics Projects (Advisory): 1. **TRS-Care surcharge payments** 2. **TRS-Care coverage for members in pending retirement status**	Add	Management request
Employer Testing	Expand Scope	Management request to increase number of reporting entities tested by 50%
Audit of Investment Valuation	Defer	IA no longer has the capacity to perform this audit. IA lost approximately 700 audit hours due to a vacancy in the Investment Auditor position (from December 2018 to April 2019)
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