

Internal Audit Annual Report

Fiscal Year 2020

October 2020



Teacher Retirement System of Texas
1000 Red River Street, Austin, Texas 78701-2698

TEACHER RETIREMENT SYSTEM OF TEXAS

BOARD AUDIT, COMPLIANCE & ETHICS COMMITTEE

(As of October 1, 2020)

Christopher Moss, Chair
Michael Ball
John Elliott
Nanette Sissney

BOARD MEMBERS

(As of October 1, 2020)

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Nanette Sissney, Vice Chair
Michael Ball
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EXECUTIVE DIRECTOR

Brian Guthrie

INTERNAL AUDIT DEPARTMENT

(As of October 1, 2020)

Amanda Jenami, CPA, CISA, CIA, CRMA, CFE, CGAP, CCSA, Chief Audit Executive
Royan Ives, CISSP, Senior IT Audit Manager
Teresa Menchaca, CIA, CISA, Senior Audit Manager - Benefit Services
Julie Toler, CFA, CFP, Senior Audit Manager - Investments
Chris Chan, CISA, Senior IT Auditor
Rolando Delgado, Senior Data Analyst
Teklehaimanot Derseh, Senior Data Analyst
Syed Israr, Senior Investment Auditor
Katie Linczer, CPA, CIA, Senior Investment Auditor
Andrea Morales, CIA, CFE, Audit Project Manager
Alejandra Moreno, CPA, CISA, Senior Internal Auditor
Mary Presley, CISA, ACDA, Senior Data Analyst
Falguni Sampat, CQPA, Internal Auditor
Nirmal Vincent, Senior IT Auditor
Nathan Ward, Senior Investment Auditor
Carol Casey, CGAP, CPM, Benefit Consultant
Karen Marino, Internal Audit Administrative Coordinator



Brian K. Guthrie
Executive Director

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

October 30, 2020

Honorable Greg Abbott, Governor
Members of the Legislative Budget Board
Members of the Sunset Advisory Commission
Ms. Lisa R. Collier, CPA, First Assistant State Auditor
Mr. Jarvis V. Hollingsworth, Chair, TRS Board of Trustees
Mr. Christopher Moss, Chair, TRS Board Audit, Compliance, and Ethics Committee
Members of the Board of Trustees, Teacher Retirement System of Texas
Mr. Brian Guthrie, Executive Director, TRS

Attached is the annual report of the Internal Audit department of the Teacher Retirement System of Texas (TRS). This report provides information on the audit plan, assurance, consulting, and advisory projects completed, and other Internal Audit activities. It also meets the annual reporting requirements of the Texas Internal Auditing Act (Texas Government Code, Chapter 2102.009 and Texas Government Code, Sections 2102.015 and 2102.0091). This report includes the following State Auditor's Office reporting guidelines:

- I. Compliance with Texas Government Code, Section 2102.015: Posting the Internal Audit Plan, Internal Audit Annual Report, and Other Audit Information on Internet Website
- II. Internal Audit Plan for Fiscal Year 2020
- III. Consulting Services and Nonaudit Services Completed
- IV. External Quality Assurance Review (Peer Review)
- V. Internal Audit Plan for Fiscal Year 2021
- VI. External Audit Services Procured in Fiscal Year 2020
- VII. Reporting Suspected Fraud and Abuse

The work performed by TRS Internal Audit contributes toward accountability, integrity, and good management practices within TRS operations. Fiscal year 2020 projects contributed to the improvement of risk management, control, and governance processes. Internal Audit (or those engaged by Internal Audit) issued 11 assurance reports, followed up and reported quarterly on the status of outstanding audit recommendations, and performed advisory services in various areas including TEAM (TRS Enterprise Application Modernization) Program initiatives.

For further information about the contents of this report or to request copies of Internal Audit reports, please contact Amanda Jenami at (512) 542-6124.

Sincerely,

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

**TEACHER RETIREMENT
SYSTEM OF TEXAS
INTERNAL AUDIT ANNUAL
REPORT**

FISCAL YEAR 2020

October 2020



**I. Compliance with Texas Government Code, Section 2102.015:
Posting the Internal Audit Plan, Internal Audit Annual
Report, and Other Audit Information on Internet Website**

I. Compliance with Texas Government Code, Section 2102.015: Posting the Internal Audit Plan, Internal Audit Annual Report, and Other Audit information on Internet Web site

Texas Government Code, Section 2102.015 requires state agencies and institutions of higher education, as defined in the statute, to post agency internal audit plans and internal audit annual reports on the agency's internet website within 30 days of approval. The statute also requires entities to update the posting on the Internet to include a.) a detailed summary of the weaknesses, deficiencies, wrongdoings, or other concerns raised by the audit plan or annual report and b.) a summary of the actions taken to address concerns, if any, that are raised by the audit plan or annual report.

TRS Internal Audit follows the following procedures to ensure compliance with the requirements of Texas Government Code, Section 2102.015:

- ▶ The **TRS Annual Internal Audit Plan** is approved each fiscal year by the TRS Board of Trustees as recommended by the TRS Audit, Compliance and Ethics Committee. The annual audit plan, as approved by the TRS Board of Trustees, is provided to the TRS Website coordinators and posted to the TRS Website within 30 days of approval.
- ▶ The **TRS Internal Audit Annual Report** is prepared annually by Internal Audit staff in accordance with the Texas State Auditor's Office guidelines by the required deadline. This report is submitted to the Governor's Office, the Legislative Budget Board, the Sunset Advisory Commission, the State Auditor's Office and the TRS Board of Trustees by November 1 of each fiscal year. The annual report is provided to the TRS Website coordinators to post to the TRS Website.
- ▶ **Summaries of the weaknesses, concerns, and actions** taken to address concerns in the audit plan or annual report are provided by Internal Audit in the quarterly TRS Audit, Compliance and Ethics Committee materials. The committee materials provide audit reports completed during each quarter, quarterly status reports on management action on outstanding audit recommendations, and the status of the current fiscal year audit plan. The individual audit reports provide the results, recommendations, and management actions taken to address the audit recommendations. The TRS Audit, Compliance and Ethics Committee materials are posted to the TRS Website, after dissemination to TRS Board of Trustees, through an administrative process of board and committee materials prior to the scheduled Board meeting.

II. Internal Audit Plan for Fiscal Year 2020

Fiscal Year 2020 Audit Plan Status As of October 2020

Department/Program, Project Title, Project Number	Type	Status	Report Date
Executive and Finance			
Enterprise Risk Management (ERM) Program Maturity Assessment	Consulting	Complete	3/12/2020
Actuarial Audit	Advisory	Complete	7/16/2020
Special Requests and Emerging Issues	Advisory	Ongoing	N/A
Meetings Participation	Advisory	Ongoing	N/A
Follow-Up of Talent Management Audit	Audit	Deferred	N/A
Follow-Up of Procurement and Contracts Audit	Audit	Deferred	N/A
Review of Accounting Operations (20-401) Phase One (7/16/2020) and Phase Two (9/17/2020)	Audit	Complete	7/16/2020 9/17/2020
TEAM Program			
TEAM Phase II Annuity Payroll	Advisory	Complete	N/A
HILOB Pre-Cutover Reconciliation	Advisory	Complete	N/A
TEAM Independent Program Assessment (IPA) Vendor Support	Advisory	Ongoing	N/A
TEAM Committees, Projects, and Controls Assessment Participation	Advisory	Ongoing	N/A
Pension Benefits			
Review of the 1099-R Process (20-105)	Audit	Complete	9/17/2020
Review of Collections (20-104)	Audit	Complete	12/12/2019
Annual Benefits Testing (20-101)	Agreed-Upon Procedures	Complete	6/15/2020
Employer Testing (20-102)	Agreed-Upon Procedures	Complete 10 ISDs	3/13/2020
Employer Data Analysis and Testing	Consulting	Complete	9/17/2020
TRS Reporting Entity Website Audit Information Update and Communication Activities	Advisory	Complete	N/A
Health Care			
Review of Contract Oversight	Audit	Deferred	N/A
Review of Claims Data Warehouse (20-201)	Audit	Complete	11/8/2019
Review of Compliance with Federal Regulations (20-204)	Audit	Complete	10/20/2020
Claims Data Analysis	Advisory	Ongoing	N/A
Pharmacy Rebate Audit Support	Advisory	In Progress	N/A
Health Care Vendor Update Meetings Attendance	Advisory	Ongoing	N/A
Health Care Vendor Selection Observation	Advisory	Ongoing	N/A

Teacher Retirement System of Texas
Internal Audit Annual Report for Fiscal Year 2020

Department/Program, Project Title, Project Number	Type	Status	Report Date
Information Technology			
Follow-Up of HIPAA Security and Privacy Audit (20-501)	Audit	Complete	3/30/2020
Review of Claims Data Warehouse (20-201)	Audit	Complete	11/8/2019
Review of Investment Data and Systems	Audit	In Progress	N/A
IT Risk Assessment	Advisory	Ongoing	N/A
Disaster Recovery, Network Penetration Tests; Security Risk Assessment Review	Advisory	Complete	N/A
Investment Management			
Quantitative Equity Strategies (20-302)	Audit	Complete	7/16/2020
Review of Energy, Natural Resources and Infrastructure Operations (20-303)	Audit	Complete	4/16/2020
Review of Cash Management (20-301)	Audit	Complete	12/12/2019
Follow-Up of Derivatives Controls Audit (20-304)	Audit	Complete	9/18/2020
Investment Committee Meeting Attendance	Advisory	Ongoing	N/A
Internal Audit Department			
Annual Internal Audit Report- FY20	Administrative	Complete	N/A
Data Analysis Process Buildout	Administrative	Ongoing	N/A
Quarterly Audit Recommendations Follow-up	Administrative	Ongoing	N/A
Internal Quality Assurance Review	Administrative	Complete	8/2020
Fiscal Year 2020 Audit Plan	Administrative	Complete	N/A
Audit, Compliance and Ethics Committee Meetings Preparation	Administrative	Complete	N/A

Revisions to Fiscal Year 2020 Audit Plan

The revisions to the FY2020 Audit Plan were mostly due to changes in agency priorities. The main changes in the plan were the deferral of three projects to make room for one additional one. The Revised Audit Plan was approved by the Board at its July 2020 meeting.

Project	Change	Reason
Executive and Finance		
Review of Accounting Operations	Add	Management Request
Follow-Up of Talent Management Audit	Defer	Management requires more time to implement action plans due to pandemic. Management expects to complete in FY 2020.
Follow-Up of Procurement and Contracts Audit	Defer	Management requires more time to implement action plans. Status will be reviewed during Review of Procurement Audit scheduled for FY 2021.
Health Care		
Review of Contract Oversight	Defer	Deferred to FY 2021 due to available Internal Audit resources and vacancies.

III. Consulting Services and Nonaudit Services Completed

III. Consulting Services and Nonaudit Service Completed

During fiscal year 2020, Internal Audit conducted (or hired consultants to conduct) the following consulting (nonaudit services) projects resulting in formal recommendations to management.

1. Enterprise Risk Management (ERM) Maturity Assessment (18-104)

Objective: Evaluate the current process by which TRS manages its enterprise risks and identify recommendations to enhance TRS' ERM program by assessing the maturity of the ERM program and by comparing the program to leading practices.

This was an outsourced project. The project was achieved by evaluating the maturity of TRS' ERM program through a series of interviews, group discussions and surveys. The maturity was based on leading risk management standards: ISO 31000 and COSO ERM 2017. The project team benchmarked TRS' ERM program against those of its peers. Recommendations focused on enabling TRS to evolve its ERM program to its desired maturity in a pragmatic and measured way.

2. Employer Data Analysis and Testing (20-103)

Objective: Gather and use full payroll data to risk assess reporting entities to identify noncompliance with TRS Laws and Rules and identify errors in system edit checks and missing data. Specifically,

- Identify missing regular payroll records for members who worked in TRS eligible positions and not terminated with single employment in accordance with TRUST system rules
- Identify Employment After Retirement (EAR) records for anomalies, including missing or incorrect data, errors in system edits and business rules, and noncompliance with TRS Laws and Rules

This was achieved by identifying missing payroll data for all Reporting Employers (REs) in FY2020 by determining: (a) the member demographic, employment membership eligibility, and termination information, (b) total submissions for each member, and (c) analyzing any gaps in reporting. We used data analytic tools to determine missing payroll records for REs for the period of September 2018 to August 2019. For the same period, we also analyzed and tested all REs for 19 EAR related business rules in the TRUST system.

Internal Audit also performed various advisory services, as listed in section II.

IV. External Quality Assurance Review (Peer Review)

Report on the External Quality Assurance Review of the
Teacher Retirement System of Texas

Internal Audit Department

June 2019



Performed by

Kenneth R. Kasper, CIA, CPA, CFE, CPFO, CISA CIDA, CGAP
Director of Internal Audit
New York State Teachers' Retirement System

Elizabeth Scott, CIA CPA, CIDA
Manager of Internal Audit
SBA of Florida

Parsons Townsend, CIA, CGAP
Compliance Director
Texas Department of Transportation

Performed in Accordance with the State Agency Internal Audit Forum
Peer Review Policies and Procedures

Teacher Retirement System of Texas Internal Audit Department
External Quality Assurance Review - June 2019

Overall Opinion

Based on the information received and evaluated during this external quality assurance review, it is our opinion that the Teacher Retirement System of Texas (TRS), Internal Audit Department receives a rating of "**Pass/Generally Conforms**" and is in compliance with the Institute of Internal Auditors (IIA) *International Professional Practices Framework* and Code of Ethics, the United States Government Accountability Office (GAO) *Government Auditing Standards*, and the Texas Internal Auditing Act (Texas Government Code, Chapter 2102). This opinion, which is the highest of the three possible ratings, means that policies, procedures, and practices are in place to implement the standards and requirements necessary for ensuring the independence, objectivity, and proficiency of the internal audit function.

We found that the Internal Audit Department is independent, objective, and able to render impartial and unbiased judgments on the audit work performed. The staff members are qualified, proficient, and knowledgeable in the areas they audit. Individual audit projects are planned using risk assessment techniques; audit conclusions are supported in the working papers; and findings and recommendations are communicated clearly and concisely.

The Internal Audit Department is well managed internally. In addition, the Department has effective relationships with the Board and is well respected and supported by management. Surveys and interviews conducted during the quality assurance review indicate that management considers Internal Audit a useful part of the overall agency operations and finds that the audit process and report recommendations add value and help improve the agency's operations.

The Internal Audit Department has reviewed the results of the peer review team's work and has accepted them to be an accurate representation of the Department's operations.

Acknowledgements

We appreciate the courtesy and cooperation extended to us by the Chief Audit Executive, Internal Audit staff, the Board Chair, the Chair of the Audit, Compliance and Ethics Committee, the Executive Director, and the executive managers who participated in the interview process.

We would also like to thank each person who completed surveys for the quality assurance review. The feedback from the surveys and the interviews provided valuable information regarding the operations of the Internal Audit Department and its relationship with management.



Kenneth Kasper, CIA, CPA, CFE, CPFO, CISA, CIDA, CGAP
Director of Internal Audit
New York State Teachers' Retirement System
SAIAF Peer Review Team Leader



Elizabeth Scott, CIA, CPA, CIDA
Manager of Internal Audit
SBA of Florida
SAIAF Peer Review Team Member



Parson Townsend, CIA, CGAP
Compliance Director
Texas Department of Transportation
SAIAF Peer Review Team Member

V. Internal Audit Plan for Fiscal Year 2021

Risk Assessment

Risk assessment is a systematic process for assessing and integrating professional judgments about probable adverse conditions and events. The projects included in the FY2021 plan were primarily identified through a risk assessment process, in collaboration with trustees, members of the TRS executive team, and staff. The process included a review of the latest Enterprise Risk Management (ERM) reports, for the Risk Oversight Committee's perception of key areas of risk. TRS' auditable activities include organizational units, programs and agency-wide processes, each of which was risk-ranked using specific elements including relative size of the unit, potential impact on operations, regulatory compliance, public interest, work complexity, audit history, and other factors deemed relevant by Internal Audit and Executive Management.

The *Review of the Special Opportunities Portfolio* and *Review of non-TRS Employees' Management* serve as reserve projects. They will be performed if the hours put aside for contingencies i.e. fraud, waste and abuse investigations and special projects are not fully expended.

The specific scope of each audit in the plan will be determined once the audit team has completed its audit planning process.

Internal Audit Plan for Fiscal Year 2021

Department/Program, Project Title	Type	Timing	Budgeted Hours
Executive and Finance			
Review of Procurement	Audit	Q1	1,500
Follow-up of Talent Management Audit	Audit	Q4	900
Review of the HUB Program	Audit	Q2	1,000
CAFR testing of annuity payments	Audit	Q1	250
Review of non-TRS Employees' Management	Audit	Reserve	N/A
Special Requests and Emerging Issues	Advisory or Consulting	Q1 – Q4	500
Meetings Participation	Advisory	Q1 – Q4	400
TEAM Program			
TEAM Testing and Reconciliation	Advisory	Q4	500
TEAM Independent Program Assessment (IPA) Vendor Support	Advisory	Q1 – Q4	500
TEAM Committees, Projects, and Controls Assessment Participation	Advisory	Q1 – Q4	300
Pension Benefits			
Annual Benefits Testing	Agreed-Upon Procedures	Q4	600
Employer Testing	Agreed-Upon Procedures	Q1 – Q4	600
Employer Data Analysis and Testing	Consultancy	Q1 – Q4	600
TRS Reporting Entity Website Audit Information Update	Advisory	Q1 – Q4	50
Health Care			
Vendor Change Readiness Review	Audit	Q1	600

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Department/Program, Project Title	Type	Timing	Budgeted Hours
Review of Contract Oversight	Audit	Q3	1,000
Claims Data Analysis	Audit	Q1 – Q4	2,500
Pharmacy Rebate Audit Support	Advisory	Reserve	N/A
Health Care Vendor Update Meetings Attendance	Advisory	Q1 – Q4	40
Information Technology			
Review of Information Security Controls	Audit	Q1 – Q2	1,200
Review of Cybersecurity	Audit	Q4	900
Review of Third-Party Vendor Risks	Audit	Q3 – Q4	1,200
IT Risk Assessment	Advisory	Q1 – Q4	200
Disaster Recovery; Security Risk Assessment Review	Advisory	Q1 – Q4	100
Investment Management			
Review of the Use of Leverage in Asset Allocation	Audit	Q2	950
Review of Real Estate Portfolio Operations	Audit	Q3	1,200
Review of Securities Lending	Audit	Q3	1,200
Review of Personal Trading	Audit	Q4	950
Review of the Special Opportunities Portfolio	Audit	Reserve	N/A
Investment Committee Attendance, etc.	Advisory	Q1 – Q4	500
Internal Audit Department			
Annual Internal Audit Report	Administrative	Q4	100
Quarterly Audit Recommendations Follow-Up	Administrative	Q1 – Q4	100
Data Analysis Process Buildout	Administrative	Q1 – Q4	400
Assurance Map	Administrative	Q4	400
Staff Training Initiative	Administrative	Q1 – Q4	1,200
Fiscal Year 2022 Audit Plan	Administrative	Q4	500
Audit, Compliance, & Ethics Committee Meetings Preparation	Administrative	Q1 – Q4	400

High Risk Areas Not Included in the FY2021 Audit Plan

The following areas were rated as high, elevated, or caution within TRS' ERM Stoplight Report that were not included in the FY2021 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

VI. External Audit Services Procured in Fiscal Year 2020

External Audit Services Procured in Fiscal Year 2020

External Audit Services Procured by TRS	Provided by	Report Date
Comprehensive Annual Financial Report (CAFR) – Fiscal Year 2019	State Auditor's Office	11/20/2019
TRS Investment Company (TRICOT) Financial Audit – Fiscal Year 2019	Grant Thornton	11/12/2019

VII. Reporting Suspected Fraud and Abuse

Reporting Suspected Fraud and Abuse

TRS has taken the following actions to implement the fraud detection and reporting requirements of Section 7.09 of the General Appropriations Act and Section 321.022 of the Texas Government Code:

- The *TRS Fraud, Waste, and Abuse Policy* establishes a fraud, waste, and abuse prevention awareness program that includes employee training and guidelines for reporting suspected fraud, waste, and abuse. Key elements of the policy include definitions, covered acts, reporting procedures of detected or suspected fraud, waste, or abuse, detection and investigation, awareness training, and corrective action.
- The TRS Internet site includes the contact number of the State Auditor's Office Hotline and a link to reporting instructions.
- Links are available on the TRS Intranet for both the State Auditor's Office Hotline and the TRS Internal Fraud and Ethics Hotline.
- Administration of the TRS Internal Fraud and Ethics Hotline is vested with the Chief Compliance Officer & Compliance Counsel since fiscal year 2016.
- In compliance with the reporting requirement of fraud, waste, and abuse, TRS reports all instances of suspected fraud, waste, and abuse to SAO.