



2021 – 2022 AUDIT PLAN
MARCH 2021

Internal Audit Report No. TMRS 21-2

2021 – 2022 Audit Plan

The Texas Municipal Retirement System (TMRS) Audit Plan is designed to provide coverage of key risks given internal audit staff, supplemental contract auditor expertise, and approved budget. Internal Audit completed a risk assessment of agency operations for the purpose of developing the Audit Plan, as required by the Institute of Internal Auditors' *Standards*.

The Audit Plan incorporates the Board and management's input and risk assessment results. It is designed to provide assurance that management has established internal controls to address identified risks. The Audit Plan includes various elements:

- Internal audits and consulting engagements prioritized by the risk assessment results and engagements that are required by Standards and the Internal Audit Charter (see Table 1), and
- Other non-audit activities that internal audit performs because the activity is mandated by professional standards, necessary to maintain certifications, assigned to internal audit in its Charter, or is a management responsibility (see Table 2).

Table 1: Engagement List for Fiscal Years 2021 - 2022

Topic	Background and Preliminary Scope or Objective
1. TMRS Eligible Compensation Guidance - Cities (Carryover from Prior Audit Plan)	TMRS employers make contributions to employees' pension based on a percentage of employees' qualifying compensation. The TMRS Act defines compensation broadly. <u>Objective:</u> Determine if the compensation guidance that TMRS provides to cities is comprehensive and understandable.
2. Data Security with Third Party Vendors (Carryover from Prior Audit Plan)	TMRS contracts with multiple third-party vendors that are granted access to confidential and/or sensitive information. If the third-party's services become unavailable or the vendor experiences a security breach, TMRS could suffer operational and reputational damage. <u>Objective:</u> Review controls to (1) ensure service disruptions, IT security, data protection, and legal risks are addressed in contracts effectively and (2) identify control gaps and areas of improvement.
3. Detecting and Monitoring Cybersecurity Events	TMRS Information Systems uses various technologies to detect and monitor suspicious activity on its outward facing internet sites MyTMRS, CityPortal and TMRS.com. <u>Objective:</u> Review Information Systems' controls to detect and monitor a potential cyber event.

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Topic	Background and Preliminary Scope or Objective
4. Audit of Outstanding Recommendations	<p>Auditing <i>Standards</i> requires a system to monitor the disposition of prior audit recommendations.</p> <p><u>Objective:</u> Determine the status of outstanding audit recommendations and report whether corrective actions have been implemented or Senior Staff has accepted the risk of not taking action.</p>
5. Risk Assessment	<p><u>Objective:</u> Internal audit activity’s audit plan must be based on a documented risk assessment, undertaken at least annually.</p> <p><u>Scope:</u> Internal Audit conducts limited and in-depth risk assessments. In 2022, we will conduct a limited risk assessment to review and adjust the audit plan, as necessary, in response to changes in TMRS’ business, risks, operations, programs, systems, and controls. In 2023, we will conduct an in-depth, agency-wide risk assessment and use the results to develop the 2023 to 2024 audit plan.</p>
6. Audit Plan	<p><u>Objective:</u> Internal audit must establish a risk-based audit plan to determine the priorities of the internal audit activity, consistent with the organization’s goals. The audit plan and amendments must be approved by the Board.</p>

Table 2: Other Internal Audit Activities for Fiscal Years 2021 - 2022

Other Internal Audit Activities	
Activity	Description
1. Advisory Services	<p>Provide advice and research to Senior Staff, departments, and project teams. This includes input on policies and procedures, participation on projects/teams in a non-voting capacity, research on benchmarks and best practices, and providing training.</p>
2. Board and Audit Committee Meetings	<p>Prepare communications for and monitor Board and Audit Committee meetings.</p>
3. Professional Development	<p>Complete continuing professional education to maintain certifications and to expand knowledge of public pension plans and investments.</p>
4. Administrative and Management	<p>Participate in management meetings; submit budgets, time, and expense reports; and respond to management requests for department information.</p>

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Organizational Independence and Objectivity

The Internal Audit Department has organizational independence and direct Board access that allows staff to carry out internal audit responsibilities in an unbiased and objective manner. Internal Audit has maintained organizational independence through our functional reporting to the Board with direct oversight and guidance from the Audit Committee.

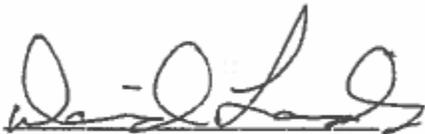
The Internal Audit staff manage threats to objectivity at the individual auditor, engagement, functional, and organizational levels. To maintain independence and objectivity, Internal Audit staff do not have operational responsibilities beyond internal audit.

Quality Assurance and Improvement Program (QAIP) Results

The QAIP is designed to enable an evaluation of the internal audit activity's conformance with The Institute of Internal Auditors International Professional Practices Framework (Framework). The Framework includes internal auditing standards, the Code of Ethics, the definition of internal auditing, and core professional principles. Internal Audit is responsible for internal assessments annually and an external assessment at least every five years.

An external *Quality Assessment Review of the Internal Audit Department* (TMRS Report No. 19-6) was completed in November 2019, and the reviewer opined that the TMRS internal audit activity "Generally Conforms" with the Framework. This is the highest rating available and means that internal audit's charter, policies, and processes are in conformance with the *Standards* and the Code of Ethics.

Plan Approved: March 25, 2021



David Landis
Board Chair



David Wescoe
Executive Director



Bob Scott
Audit Committee Chair



Andrea Focht-Williams
Internal Audit Manager