TMRS Risk Assessment and Audit Plan for 2018

Internal Audit Department
Report No. TMRS 18-3
February 15, 2018

Plan approved on February 15, 2018

Jim Parish
Board Chair

David Landis
Internal Audit Committee Vice-chair

David Gavia
Executive Director

Sandra Vice
Director of Internal Audit
Feb. 15, 2018

Mr. James “Jim” Paul Jeffers, TMRS Trustee and Internal Audit Committee Chair
Mr. David Landis, TMRS Trustee and Internal Audit Committee Vice Chair

Annually, Chief Audit Executives should develop a plan for the internal audit activity’s engagements based on a documented risk assessment. This planning process should consider input of senior management and the Board of Trustees (Board).

In February 2017, the Board approved the TMRS Audit Plan for Fiscal Years 2017 to 2018 (Audit Plan). The Audit Plan stated that: “Any engagements begun but not completed during 2017 will be carried forward into the following year. Any engagements that are not begun during 2017 will be re-evaluated as part of the annual risk assessment process for consideration in a future Audit Plan.” Internal Audit has obtained risk assessment input on engagements not begun in 2017 and other potential engagements from senior management and the Board.

Recommendation

We recommend the following changes to the Audit Plan:

(1) Replace audit topic “Annuity” with new audit topic “Member Services Manual Processes”

(2) Add audit topic “Financial-related Topic” to provide hands-on audit experience to college students enrolled in a University of Texas at Austin (UT) auditing course

Because the above subsequent changes to the Audit Plan are deemed significant deviations from the Audit Plan, the changes will require Board approval. The remaining Audit Plan topics are unchanged (see Table 1). Table 1 does not include completed audits or those currently in progress, such as the Control Environment and Due Diligence audits.

Results of 2018 Risk Assessment and Audit Plan

The engagements in Table 1 are separated into primary and secondary lists, just as in the Feb. 2017 Audit Plan. The primary list includes engagements that auditors plan to complete during 2018. The secondary list includes engagements that may be performed if audit resources are available. If the primary engagements are completed or delayed/cancelled with Board approval, internal audit may conduct audits from the secondary engagement list after informing the Internal Audit Committee and senior management.
The 2018 risk assessment was a limited one as auditors did not update the TMRS audit universe. Instead, we surveyed senior management and the Board to identify risk topics and their relative priority. At the end of this year, auditors will conduct an in-depth risk assessment to develop the Audit Plan for 2019.

Table 1

<table>
<thead>
<tr>
<th>(Ranking) Hours</th>
<th>Topic (Strategic Goal and Objective)</th>
<th>Background and Preliminary Scope or Objective</th>
</tr>
</thead>
<tbody>
<tr>
<td>(New) Member Services Manual Processing (Goal 2, Objective A)</td>
<td>Identify high risk activities performed manually by Member Services staff and (1) assess adequacy of controls and (2) identify potential efficiencies through process improvements including automation.</td>
<td></td>
</tr>
<tr>
<td>(2) Management Fee and Expenses (Goal 3, Objective C)</td>
<td>For investment funds and related managers, compile and verify selected funds’ reported compensation, fees, and expenses (external audit firm hours not included).</td>
<td></td>
</tr>
<tr>
<td>(3) Investment Operations (Goal 1, Objective B)</td>
<td>In 2013, the Beacon Consulting Group completed a report on Development of Future State Operating and Oversight Model for TMRS. This consulting engagement recommended how TMRS could align its investment program's organizational structure with the desired future state and how to redesign business processes for improved operational efficiency. The audit would (1) follow-up on how TMRS has addressed the Beacon report recommendations and (2) assess the internal control structure of the recently formed Investment Operations function.</td>
<td></td>
</tr>
<tr>
<td>(New) Financial-related Audit (Goal 3, Objective E)</td>
<td>Oversee two students enrolled in a UT auditing course as they conduct a management requested financial-related audit (student hours not included). Possible topics include (1) the accuracy of account balance transfers to new 457 provider, (2) compliance with policy for company credit card usage, and (3) accuracy of travel reimbursement process and recommended efficiencies.</td>
<td></td>
</tr>
</tbody>
</table>
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<tr>
<td>1,000</td>
<td>Investment Testing (Goal 1, Objective B)</td>
<td>Agreed-upon procedures related to investment matters of interest to the Board and senior management.</td>
</tr>
<tr>
<td>1,200</td>
<td>Annuity (Goal 2, Objective A)</td>
<td>Perform data analytics on annuity data to identify potentially improper transactions and activities.</td>
</tr>
<tr>
<td>500</td>
<td>User Awareness of IT Security (Goal 2, Objective A)</td>
<td>Measure increased user awareness through pre- and post-training surveys.</td>
</tr>
<tr>
<td>1,000</td>
<td>Contract Administration (Goal 3, Objective B)</td>
<td>Information on the number, type, length, and value of contracts; the manner procured; and recommendations for improving contract administration.</td>
</tr>
</tbody>
</table>

*For the related Strategic Plan goals and objectives, see Attachment I.*

For questions about this report, please contact me or Andrea Focht-Williams.

Sincerely,

[Signature]

Sandra Vice, CIA, CGAP, CISA
Director of Internal Audit

cc: Mr. Jim Parrish, TMRS Board Chairman
    Mr. David Gavia, CPA, TMRS Executive Director
    Mr. Eric Davis, TMRS Deputy Executive Director
Attachment I: Aligning the Audit Plan with TMRS Strategic Plan Goals and Objectives

The Readiness Assessment of the Internal Audit Department conducted December 2017 included a recommendation for Internal Audit to more clearly align the audit plan with TMRS strategic objectives. Linking the proposed audit engagements in the Audit Plan to the Strategic Plan serves to verify that Internal Audit is auditing key business units and processes. To address this recommendation, internal audit has matched audit topics with the corresponding goal and objective from the TMRS Strategic Plan, 2018 – 2022 the Board adopted on Dec. 7, 2017.

**Goal 1:** Ensure the financial stability and long-term viability of the Plan.

**Objective B.** Develop a future vision and implementation plan for the investment program.

**Goal 2:** Strengthen TRMS through excellent customer service and effective communication.

**Objective A.** Evaluate and present recommendations to the Board regarding the current Pension Administration System’s (NextGen, MyTMRS, City Portal, etc.) ability to continue to support TMRS customer service operations in the most comprehensive, cost-effective, efficient, and secure way.

**Goal 3:** Identify and implement the best governance and management structure.

**Objective B.** Create and implement a process for the Board to review the role of its current consultants.

**Objective C.** Develop a Board-approved investment fee policy.

**Objective E.** Develop and implement a framework for monitoring and managing operational compliance throughout the organization.