PURPOSE AND MISSION

The Texas Municipal Retirement System (TMRS) Board of Trustees (Board) established the internal audit activity for this purpose:

The Internal Audit Department (Internal Audit) is to provide independent, objective assurance, and consulting services designed to add value and improve the organization's operations. Internal Audit helps TMRS accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.

The mission of internal audit is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight.

PROFESSIONAL STANDARDS

Internal Audit will govern itself by adherence to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, including the Core Principles for the Professional Practice of Internal Auditing, the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing (Standards). This mandatory guidance encompasses the fundamental requirements for the professional practice of internal auditing and the principles against which to evaluate the effectiveness of the internal audit activity’s performance. Internal Audit is also recommended to use The Institute of Internal Auditors' Implementation Guidance and Supplementary Guidance as applicable to guide operations. The Chief Audit Executive (the Director of Internal Audit, hereafter referred to as Director) will report periodically to senior management and the Internal Audit Committee regarding Internal Audit’s conformance to the Code of Ethics and the Standards.

Internal Audit also may use or may be required to use other professional standards and guidance along with the Standards including but not limited to the following:

- ISACA’s Information Security Auditing Standards, Guidelines, and Procedures, and the Code of Professional Ethics
- The American Institute of Certified Public Accountants Professional Standards and Code of Ethics
- The U.S. Government Accountability Office’s Government Auditing Standards
- The Public Company Accounting Oversight Board auditing standards
AUTHORITY AND SCOPE

The TMRS Internal Audit is established by the Board in accordance with its authority to hire other employees for the efficient administration of the retirement system (Texas Government Code §855.206). The Board created an Internal Audit Committee to assist in fulfilling the Board's fiduciary responsibility with respect to the internal audit process. The Internal Audit's responsibilities are defined by the Internal Audit Committee as part of its oversight role.

Scope of Internal Audit Activities

Internal Audit can provide a wide range of quality, independent internal auditing services and consulting services for the Board, Internal Audit Committee, and executive management.

- Assurance Objectives: To provide independent assurance over TMRS' governance, risk management, and control process with the goal of safeguarding assets, enhancing operational efficiency, and complying with applicable laws and the agency's policies. This includes assessing the reliability and integrity of financial and operating information.

- Consulting and Advisory Objectives: To provide assessments and advice for improving TMRS' governance, risk management, and control with management's agreement on the nature and scope of the service. Examples of advisory services include participating on internal workgroups or committees in a non-voting capacity, providing routine advice on policies and internal controls, and providing training.

- Investigations: To conduct or assist in the investigation of suspected fraud, waste, or abuse within TMRS.

The Director also coordinates activities, where possible, and considers relying upon the work of other internal and external assurance and consulting service providers as needed.

Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during engagements. These opportunities will be communicated to the appropriate level of management.

REPORTING STRUCTURE

The Director will report functionally to the Board's Internal Audit Committee and administratively to the Executive Director. The Board delegates management of Internal Audit to the Director, who fulfills the activity's mission and objectives through authorization to:

- Free and unrestricted access to the Board, the Internal Audit Committee, and the Executive Director
Allocate resources, set project frequencies, select audit subjects, determine scope of work, and apply the techniques necessary to accomplish assurance and consulting objectives.

Hire, retain, train, and terminate internal audit staff, when necessary.

The Board authorizes the Director and Internal Audit staff to:

- Have unrestricted access to all TMRS departments, personnel, activities, confidential and non-confidential data and records, information systems, physical property, and contractors relevant to the performance of engagements and subject to applicable state and federal laws.
- Have access to contractors and their records and files in accordance with contract terms.
- Obtain timely reports from management on actions proposed and taken pertaining to audit recommendations.
- Be prudent in the use and safeguarding of information acquired in the course of their duties.

The Director and Internal Audit staff is not authorized to direct the activities of any TMRS employee not employed by Internal Audit, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist the internal auditors.

Further discussion on authority may be found under “Responsibilities.”

INDEPENDENCE AND OBJECTIVITY

The Director will ensure that Internal Audit shall be free from personal or external impairments to independence and perform their duties with objectivity in order that opinions, conclusions, and recommendations will be impartial and will be viewed as impartial by knowledgeable third parties.

Organizational Placement

Internal Audit’s organizational and reporting structure provides for its independence and objectivity as required by professional standards. The Director shall freely discuss audit policies, audit findings and recommendations, audit follow-up, and other matters as necessary.

Operational Duties

To maintain independence and objectivity, the Director and Internal Audit staff will have no direct operational responsibility or authority over any of the activities audited. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgment, including:

- Performing operational duties for TMRS and/or its affiliates and contractors
- Initiating or approving accounting transactions external to Internal Audit
Potential Impairment of Independence

The Director will discuss with the Internal Audit Committee any potential issues regarding impairment of independence and their mitigation(s), as necessary. If objectivity or independence is impaired in fact or appearance, the details of the impairment will be disclosed to the appropriate parties. The nature of the disclosure will depend on the impairment. The Director will annually confirm to the Internal Audit Committee the organizational independence of Internal Audit.

RESPONSIBILITIES

Certain roles and responsibilities of the Board, Internal Audit Committee, Executive Director, and Director of Internal Audit are critical to the success of the Internal Audit function.

TMRS Board and Internal Audit Committee

The Internal Audit Committee or its successor entity will review and recommend to the Board for its approval of the following:

1. The Internal Audit Charter (Charter) and all future amendments
2. Appointment, replacement, and dismissal of the Director with input from the Executive Director if desired
3. The biennial internal audit plan and significant amendments to the approved audit plan
4. The Director’s performance evaluation and adjustments to compensation
5. Internal Audit’s budget and resource needs

The Internal Audit Committee will review and monitor the following:

1. The Director’s work plan and status of ongoing engagements, including whether there is inappropriate scope or resource limitations
2. Draft and final internal audit reports and implementation of recommended improvements
3. Investigations of suspected fraud, waste, and abuse within TMRS

TMRS Senior Management

Management is responsible for implementing and maintaining a system of risk management and internal control. Internal Audit provides independent and objective assurance on the effectiveness of the risk management and internal control systems. Key responsibilities of TMRS management related to Internal Audit activities include:

1. Cooperating with Internal Audit staff during the performance of internal audits and advisory projects by providing full and unrestricted access to all activities, personnel, property, records,
2. Reviewing draft Internal Audit reports and providing timely, written management responses to address issues and recommendations, including management actions planned, responsible manager, and target implementation dates
3. Notifying the Director of contacts from external organization auditors, reviewers, and inspectors
4. Coordinating with Internal Audit staff to respond to issues and recommendations contained in external audit reports
5. Providing status updates to the Director regarding management action plans that address prior internal and external audit recommendations

Director of Internal Audit

The Director is responsible for the following:

1. Reviewing the Charter periodically and proposing amendments for the Board’s approval as necessary
2. Establishing policies for conducting Internal Audit activities according to the organization’s policies, direction provided by the Internal Audit Committee, and professional standards
3. Establishing a Quality Assurance and Improvement Program that covers all aspects of the internal audit activity. The program will include (a) an evaluation of the Internal Audit Departments’ conformance with the Standards and an evaluation of whether internal auditors apply The IIA’s Code of Ethics and (b) an assessment of the efficiency and effectiveness of the Internal Audit Department and identify opportunities for improvement. The Director will communicate to the Board and senior management on this program, including results of ongoing internal assessments and external assessments conducted at least every five years
4. Maintaining a professional staff with sufficient knowledge, skills, and experience. If the Director needs to rely on expertise outside of Internal Audit or TMRS, the Director will consider the competence, independence, and objectivity of the person(s)
5. Preparing an annual department budget that supports accomplishing the audit plan
6. Conducting risk assessments using a risk based methodology and with Board and senior management input and communicating emerging trends and issues
7. Submitting a biennial Internal Audit Plan and significant amendments to an approved audit plan to the Board and the Executive Director
8. Conducting engagements as indicated in the approved Internal Audit Plan and communicating interim changes to the Board
9. Preparing a written report at the conclusion of each audit engagement and distributing the report as appropriate
10. Monitoring the disposition of results communicated to management and the status of planned corrective actions
11. Providing updates on Internal Audit activities, including presentations and status reports to the Board and the Executive Director
12. Performing investigations at the request of the Board, Internal Audit Committee, or Executive Director
13. Supporting the primary TMRS director by serving as a liaison with external auditors or reviewer during any audit or review conducted of TMRS

Internal Audit Charter

Revision History:

Approved December 9, 2016

Amended this date: May 30, 2019

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Chair, TMRS Board of Trustees

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Chair, TMRS Internal Audit Committee

David Gavia
TMRS Executive Director

Sandra Vice
TMRS Director of Internal Audit