



Internal Audit

FY 2027 Audit Plan

Approved
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Presented By

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Executive Summary



Professional and Statutory Requirements

This document provides the *Fiscal Year 2027 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, Compliance and Ethics Committee (ACE Committee) to the TRS Board of Trustees (board). Internal Audit is independent of management and provides objective assurance and advisory 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 and audit plan mapped to the TRS Risk Assessment.

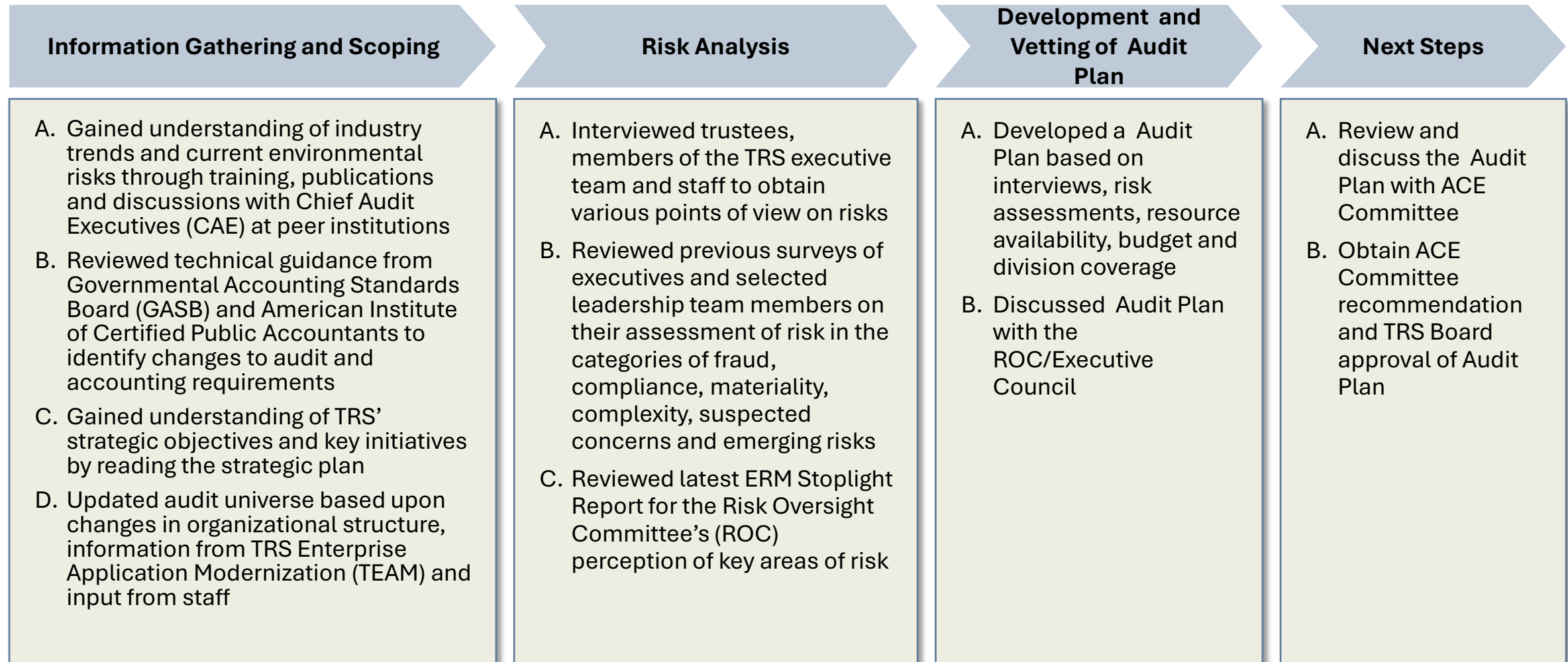
Changes Subsequent to Approval

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 ACE Committee at the next quarterly ACE Committee meeting. Amendments to the approved Audit Plan deemed to be significant (based on discussions with the Executive Director and ACE Committee Chair) will be submitted to the ACE Committee for recommendation to the board for approval. We will also notify the State Auditor's Office (SAO) 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:



Types of Projects to Cover Risk Areas



Audit



Agreed-Upon Procedures



Formal Advisory Services



Informal Advisory Services

Focus	Assess evidence available to provide assurance on an audit objective	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	Respond to requests for formal study or assessment with recommendations; no assurance provided	Participate in activities in a non-voting capacity, e.g., provide training and input on policies and procedures
Deliverable	Audit report for public distribution unless protected by statute	Agreed-upon procedures report for public distribution (use is limited to those with understanding of procedures performed) Report does not provide an opinion or conclusion	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	Verbal discussion or a brief memo to management
Estimated Level of Effort	600 – 1,600 hours	100 – 800 hours	100 – 800 hours	10 – 100 hours

Audit Plan: Executive & Administrative Services



Title	Type	Preliminary Objective	Timing
Annual Comprehensive Financial Report (ACFR) 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 ACFR audit.	Q1
Audit of Mass Mailing	Audit	Evaluate mass mailing processes, including the processes for determining mailing content, preparation of physical mail and Information Technology (IT) systems responsible for member targeting and data integrity.	Q3 – Q4
Follow-up of Prior Audits	Audit	Determine whether management has implemented recommendations from prior audits.	Q1 – Q4
Special requests, initiatives and emerging issues	Formal Advisory	Set aside time to address special requests, initiatives and emerging issues during the year as requested by management.	Q1 – Q4

* Denotes key project

Audit Plan: Pension Services



Title	Type	Preliminary Objective	Timing
Annual Comprehensive Financial Report (ACFR) 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 ACFR audit.	Q1
Audit of Service Credit Purchase*	Audit	Assess whether the service credit purchase process has effective controls over eligibility, cost calculation, approval and payment posting to ensure purchased credit is accurate, authorized and complies with statute and TRS policy.	Q2 – Q3
Reporting Employer Audits	Agreed-upon Procedures	Utilize data analytics and other tools to identify anomalies in employer reporting (to TRS), in eligibility, compensation, contributions, surcharges and other areas.	Q3 – Q4
Pension Services Data Analysis*	Continuous Audit	Assess pension data within Teacher Retirement Unified System for Technology (TRUST) for completeness, accuracy, integrity and overall reasonableness to support operational and financial decision-making. Including but not limited to: Reporting Employer, benefit payments and member account data.	Q1 – Q4

* Denotes key project

Audit Plan: Health Care



Title	Type	Preliminary Objective	Timing
Audit of TRS-ActiveCare Regional Ratings*	Audit	Assess Health Division processes to develop, implement, monitor and report whether TRS-ActiveCare regional ratings meet their intended objective, including compliance with relevant state requirements.	Q1 – Q2
Health care Claims Data Analysis*	Continuous Audit	Analyze medical and pharmacy claims processed by TRS plan administrators for: Appropriate provider billing in alignment with health care industry standards, and vendor compliance with regulations, TRS plan policies and contract requirements.	Q1 – Q4

* Denotes key project

Audit Plan: Investments



Title	Type	Preliminary Objective	Timing
Review of Quantitative Equity (iQuant) Portfolio Operations*	Audit	Determine whether Quantitative Equity portfolio operations include sufficient controls to ensure investments are made and managed effectively, efficiently and in compliance with relevant policies, guidelines and procedures.	Q1 – Q2
Review of Private Equity Portfolio Operations*	Audit	Determine whether Private Equity portfolio operations include sufficient controls to ensure investments are made and managed effectively, efficiently and in compliance with relevant policies, guidelines and procedures.	Q2 – Q3
Review of Internal Netting / Cost Transfer Activities	Audit	Determine whether internal netting and cost transfer activities include sufficient controls to ensure transactions are made and managed effectively, efficiently and in compliance with relevant policies, guidelines and procedures.	Q3 – Q4
Review of Investment Compliance Program	Reserve	Determine whether the Investment Compliance Program is designed and operating effectively to identify, monitor, assess and report compliance with investment-related policies, regulatory requirements and governance standards and to provide reliable oversight of compliance risks across Investment Management Division (IMD) operations.	N/A
Investment Committee attendance, etc.	Informal Advisory	Stay current on portfolio strategy and IMD initiatives by attending Internal Investment Committee, monthly staff and other meetings.	Q1 – Q4
Special requests, initiatives and emerging issues	Formal Advisory	Set aside time to address special requests, initiatives and emerging issues during the year as requested by management.	Q1 – Q4

* Denotes key project

Audit Plan: Information Technology



Title	Type	Preliminary Objective	Timing
Audit of System Development Lifecycle*	Audit	Determine whether the system development life cycle (SDLC) is designed and operating effectively to ensure that applications and system changes are planned, developed, tested, approved, implemented, and maintained in a controlled manner that supports security, reliability and business requirements.	Q1
Identity & Impersonation Risk Audit*	Audit	Determine whether controls across identity management processes and business operations are designed and operating effectively to prevent, detect and respond to impersonation and identity-based attacks.	Q2
Review of Cyber Controls*	Audit	Perform a penetration test of TRS' internet-facing information technology infrastructure and external attack surface to identify exploitable vulnerabilities and weaknesses that could be leveraged by external threat actors.	Q3
Application Programming Interface Security	Advisory	Provide advisory services to evaluate the design, implementation and maturity of controls governing application programming interfaces (APIs) and identify opportunities to strengthen security across the API lifecycle, including authentication, authorization, data protection, configuration management and monitoring.	Q3 – Q4
Post-implementation Review of PBT	Reserve	Assess whether IT controls supporting the PBT application are operating effectively following implementation, including access management, change management, system interfaces and application controls.	N/A

* Denotes key project

Audit Plan: Internal Audit Activities



Title	Project Description
Annual Internal Audit Report	Prepare annual report of audit activities in accordance with SAO instructions.
Annual Internal Audit Quality Assurance	Perform and Report on Internal Audit Quality Assurance Improvement Program (QAIP) Self –Assessment.
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. Continue to enhance the newly implemented continuous auditing program by researching and developing automated scripts for testing data related to health care, pension and administrative areas such as Procurement and Vendor e-system (PAVES).
Staff Training Initiative	Develop and launch auditor training in key areas including report writing, workpaper documentation and audit risk assessment.
Fiscal Year 2028 Audit Plan	Prepare annual audit plan based on a documented risk assessment in accordance with professional auditing standards and the Act.
ACE Committee Meeting Preparation	Prepare communications and attend ACE Committee and board meetings.

Audit Plan: High Risk Areas



*High Risk Areas are defined as (High, Elevated or Caution).
Areas of interest to the SAO (e.g., Procurement and IT Security) that are not included in the Audit Plan.*

Area	Reason for Exclusion
Records and Information Management	The area was audited in FY2022. Internal Audit plans to perform a follow-up review when most of the audit recommendations are implemented, around FY2030.
Pension Funding	Awaiting the results of and legislative action that will come out of the TRS Pension Design Study.



APPENDIX A

FY2027 Audit Plan for Data Analytics

Appendix A: Audit Plan for FY2027: Data Analytics



Title	Project Type	Preliminary Objective	Quarter
Direct Bill Consolidation Testing	Formal Advisory	Assess the completeness and accuracy of direct bill consolidation data prior to implementation to support a successful system transition.	Q1
Diagnosis-Related Group (DRG) Data Analysis	Formal Advisory	Analyze inpatient claims data to identify utilization trends, cost drivers and potential areas of risk associated with high-severity DRGs.	Q1 – Q2
Review of Tiered Network Pilot	Formal Advisory	Evaluate implementation alignment of the Tiered Network Pilot with TRS program design objectives and established requirements.	Q2
Data Analysis of Medical Policies	Formal Advisory	Assess the effectiveness of controls governing services subject to selected medical policies and identify potential opportunities for improved compliance.	Q3
Data Analysis of Industry Practices	Formal Advisory	Assess selected health care service controls against recognized industry practices to identify opportunities to strengthen oversight and program performance.	Q3
TRS-Care Surcharge Testing	Formal Advisory	Validate the completeness and accuracy of TRS-Care surcharge calculations and adjustments prior to implementation.	Q4
Pension Services Data Analysis	Continuous Audit	Assess pension data within for completeness, accuracy, integrity and overall reasonableness to support operational and financial decision-making. Including but not limited to: Reporting Employer, benefit payments and member account data.	Q1 – Q4
Data Analysis Process Buildout	Continuous Audit	Enhance and maintain analytics capabilities, including automated scripts and reporting tools, to improve audit efficiency, coverage and risk identification.	Q1 – Q4



APPENDIX B

Internal Audit Operating Budget for FY2027

Appendix B: Internal Audit Operating Budget for FY2027



Line Item	Budget FY 2027	Budget FY 2026
000 – Salaries	\$ 3,161,300	\$ 2,888,400
000 – Benefits	\$ 874,900	\$ 837,680
200 – Professional Fees for Internal Audit Services	\$ 615,000	\$ 350,000
200 – Professional Fees for External Audit Services (ACFR, GASB and Teacher Retirement Investment Company of Texas Ltd.)	\$ 606,000	\$ 646,000
505 – Travel-In-State	\$ 6,500	\$ 6,500
510 – Travel-Out-of-State	\$ 36,500	\$ 27,500
705 – Dues, Fees and Staff Development	\$ 55,000	\$ 50,000
710 – Subscriptions and Reference Materials	\$ 2,500	\$ 2,500
735-745 – Other Operating/Furniture	\$ 8,000	\$ 11,500
Total Operating Budget	\$ 5,365,700	\$ 4,820,080
Full-Time Equivalent (FTE) Positions (excluding interns)	20.0	20.0



APPENDIX C

Audit Universe Mapped to TRS Risk Assessment

Appendix C: Audit Universe Mapped to TRS Risk Assessment



#	TRS Risk Level	TRS Risk Category	TRS Goal	TRS-Assessed Overall Risk	Planned Approach	Project Type
1	Elevated	Cybersecurity	To prevent malicious attacks and unauthorized access of TRS information resources.	Ineffective cyber threat controls could lead to breaches or sabotage of TRS systems.	Identity and impersonation risk audit; Review of cyber controls; Advise on application programming interface (API) security	Audits Advisory
2	Elevated	Enterprise Technology	Provide information systems to meet TRS' business and customer service needs.	Inability to provide adequate and consistent information in a timely fashion via the preferred delivery mechanism.	Audit of system development lifecycle	Audit
3	Elevated	Records & Information Management (RIM)	Manage the organization, retention and disposition of TRS information and records with adherence to laws, rules, policies and best practices.	An ineffective records and information management program results in wasted resources; and does not protect, preserve, retain, dispose or make records accessible in an accountable or transparent manner.	None. RIM was audited in FY2022. Internal Audit to perform follow-up review of RIM around 2030.	N/A
4	Elevated	Pension Funding	Sustain a financially sound pension fund.	A lack of sound funding for the plan could lead to insufficient assets to pay for long-term benefits and financial obligations.	Data analytics of employer contributions; Review Actuarial Reports	Advisory
5	Caution	Procurement & Contracts	Maintain effective procurement and contract management systems. Inappropriate procurement practices could result in purchases of substandard products and services, unfavorable pricing or contract terms and violation of laws, ineffective contract management could result in contractors not fulfilling their contractual obligations.	Inappropriate procurement practices could result in purchases of substandard products and services, unfavorable pricing or contract terms and violation of laws, ineffective contract management could result in contractors not fulfilling their contractual obligations.	PAVES data analysis bots	Advisory
6	Caution	TRS-ActiveCare Affordability	Facilitate financial soundness of TRS-ActiveCare in order to provide affordable health care benefits.	Inadequate funding by the state and participating entities and/or unanticipated external forces could affect affordability.	Enrollment and eligibility file processes; Health care Claims Data Analysis	Advisory
7	Caution	Data Privacy & Confidentiality	Maintain the integrity, availability and protection in the storage, use and transfer of TRS information resources (in any form or medium).	Unauthorized or unintentional release/access of TRS confidential information could result in state or federal law violations, sanctions against TRS or its employees and harm the best interests of TRS.	IT Risk Assessment	Advisory
8	Caution	Health Care Plans Administration	Administer retiree and active member health care programs that are valued by enrollees.	Inadequate administration of the health care programs could possibly affect the quality of health care services provided to those who depend on the delivery of TRS health care benefits which would in turn increase health care costs.	Healthcare Claims Data Analysis; diagnostic related group data analysis, data analysis of medical policies, data analysis of industry practices, TRS surcharge testing	Advisory

Appendix C: Audit Universe Mapped to TRS Risk Assessment (continued)



#	TRS Risk Level	TRS Risk Category	TRS Goal	TRS-Assessed Overall Risk	Planned Approach	Project Type
9	Caution	Communications & External Relations	Maintain effective communication and positive relations with members, retirees, employers, TRS employees, news media and the public.	Poor communication could lead to confusion resulting in increased calls to TRS, poor or inappropriate decision-making regarding TRS benefits and incorrect information provided to external parties.	Follow-up on the Review of Communications, issued in April 2026	Audit
10	Caution	Business Continuity	Recover and resume operations in the event of a major business interruption.	Members do not receive statutorily required services timely.	Follow-up of Business Continuity and Disaster Recovery Audit	Audit
11	Caution	External Fraud	Minimize the risk of external fraud to TRS and its members through a unified approach to investigation, analysis and response.	Unauthorized access of TRS data could result in state or federal law violations, sanctions against TRS or its employees and harm TRS' mission.	Identity and impersonation risk audit application programming interface security	Audit Advisory
12	Guarded	Artificial Intelligence	Ensure effective, trustworthy and responsible artificial intelligence (AI) use at TRS.	Rapid AI adoption, evolving capabilities and governance requirements, and insufficient oversight across internal and third-party environments may lead to legal, operational, security and reputational impacts.	Follow-up on prior AI audits, including DLP, Cloud Computing Advise on Application Programming Interface (API) Security	Audit
13	Guarded	Pension Services	Deliver accurate benefits and superior service to TRS participants and stakeholders.	Inadequate delivery of benefits or customer service could lead to inaccurate information or benefits/payments, dissatisfied participants, loss of credibility, adverse public perception, increased scrutiny and oversight.	Benefit testing for SAO ACFR audit; Data analytics and continuous monitoring	Audit Advisory
14	Guarded	Facilities Management & Planning	Successfully complete a generational solution for housing all of TRS. Provide a physical work environment that is safe and enhances productivity.	Due to constraints, TRS is unable to execute the long-term facilities plan. Inadequate facilities management or ineffective space utilization could result in less than desirable conditions for TRS members, visitors and staff and could jeopardize our ability to continue providing an exemplary level of service to our members.	Follow-up Review of Physical Security (Alpha), issued September 2025	Audit
15	Guarded	Talent Continuity	Attract, retain and develop a highly competent staff.	The delivery of member services and pension fund management could be negatively impacted by turnover, the inability to retain qualified staff, lack of a sufficient knowledge transfer program and an inconsistent performance management process.	Risk assessment/ Risk monitoring	Advisory

Appendix C: Audit Universe Mapped to TRS Risk Assessment (continued-2)



#	TRS Risk Level	TRS Risk Category	TRS Goal	TRS-Assessed Overall Risk	Planned Approach	Project Type
16	Guarded	Employer Reporting	Accurately capture and utilize employer reported data to project and calculate future benefits of TRS members and to properly allocate the total pension liability across districts.	Incorrect reporting could lead to calculated benefits being inaccurate; Improperly allocating actuarial liability across districts.	Continuous audits of RE data for completeness, integrity and accuracy; data analysis of surcharges, etc.	Audits; Advisory
17	Guarded	Regulatory, Compliance & Litigation	Adhere to and analyze current laws, rules and policies (e.g., maintain tax qualification status); Render competent advice on legal risk management and awareness, manage litigation risks and negotiate contracts to address risks.	Non-compliance with laws and rules could lead to penalties, fines, liability and litigation; impaired ability to conduct business; burdensome oversight; third-party investigations/audits; adverse legislation; increased scrutiny; or loss of tax qualification status.	As much as possible, include compliance as part of scope of individual audit projects	Audits, Advisory
18	Guarded	Internal Fraud	Maintain a culture that upholds ethical behavior and values that contribute and promote the fiduciary duties of prudence and loyalty and reduces fraud risks.	A lack of ethics could undermine the duties of prudence and loyalty and create fraud risks resulting in loss of assets, credibility and business opportunities, adverse publicity, violations of law and increased scrutiny and oversight.	Follow-up on the Ethics Audit, issued in September 2026. Hotline triage team participation	Audit Advisory
19	Guarded	Financial Operations	Ensure TRS is fiscally responsible in budgeting, accounting and financial reporting to successfully carry out TRS' mission, goals and objectives to serve our members.	Material and/or inaccurate budgeting, accounting or financial reporting could result in the board of trustees and Texas Legislature decisions being made on unsound data.	Participate in Annual Comprehensive Financial Report (ACFR) Audit Coordinate external auditor activities	Audit Advisory
20	Guarded	Global Operations	Ensure successful operation of TRS business around the world.	Failure to anticipate and/or mitigate risk could negatively impact TRS personnel, assets and business opportunities globally. Should TRS pursue a foreign office, any implementation plan would address the evolving global presence and world events, as well as the resolution of any conflicts between state, U.S. and foreign laws and regulations.	None	N/A
21	Low	TEAM Program	Implement cost effective, efficient and sustainable processes and systems that enable TRS to serve its members, employers and annuitants.	System design, implementation and functionality of the new processes and systems do not meet the growing demands of TRS in service of its members. Program/project implementation schedule and cost exceeds original estimates.	EDGC and other committee participation	Advisory
22	Low	TRS-Care Funding	Facilitate long-term soundness of TRS-Care in order to provide sustainable retiree health care benefits.	Inadequate funding and/or unanticipated external forces would affect solvency of the program over the current biennium and future years, requiring significant premium increases or benefit reductions.	Data analytics of TRS-Care surcharges; Pharmacy claims data analysis	Advisory
23	Low	Portfolio Exposure	Maintain market risk exposures consistent with investment objectives.	Too little or too much exposure to market risk could each lead to undesirable investment outcomes.	None	N/A