



TRA Internal Audit  
Fiscal Year 2019 Audit Plan

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# Executive Summary

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## Professional and Statutory Requirements

As required by the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors (IIA) and by the TRA Internal Audit (IA) Charter, the following Internal Audit Plan is submitted for **Fiscal Year 2019**.

Activities were identified by conducting risk assessments, consulting with TRA management, and auditor judgment.

TRA Internal Audit is independent of management and provides objective assurance and consulting services designed to add value and improve TRA's operations.

## Internal Audit at TRA

Internal Audit complies with the IIA *Standards* and has adopted the IIA's definition of internal auditing as TRA's internal audit mission statement.

*TRA Internal Audit provides independent, objective assurance and consulting activities designed to add value and improve operations. Internal Audit will assist TRA in accomplishing its management objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control, and various governance processes.*

The Internal Audit Charter governs the administration of Internal Audit at TRA. Audit reports are issued to the Executive Team, Management Team and TRA Audit Committee.

## Professional Organizations

TRA and/or the Internal Auditor are members of the following professional auditing and accounting organizations: Association of Public Pension Fund Auditors (APPFA), Institute of Internal Auditors (IIA), Government Finance Officers Association (GFOA), Public Pension Financial Forum (P2F2), and Association of Certified Fraud Examiners (ACFE).

## Certifications

TRA's Chief Audit Executive has experience in both public and private accounting and is a Certified Public Accountant (CPA), Certified Employee Benefit Specialist (CEBS), and Certified Internal Auditor (CIA). These credentials require annual continuing professional education to maintain a license or designation.

# Executive Summary

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## Quality Assurance

Internal Audit complies with the Institute of Internal Auditors (IIA) *International Standards for the Professional Practice of Internal Auditing (Standards)* which requires a program of quality assurance of annual internal or external quality assurance reviews.

## Internal Control

TRA follows the *Standards for Internal Control in the Federal Government* (Green Book). This framework follows closely the internal control system from the *Internal Control – Integrated Framework* as issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), but is adapted for a governmental environment.

## Risk Assessment

Risk assessment is defined as “a systematic process for assessing and integrating professional judgments about probable adverse conditions and/or events.” TRA is responsible for specifying organizational objectives and for identifying and assessing the risks related to achieving those objectives. Internal Audit is responsible for reviewing and evaluating the results of the assessments. Risk assessments are conducted annually (control environment, operations, financial statements) and periodically/as needed (information technology, security).

Although this Internal Audit Plan contemplates a wide-ranging scope of activities, it does not provide coverage for all of TRA’s components or systems. Internal Audit maximizes the limited resources to provide reasonable coverage to the activities that are believed to require the most attention based on the risk assessment results.

## 2018 TRA Risk Assessment Results (High and Moderately High)

TRA Risk Rating	Process / Function	Assessed Overall Risk	Response
High	Human Resources	TRA does not offer sufficient compensation and/or benefits to attract, maintain, promote, and retain employees.	TRA offers flexible hours, telecommuting, and work-life balance. The salary scale for technical employees is far lower than in the private sector. TRA regularly has difficulty attracting technical staff due to inability to provide competitive pay ranges.
Moderately High	Human Resources	Employees hired do not have the knowledge or expertise for the position.	Salary can be based on experience with approval from MMB. MMB's hiring programs may restrict TRA's ability to fully assess whether a person has the knowledge or expertise for a position.
Moderately High	Human Resources	Employees are engaged in inappropriate activities before being hired and/or during employment.	MMB has restrictions on pre-employment screening background checks and does not allow for credit checks or other data mining.
High	Human Resources	Routine processes (new hire, terminations, reallocations, etc.) are not performed accurately, efficiently, or timely.	Central HR has proposed performance standards.
High	Investments	Assets of the pension fund do not support liabilities.	Actual asset allocation is compared to the asset allocation policy and monitored quarterly by the SBI and Investment Advisory Council (IAC). The SBI has investment, asset allocation, and diversification policies that consider expected returns, expected risks, and correlations. The policies are reviewed and updated, as necessary.
High	Investments	Markets fail to achieve expected returns.	The SBI takes a long-term approach to achieving and monitoring investment performance.
High	Investments	Investments are subject to one or more types of inherent risk.	A quantitative risk analysis (against internal and external standards) is done of investment portfolios and performance. The SBI has investment, asset allocation, and diversification policies that consider expected returns, expected risks, and correlations. The policies are reviewed and updated, as necessary.

## 2018 TRA Risk Assessment Results (High and Moderately High)

TRA Risk Rating	Process / Function	Assessed Overall Risk	Response
Moderately High	Investments	Legislative action substantially impacts the financial health and economic viability of the system (specifically regarding revenues and expenses).	TRA educates the legislature about its financial condition. SBI educates the legislature and constituents about its key investment concepts.
Moderately High	Legislative	Laws may be enacted that have a negative impact on TRA (financial, reputation, policy, etc.).	The ALJ process is utilized to assure full fact finding in complex legal issues and/or member appeals. TRA has staff dedicated to monitor legislative process/actions.
Moderately High	Legislative	Legislators/governor may not enact laws recommended by the Board of Trustees, and or TRA management, to address financial problems.	Analyses of proposed legislation are prepared and provided to appropriate stakeholders. The legislative process requires fiscal notes on benefit proposals. TRA has a competent Board and staff that work with appropriate legislators. TRA has staff dedicated to monitor legislative process/actions.
High	Technology	Employee turnover impacts segregation of duties.	TRA has a small staff and normally a low turnover rate.

Note that the 2019 risk assessment process will align objectives and risks to the goals identified in the strategic planning process.

# Audit Planning Approach

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## Audit Planning Approach

There are three main categories of activities in the Internal Audit Plan (Audits, Compliance Reviews and Projects). The time frame indicated is tentative and may change. Status reports will be provided at each Audit Committee meeting. Note that TRA will be undergoing a formal strategic planning process in 2018. The results of this process may modify the audits to be performed in FY2019.

## Audits

Audits are identified through the annual risk assessment process and through interviews with TRA staff. Audits review controls and procedures, test transactions, and assess evidence available in order to conclude on an audit objective. All completed audit reports are sent to Management, the Audit Committee, and the Board of Trustees.

IT Audits: Internal Audit does not perform IT audits. TRA has contracted with a third party to perform a validation of IT audit procedures conducted by TRA Security and Technology staff. Internal Audit may be consulted during the course of the work performed but the final report and outcomes are not within the scope of Internal Audit.

## Compliance Reviews

Compliance reviews evaluate an employer unit's reporting practices for eligibility determinations, payroll reporting and contribution remittances. At the conclusion of the review, employer units receive an evaluation letter.

## Projects

Projects generally involve work that does not result in opinions or suggestions for improvement. The results of the work performed on projects may or may not result in a written report.

Activities are assigned the following priority:

Mandated                      Mandated by the Board of Trustees/Audit Committee, Executive Director, Executive Team, or Internal Auditor.

High                                High risk area as identified by the risk assessment.

Moderate/Low                Moderate and low risk areas will be performed only if all of the mandated and high risk areas are covered.

## Audit Plan: Audits

Title	Objectives / Scope	Expected Timing	Priority
Member Refunds	Determine that member refunds are calculated accurately, completely, and timely.	July 2018 and January 2019	High
Member Benefit Payments	Determine that member benefit payments are paid accurately, completely, and timely.	August 2018 and February 2019	High
Administrative Expenses	Determine that FY2018 administrative expenses are paid accurately, completely, and timely. Determine that SWIFT incompatible access is sufficiently mitigated.	July 2018	High
Cash Receipts	Determine that FY2018 cash receipts are recorded accurately, timely and completely.	July 2018	High
Expense Reimbursements	Determine that the FY2018 expense reimbursements process is performed according to statutes, policies and/or bargaining agreements.	July 2018	High
Timesheet Completion and Approval	Determine that FY2018 timesheets are timely and completely reviewed, approved, and submitted.	July 2018	High
Annual Base Salary Reporting	Determine that FY2019 annual base salary information is obtained and input accurately into .NET.	August 2018	High
Member Benefit Calculations	Determine that member benefit estimates have been calculated accurately, completely, and timely. FY2018 Adjustments.	September 2018	High
Actuarial Census	Determine that the FY2018 active/inactive member and benefit recipient survey data is accurate and complete.	September 2018	High
Actuarial Tables	Determine that the actuarial tables in effect as of July 1, 2019 as provided by the consulting actuary are accurately and completely loaded into TRA's business system.	May 2019	High

Employer Payroll Reporting Audit procedures have been added to the compliance review procedures. This audit will no longer be performed.

## Audit Plan: Compliance Reviews

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Internal Audit evaluates employers to assess their compliance with salary and contribution reporting and eligibility determination requirements. Employers from the most recently-issued CAFR are evaluated at least once every five years. Internal Audit's goal is to evaluate the remaining employer units once every ten years, as resources permit.

As TRA is notified of the closing of employer units, Internal Audit will attempt to perform a compliance review prior to closing.

In FY2019, Internal Audit expects to review FY2018 payroll data for 25 employer units (K-12 districts and charter schools). Specific employer units will be identified just prior to notification.

## Audit Plan: Projects

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<b>Title</b>	<b>Objectives / Scope</b>	<b>Expected Timing</b>	<b>Priority</b>
Risk Assessment / Annual Audit Plan	Perform the annual risk assessment with input from the business units and prepare the annual audit plan.	January through March 2019	Mandated
CAFR, Actuarial Report (Funding), GASB67 (Reporting)	Review the accuracy and completeness of the CAFR to ensure compliance with applicable accounting and reporting standards. Review the accuracy and completeness of the actuarial report, including data and assumptions. Review the accuracy and completeness of the GASB67 report, including data and assumptions.	November through December 2018	ET Request
GASB68 (Employer Allocation)	Determine that the employer allocation performed under GASB68 conforms to the standard and to TRA policies.	September 2018 through April 2019	ET Request

## Training

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The Chief Audit Executive holds the following designations: Certified Public Accountant (CPA), Certified Employee Benefits Specialist (CEBS), and Certified Internal Auditor (CIA).

A Certified Public Accountant in Minnesota may choose to hold an active or inactive license. Maintaining an active license requires annual reporting of applicable certified professional education (CPE). CPE requirements are set by the Minnesota State Board of Accountancy.

Certified Internal Auditor CPE requirements are set by the Institute of Internal Auditors and are similar to the CPA CPE requirements.

Certified Employee Benefit Specialists are encouraged to complete applicable CPE every two years.

<u>Designation</u>	<u>Reporting Period</u>	<u>Hours Required</u>	<u>Hours Completed</u>
CPA (active)	FY2017	40	50
CIA	CY2017	40	40

The Staff Internal Auditor is pursuing the Certified Fraud Examiner designation which will require CPE reporting upon successful completion of the exam.

## Abbreviations / Terminology

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ACFE	Association of Certified Fraud Examiners
AICPA	American Institute of Certified Public Accountants
APPFA	Association of Public Pension Fund Auditors
CAFR	Comprehensive Annual Financial Report
CIA	Certified Internal Auditor
COSO	Committee on Sponsoring Organizations of the Treadway Commission
ELSA	Earnings Limitation Savings Account
GAS	Governmental Auditing Standards
GFOA	Government Finance Officers Association
Green Book	Standards for Internal Control in the Federal Government
IA	Internal Audit
IIA	Institute of Internal Auditors
IT	Information Technology
MMB	Minnesota Management and Budget
OLA	Office of Legislative Auditor
RSS	Retirement Services Specialist
SBI	State Board of Investment
SWIFT	State Wide Integrated Financial Tools
Yellow Book	Governmental Auditing Standards (GAGAS)