



TRA Internal Audit
Fiscal Year 2020 Audit Plan

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Executive Summary

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 2020**.

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 (APPPFA), 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

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.

2019 TRA Risk Assessment Results

The 2019 Risk Assessment process involved a questionnaire and worksheet. The questionnaire asks each manager to recap changes to their team or department in 2018, future impacts to TRA, future impacts to their team or department, and concerns regarding service providers. They were also asked what they would to see audited by Internal Audit. Questionnaire responses were provided to the Audit Committee in March 2019.

Managers evaluate objectives and risks specific to their team or department in risk assessment worksheets. Objectives and/or business processes are evaluated against 12 risk factors (1 = priority services, 2 = audited as material to the CAFR, 3 = funding source related, 4 = sensitive data, 5 = in need of documentation or update, 6 = personnel changes, 7 = technology change, 8 = fraud/waste/abuse, 9 = reputational risk, 10 = change in law or legislation, 11 = complex business process, and 12 = audit findings/internal control weaknesses). Risk rankings are based on the number of risk factors present. This risk assessment model follows closely the risk assessment model used by the executive branch agencies within the State of Minnesota.

Based on this new risk assessment methodology, TRA has no objectives with risks rated High. The majority of the objectives have a Low risk rating. Below are the objectives with a Medium risk.

Department	Objective / Business Process	Risk Factors	Strategic Planning Goal	Internal Audit Response
Accounting	The cash receipts process is accurate, efficient, and timely.	2, 5, 6, 8, 11, 12	Fund integrity balanced with equity in plan provisions	Cash Receipts Audit
Accounting	Vendor payments (administrative and capital expenses) are accurate, efficient, and timely.	5, 6, 8, 9, 12	Fund integrity balanced with equity in plan provisions	Administrative Expenses Audit
Accounting	Employee payroll is accurate, efficient, and timely.	1, 4, 5, 6, 8, 12	Fund integrity balanced with equity in plan provisions	<i>Manager budget review</i>
Accounting	The general ledger process (journal entries, direct aid, CAFR) is accurate, efficient, and timely.	2, 5, 6, 7, 12	Fund integrity balanced with equity in plan provisions	<i>CFO review</i>
Actuary	Data provided to the actuary is complete and accurate.	2, 4, 9, 10, 11	Fund integrity balanced with equity in plan provisions	Actuarial Census Audit (2019), Employer Payroll Audits
Data Integrity	Payroll reporting and remittances received from employers (K-12 and charter schools) is accurate, complete, and timely.	2, 3, 4, 6, 8	Fund integrity balanced with equity in plan provisions	Employer Payroll Audits
Data Integrity	Payroll reporting and remittances received from employers (Minnesota State and other central payroll) is accurate, complete, and timely.	2, 3, 4, 6, 8	Fund integrity balanced with equity in plan provisions	Employer Payroll Audits (TBD)

2019 TRA Risk Assessment Results

Department	Objective / Business Process	Risk Factors	Strategic Planning Goal	Internal Audit Response
Financial Reporting	Financial statements are accurate, complete, and prepared timely.	2, 6, 8, 9, 10, 11	Fund integrity balanced with equity in plan provisions	CAFR Review (Project)
Legal	The fund is in compliance with existing and applicable federal and state laws.	2, 5, 6, 7, 9, 10, 11	Fund integrity balanced with equity in plan provisions	<i>Legal/Policy Director Review</i>
Legal	The system is funded appropriately and consistently.	1, 2, 3, 9, 10, 11	Fund integrity balanced with equity in plan provisions	<i>Executive Team / Board of Trustees Review</i>
Pension Operations	Calculations (estimates/officials for retirement, disability, death) are accurate.	2, 4, 6, 7, 9, 10, 11	Fund integrity balanced with equity in plan provisions	Estimates Audit
Pension Operations	Actuarial data (mortality tables, plan factors, etc.) is accurate and up-to-date.	2, 7, 9, 10, 11	Fund integrity balanced with equity in plan provisions	Actuarial Tables Audit (2019)
Pension Operations - Member Leaves	Business system programming reflects current statute, policies, practices and procedures and is thoroughly tested and updated as needed.	4, 5, 7, 9, 10, 11	Engaged, empowered, high-performing workforce	Member Leaves Audit
Pension Operations – Member Payments	Benefit payments (retirement annuities, disability and death benefits) are processed accurately, completely, and timely.	1, 2, 4, 8, 9, 11	Fund integrity balanced with equity in plan provisions	Member Benefit Payments Audit
Refunds	Refunds to members are made accurately, completely, and timely.	1, 5, 8, 9, 11, 12	Fund integrity balanced with equity in plan provisions	Refunds Audits
Technology	TRA has a documented and tested Business Continuity Plan.	1, 2, 4, 5, 9, 11	Risk-Intelligent Organization	<i>Executive Team Review</i>
Technology	TRA has a documented and tested Disaster Recovery Plan.	1, 2, 4, 5, 9, 11	Risk-Intelligent Organization	<i>Executive Team Review</i>
Technology	TRA has a formal, documented system of information security controls.	1, 4, 5, 9, 11	Risk-Intelligent Organization	<i>Information Security / Systems Review</i>
Technology	TRA properly manages internal hardware and software.	4, 5, 6, 7, 9	Risk-Intelligent Organization	<i>Systems Review</i>

FY2020 Audit Plan - Audits

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.

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.

Employer Payroll Audits

Employer payroll audits evaluate an employer's reporting practices for eligibility determinations, payroll reporting and contribution remittances. At the conclusion of the audit, employers 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.

FY2020 Audit Plan - Audits

Title	Objectives / Scope	Expected Timing
Member Refunds	Determine that member refunds are calculated accurately, completely, and timely.	July 2019 and January 2020
Administrative Expenses	Determine that FY2019 administrative expenses are paid accurately, completely, and timely. Determine that SWIFT incompatible access is sufficiently mitigated.	July 2019
Cash Receipts	Determine that FY2019 cash receipts are recorded accurately, timely and completely. Determine that SWIFT incompatible access is sufficiently mitigated.	July 2019
Expense Reimbursements	Determine that the FY2019 expense reimbursements process is performed according to statutes, policies and/or bargaining agreements.	July 2019
Member Leaves	Determine that member leaves are properly authorized, purchase costs are properly calculated, payments are properly reported, and member accounts are accurately updated.	August 2019
Annual Base Salary Reporting	Determine that FY2020 annual base salary information is obtained and input accurately into .NET.	August 2019
Member Benefit Payments	Determine that member benefit payments are paid accurately, completely, and timely.	August 2019 and February 2020
MDE Pension Adjustment Calculation	Determine that the spreadsheet submitted to MDE for allocation of the pension aid to employers is calculated correctly.	September 2019
Administrative Reviews	Determine that the Administrative Review process is performed accurately, completely, and timely. (Reviews of salaries used for calculations that exceeds 95% of the Governor's salary)	October 2019
Member Benefit Calculations	Determine that member benefit estimates have been calculated accurately, completely, and timely. Population to be determined.	TBD

FY2020 Audit Plan – Employer Payroll Audits

Internal Audit audits employers (K-12 and charter schools) 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 FY2020, Internal Audit expects to review FY2019 payroll data for 35-40 employer units.

Org No	Org Name	Last Review Period	Org No	Org Name	Last Review Period
00006	South St. Paul		00014	Fridley	
00099	Esko		00111	Watertown – Mayer	
00115	Cass Lake		00139	Rush City	
00152	Moorhead	FY2010	00186	Pequot Lakes	
00197	West St. Paul	FY2010	00273	Edina	FY2010
00281	Robbinsdale	CY2014	00294	Houston	
00316	Greenway Schools		00317	Deer River	
00345	New London-Spicer		00549	Perham	
00578	Pine City		00621	Mounds View	FY2014
00622	North St. Paul – Maplewood	CY2014	00740	Melrose	
00748	Sartell		00813	Lake City	
00831	Forest Lake	FY2010	00833	South Washington County	CY2014
00883	Rockford		00916	NE Metro Interm School	
02144	Chisago Lakes		02149	Minnewaska Area	
02310	Sibley East		02689	Pipestone Area Schools	
02752	Fairmont-Ceylon		02890	Renville County West	
02895	Jackson County Central		02899	Plainview-Elgin-Millville	
02903	Ortonville		04122	Eagle Ridge Academy	
04171	Noble Academy		04199	Parnassus Preparatory School	
04231	Minnesota Math and Science Academy		04250	Athlos Academy of St. Cloud	

FY2020 Audit Plan - Projects

Title	Objectives / Scope	Expected Timing
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 2020
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 2019
GASB68 (Employer Allocation)	Determine that the employer allocation performed under GASB68 conforms to the standard and to TRA policies.	September 2019 through April 2020

Training

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. Currently, the requirement is a minimum of 20 hours each reporting year (fiscal year) and a minimum of 120 hours in any given three-year reporting period. Additionally, a minimum of eight hours in any given three-year period must be in regulatory or behavioral ethics.

Certified Internal Auditor CPE requirements are set by the Institute of Internal Auditors. Currently, a minimum of 40 hours is required each reporting year (calendar year). At least two of those hours must be for ethics.

Certified Employee Benefit Specialists are encouraged to complete applicable CPE every two years. No formal reporting is required.

<u>Designation</u>	<u>Reporting Period</u>	<u>Hours Required</u>	<u>Hours Completed</u>	<u>Ethics</u>
CPA (active)	FY2017 – FY2019	120.00	145.80	14.30
CIA	CY2018	40.00	61.00	2.00

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