



TRA Internal Audit
Fiscal Year 2021 Audit Plan

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Chief Audit Executive

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Approved by TRA Board of Trustees
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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 2021**.

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

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.

2020 TRA Risk Assessment Results

The 2020 Risk Assessment process involved a questionnaire and worksheet. The questionnaire asks each manager to recap changes to their team or department in 2019, future impacts to TRA, future impacts to their team or department, and concerns regarding service providers. They were also asked what they would like to see audited by Internal Audit. Questionnaire responses were provided to the Audit Committee in May 2020.

Managers evaluate objectives and risks specific to their team or department in risk assessment worksheets using the twelve risk factors listed below. 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.

Priority Services	In Need of Documentation or Update	Reputational Risk
Audited as Material to the CAFR	Personnel Changes	Change in Law or Regulation
Funding Source Related	Technology Change	Complex Business Process
Sensitive Data	Fraud, Waste, Abuse	Audit Findings / Internal Control Weaknesses

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

Department	Objective / Business Process	Strategic Planning Goal	Internal Audit Response
Accounting	Cash receipts are processed accurately and timely, and are recorded correctly in .NET, SWIFT, and the general ledger.	Fund integrity balanced with equity in plan provisions	Cash Receipts Audit
Accounting	Employee payroll is processed accurately and timely, and is recorded correct in SWIFT and the general ledger.	Fund integrity balanced with equity in plan provisions	<i>Manager budget review</i>
Data Integrity	Payroll reporting and remittances received from employers (K-12 and charter schools) is accurate, complete, and timely.	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.	Fund integrity balanced with equity in plan provisions	Employer Payroll Audits
Financial Reporting	Financial statements are accurate, complete, and prepared timely.	Fund integrity balanced with equity in plan provisions	CAFR Review (Project)
Financial Reporting	General ledger accounts are reconciled timely and accurately. Differences are investigated.	Fund integrity balanced with equity in plan provisions	General Ledger Review (Project)
Financial Reporting	Adequate controls are in place for maintaining and monitoring general ledger accounts.	Fund integrity balanced with equity in plan provisions	General Ledger Review (Project)

2020 TRA Risk Assessment Results

Department	Objective / Business Process	Strategic Planning Goal	Internal Audit Response
Financial Reporting	Journal entries are reviewed and approved prior to entry in the general ledger system.	Fund integrity balanced with equity in plan provisions	General Ledger Review (Project)
Pension Operations – Member Payments	Benefit payments (retirement annuities, disability and death benefits) are processed accurately, completely, and timely.	Fund integrity balanced with equity in plan provisions	Member Benefit Payments Audit
Refunds	Refunds are made only to eligible members.	Fund integrity balanced with equity in plan provisions	Refunds Audits
Technology	TRA has a documented and tested Disaster Recovery Plan.	Risk-Intelligent Organization	<i>Executive Team Review</i>
All	Division staff are trained adequately and properly supervised.	Engaged, empowered, high-performing workforce	<i>Management Team Review</i>

FY2021 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.

FY2021 Audit Plan - Audits

Title	Objectives / Scope	Expected Timing
Member Refunds	Determine that member refunds are calculated accurately, completely, and timely. Refunds are made only to eligible members.	July 2020 January 2021 (tentative)
Administrative Expenses	Determine that FY2020 administrative expenses are paid accurately, completely, and timely. Determine that incompatible business system access is sufficiently mitigated.	July - August 2020
Cash Receipts	Determine that FY2020 cash receipts are recorded accurately, timely and completely. Determine that incompatible business system access is sufficiently mitigated.	July - August 2020
Expense Reimbursements	Determine that the FY2020 expense reimbursements process is performed according to statutes, policies and/or bargaining agreements.	July - August 2020
Annual Base Salary Reporting	Determine that FY2021 annual base salary information is obtained and input accurately into .NET.	August 2020
Member Benefit Payments	Determine that member benefit payments are paid accurately, completely, and timely.	September 2020 March 2021
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)	TBD
Shared Expense Allocation	Determine that expenses shared with MSRS and/or PERA are calculated correctly and invoiced and collected timely.	TBD
Investment Certification Process	Determine that the investment certification / decertification process with SBI is accurate, complete, and performed timely.	TBD
Member Benefit Calculations	Determine that member benefit estimates have been calculated accurately, completely, and timely. Population = Minnesota State Purchase of Service.	TBD

FY2021 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 are selected through a risk-assessment process (# of active members). As TRA is notified of the closing of employer units, Internal Audit will attempt to perform a compliance review prior to closing.

In FY2021, Internal Audit expects to review FY2020 payroll data for approximately 61 employer units.

Org No	Org Name	# Members	Last Review Period	Org No	Org Name	# Members	Last Review Period
00032	Blackduck - ISD #32	66		00858	St Charles - ISD #858	90	
00077	Mankato - ISD #77	814	2013	00877	Buffalo - ISD #877	479	CY2010
00084	Sleepy Eye - ISD #84	57		00916	NE Metro Interm School Dist #916	314	
00094	Cloquet - ISD #94	251		00921	Southeast Service Coop # 921	10	
00108	Central School District - ISD #108	81		00938	Meeker & Wright Spec Ed Coop #938	65	
00112	Eastern Carver County Schools - ISD #112	937	2013	02149	Minnewaska Area - ISD #2149	119	
00162	Bagley - ISD #162	79		02167	Lakeview - ISD #2167	62	
00191	Burnsville - ISD #191	825	FY2011	02358	Tri-County - ISD #2358	24	
00199	Inver Grove Heights - ISD #199	290	CY2010	02396	Atwater-Cosmos-Grove City - ISD #2396	84	
00204	Kasson-Mantorville - ISD #204	165		02534	BOLD - ISD #2534	72	
00253	Goodhue - ISD #253	55		02609	Win-E-Mac - ISD #2609	39	
00272	Eden Prairie - ISD #272	788	FY2011	02687	Howard Lake-Waverly-Winsted - ISD #2687	109	FY2010
00280	Richfield - ISD #280	456	CY2010	02752	Fairmont-Ceylon - ISD #2752	137	
00287	Interm School District #287	516	CY2010	02884	Red Rock Central - ISD #2884	43	
00308	Nevis - ISD #308	60		02899	Plainview-Elgin-Millville ISD #2899	118	
00333	Ogilvie - ISD #333	57		03333	Pine Point - ISD #3333	14	
00378	Dawson - ISD #378	55		04004	Cedar-Riverside Community School	30	
00402	Hendricks - ISD #402	29		04026	ECHO Charter School	17	
00463	Eden Valley - Watkins - ISD #463	82		04027	Higher Ground	52	FY2010
00480	Onamia - ISD #480	77		04056	Rochester Off-Campus Charter HS (Rosa Parks)	6	
00511	Adrian - ISD #511	49		04095	Trio Wolf Creek Distance Learning	15	
00535	Rochester - ISD #535	1,623	FY2015	04105	Great River School	59	
00592	Climax - ISD #592	32		04120	St Croix Preparatory School	90	FY2010
00640	Wabasso - ISD #640	42		04122	Eagle Ridge Academy	117	
00741	Paynesville - ISD #741	90		04150	Minnesota Online High School	26	
00775	Kerkhoven-Murdock-Sunburg - ISD #775	73		04161	New Discoveries Montessori Academy	29	
00813	Lake City - ISD #813	111		04199	Parnassus Preparatory School	88	
00832	Mahtomedi - ISD #832	228	CY2010	04224	Star of the North Academy	18	
00833	South Washington County - ISD #833	1,730	CY2014	04237	Metropolitan Education for Future Employ	15	
00834	Stillwater - ISD #834	590	CY2011	06014	Runestone Area Education Dist # 6014	32	
00840	St James - ISD #840	97					

FY2021 Audit Plan - Projects

Title	Objectives / Scope	Expected Timing
ERM Implementation (Enterprise Risk Management)	Convert current risk assessment process to ERM with Workiva.	June – December 2020
Audit Management Implementation	Convert current internal audit management process to ERM with Workiva.	June – December 2020
General Ledger Review / Implementation	Review FY2020 general ledger / trial balance / journal entries prior to CAFR audit. Assist Accounting Director with evaluation of general ledger accounting system	July – December 2020
Risk Assessment / Annual Audit Plan	Conduct the annual risk assessment with input from the business units and prepare the annual audit plan.	January through March 2021
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 2020
GASB68 (Employer Allocation)	Determine that the employer allocation performed under GASB68 conforms to the standard and to TRA policies.	September 2020 through April 2021

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)	FY2018 – FY2020	120.00	154.80	9.30
CIA	CY2019	40.00	73.50	2.00

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