


Audit Committee


Schedule Monday, June 1, 2026 8:30 AM — 9:15 AM CDT
Venue ATRS Board room
Organizer Tammy Porter



Agenda

1. Roll Call/Call to Order
For Approval - Presented by Maggie Garrett

2. Adoption of Agenda
For Approval - Presented by Maggie Garrett

3. Approval of Prior Minutes
For Approval - Presented by Maggie Garrett
 AC Minutes 04.06.2026.docx 1

4. Independent Validators Report on Internal Audit Quality Self-Assessment
For Discussion - Presented by Crowe Chizek LLP
 Independent Validation of Self-Assessment.pdf 4

5. Proposed Audit Plan for FY2027
For Approval - Presented by Kevin Chadwick
 Audit Plan for FY2027.pdf 15
 AC Presentation 20260601.pptx 64

6. Other Business

7. Adjourn

**MINUTES
ARKANSAS TEACHER RETIREMENT SYSTEM
AUDIT COMMITTEE MEETING**

**Monday, April 6, 2026
8:30 a.m.
1400 West Third Street
Little Rock, AR 72201**

ATTENDEES

Audit Committee Members Present

Maggie Garrett, Chair
Jeff Stubblefield, Vice Chair
Glen Grayham
Dr. Mike Hernandez
Jason Brady, designee for Hon. Dennis Milligan, State Auditor

Board Members Present

Kelsey Bailey
Keri Hamilton
Michael Johnson
Danny Knight
Bobby Lester
Arthur “Chip” Martin, III
John Ward
Susannah Marshall, Bank Commissioner
Kelly Griffin, designee for Jacob Oliva, Sec. Department of Education
John Thurston, State Treasurer

Reporter’s Present

Mike Wickline, AR Democrat Gazette

ATRS Staff Present

Mark White, Executive Director
Rod Graves, Deputy Director – Investments
Sarah Linam, Deputy Director
Tammy Porter, Board Secretary
Kevin Chadwick, Internal Auditor Supervisor/Expert
Braeden Duke, IT Infrastructure Analyst
Demetrios Gulley, Auditor II
Ryan Hill, Ret. System Administrator*
Jennifer Kelly, Attorney III*
Graham Lewis, User Support Analyst
Manju, Chief Information Officer I
Stephanie Lilly-Palmer, HR Supervisor/Expert
Steve Parkinson, Ret. System Administrator
Amber Sevilla, Executive Assistant
Misty Yant, Chief Fiscal Officer
Stephanie Yoel, Administrative Analyst

Guest Present

Linda Powell*
Eric Denney, AON Hewitt Investment Consulting*
PJ Kelly, AON Hewitt Investment Consulting*
Ronak Chitnis, AON Hewitt Investment Consulting*
Kenneth Burlison, State Treasurer’s Office
Bill Huffman, State Treasurer’s Office

* ZOOM

1. **Call to Order/Roll Call.** Ms. Maggie Garrett, Chair, called the Audit Committee meeting to order at 8:30 a.m. Roll call was taken. All members were present.

2. Adoption of Agenda.

Mr. Grayham moved for adoption of the agenda. Mr. Stubblefield seconded the motion, and the Committee unanimously approved the motion.

3. Approval of April 6, 2026, Minutes.

Mr. Brady moved to approve the April 6, 2026, Audit Committee minutes as presented. Dr. Hernandez seconded the motion, and the Committee unanimously approved the motion.

4. Procurement Process Audit Report. Mr. Kevin Chadwick presented the Committee with the Procurement Process Audit Report.

Mr. Brady moved to approve Procurement Process Audit Report. Mr. Grayham seconded the motion, and the Committee unanimously approved the motion.

5. Continuity of Operations Plan Report. Mr. Kevin Chadwick presented the Committee with the Continuity of Operations Plan Audit Report, along with Management Responses .

Mr. Stubblefield moved to approve the Continuity of Operations Plan Audit Report and Management Responses. Mr. Grayham seconded the motion, and the Committee unanimously approved the motion.

6. Quality Self- Assessment Report. Mr. Kevin Chadwick presented the Committee with the Quality Self-Assessment Report.

Mr. Brady moved to approve the Quality Self-Assessment Report as presented to the Committee. Dr. Hernandez seconded the motion, and the Committee unanimously approved the motion.

7. Audit Plan Update. Mr. Kevin Chadwick presented the Committee with the Audit Plan Update. No action was taken.

8. Proposal to Replace Scheduled Cybersecurity Audit with Multi-year IT Expansion Engagement Plan. Mr. Kevin Chadwick presented the Committee with the Proposal to replace the scheduled Cybersecurity Audit with Multi-Year IT Expansion Engagement Plan.

Mr. Brady moved to approve the Proposal to Replace Scheduled Cybersecurity Audit with Multi-year IT Expansion Engagement Plan. Mr.

Grayham seconded the motion, and the Committee unanimously approved the motion.

9. Executive Session: Evaluation of Kevin Chadwick, Internal Audit Supervisor/Expert.

The Committee went into Executive Session at 8:50 a.m.

The Committee reconvened at 8:58 a.m.

Mr. Brady moved to approve the Performance Evaluation of Mr. Kevin Chadwick as presented by the Executive Director. Mr. Grayham seconded the motion, and the Committee unanimously approved the motion.

10. Other Business. None.

11. Adjourn.

Mr. Stubblefield moved to adjourn the Audit Committee Meeting. Dr. Hernandez seconded the motion, and the Committee unanimously approved the motion.

Meeting adjourned at 9:00 a.m.

Mr. Kevin Chadwick
Internal Audit Supervisor/Expert

Ms. Maggie Garrett, Chair
Audit Committee

Tammy Porter
Board Secretary

Date Approved

Arkansas Teacher Retirement System

Independent Validation of Internal Self-Assessment

May 2026

Table of Contents

Background	1
Scope and Objectives	1
Conclusion	1
Conformance Gaps	3
Appendix A	9

Background

Crowe Chizek LLP (Crowe) was engaged to perform an Independent Validation of the Arkansas Teacher Retirement System's (ATRS) internal self-assessment. Crowe obtained all relevant documentation from ATRS' internal self-assessment and utilized the support to independently validate ATRS's conformity with the Institute of Internal Auditors Global Internal Audit Standards (IIA Standards) for the period of July 1, 2024 through June 30, 2025.

For the internal self-assessment ATRS performed the following:

- Evaluated the ATRS Internal Audit department procedures and practices against the IIA Standards and documented this assessment in their Quality Assurance Matrix (QAM)
- Based on the evaluation, determined the level of conformance for ATRS' Internal Audit function (e.g., generally, partially, not in conformance)
- Identified areas of improvement and actions plans for any gaps noted

Crowe performed the following as an external independent validator:

- Utilized ATRS' QAM and reviewed ATRS' self-assessment methodology, supporting documentation/evidence, and conclusions as documented on the QAM
- Interviewed key members at ATRS and Audit Committee members to confirm steps stated in the QAM
- Performed testing and verification on two (2) Internal Audits that occurred during our audit period
- Compared ATRS' self-assessment results to Crowe's Independent Validation
- Expanded on current and provided additional recommendations as a result of the Independent Validation

Scope and Objectives

Crowe performed its Independent Validation of ATRS' internal self-assessment for the period of July 1, 2024 through June 30, 2025 and conducted the work between January and April of 2026 with this report being issued in May 2026. Crowe based its Independent Validation on the following objectives:

- Independently validate the internal audit function's assessment related to the IIA Standards.
- Report on the internal audit function's achievement of performance objectives, compliance with IIA Standards and plans to address conformance gaps or enhancement opportunities.
- Identify enhancement opportunities to improve the compliance, efficiency, and effectiveness of the internal audit function's processes and procedures.

The IIA Standards are divided into 15 guiding principles that are comprised of 52 detailed standards. Crowe used documentation provided by ATRS to test conformity with standards 1.1 through 15.2. Furthermore, Crowe tested conformity with the IIA Standards on two individual audits, IT Network Infrastructure Management and Membership Maintenance Benefits Process that occurred during the validation period. For the time period reviewed, July 1, 2024 through June 30, 2025 there were no Topical Requirements in effect.

Conclusion

Crowe's independent validation found that the Internal Audit Unit **Generally Conforms** compliance with the Standards. This agrees with the conclusion of ATRS' self-assessment. It should be noted that this is the highest rating an organization may receive. While the Internal Audit Unit demonstrates alignment with many elements of the IIA Standards, certain areas were identified where conformance is not fully achieved. These include instances of general and partial conformance, as well as select areas of nonconformance that warrant management attention. Addressing these matters will be essential to further strengthen alignment with the IIA Standards and enhance the overall effectiveness of the internal audit function.

The 15 guiding principles of the IIA Standards were also rated and can receive a rating of Fully Achieves, Generally Achieves, Partially Achieves, or Does Not Achieve. While Crowe agrees with the overall rating of Generally Achieves for ATRS, there are three Principles for which Crowe concluded a different rating as summarized below.

- ATRS concluded that they fully achieved principle 10, while Crowe concluded that ATRS only generally achieved this principle due to standard 10.2 only generally conforming with the standards.
- ATRS concluded that they fully achieved principle 11, while Crowe concluded that ATRS only generally achieved this principle due to standard 11.5 not conforming with the standards.
- ATRS concluded that they fully Achieved Principle 15, while Crowe concluded that ATRS only partially achieved this principle due to standard 15.2 only partially conforming with the standards.

The table below provides the conclusions of both ATRS and Crowe for each of the 15 guiding principles. If Crowe concurred with ATRS's assessment, the field displays "Agree." If Crowe did not concur, Crowe's independent rating for that principle is provided. See the Conformance Gap section below for additional details on the conclusions on the recommendations for improvement.

Principle	Internal Audit Conclusion	Crowe Conclusion
Principle 1 Demonstrate Integrity	Fully Achieves	Agree
Principle 2 Maintain Objectivity	Fully Achieves	Agree
Principle 3 Demonstrate Competency	Fully Achieves	Agree
Principle 4 Exercise Due Professional Care	Fully Achieves	Agree
Principle 5 Maintain Confidentiality	Fully Achieves	Agree
Principle 6 Authorized by the Board	Fully Achieves	Agree
Principle 7 Positioned Independently	Fully Achieves	Agree
Principle 8 Overseen by the Board	Partially Achieves	Agree
Principle 9 Plan Strategically	Generally Achieves	Agree
Principle 10 Manage Resources	Fully Achieves	Generally Achieves
Principle 11 Communicate Effectively	Fully Achieves	Generally Achieves
Principle 12 Enhance Quality	Partially Achieves	Agree
Principle 13 Plan Engagements Effectively	Fully Achieves	Agree
Principle 14 Conduct Engagement Work	Fully Achieves	Agree
Principle 15 Communicate Engagement Results and Monitor Action Plans	Fully Achieves	Generally Achieves

In addition to the IIA Standards, the IIA periodically issues topical requirements. Topical requirements are required to be followed and would become part of future independent validations. Though no topical requirements were effective for the period of this independent validation. The first topical requirement became effective in February 2026. Therefore, the Internal Audit Unit should establish a structured approach to ensure that Topical Requirements are identified, assessed, and implemented. Proactively integrating these requirements into existing compliance and control frameworks will support timely adoption, reduce risk, and align the organization with leading practices.

Conformance Gaps

Conformance gaps are specific areas where the internal audit function does not fully meet the requirements or intent of the IIA Standards. In this section of the report, we have listed the areas identified by ATRS in the internal self-assessment and agreed upon by Crowe in our Independent Validation as well as additional areas identified by Crowe during the Independent Validation. The Conformance Gaps can be classified in three categories:

- Practices Generally Conforms with the standards - This is the highest rating and indicates the internal audit activity largely meets the standards.
- Practices Partially Conforms with the standards - This rating indicates the internal audit activity meets some, but not all, of the standards.
- Practices Do Not Conform with the standards - This rating means the internal audit activity fails to meet the requirements of the standards in significant respects.

The conformance gaps noted during ATRS' self-assessment and Crowe's independent validation are included below. In addition to the performance gaps identified, ATRS also noted several opportunities for improvement that are included in **Appendix A** to this report.

ATRS's Conformance Gaps

This section includes the performance gaps noted by ATRS during their self-assessment. Each performance gap is classified under one of the ratings defined above. If Crowe had an additional recommendation in addition to the corrective action noted by ATRS those are included within the conformance gap.

Standard 8.3 - Practices do not Conform with the Standards

Standard

The board ensures that the chief audit executive maintains a quality assurance and improvement program that covers all aspects of the internal audit function and communicates the results at least annually.

Conformance Gap

There is a lack of a formalized Quality Assurance and Improvement Program (QAIP) to monitor and enhance audit quality.

Corrective Action Plan Proposed by ATRS

Develop and implement a documented QAIP that includes internal quality assessments, periodic reviews, and continuous improvement initiatives. This will be the responsibility of the CAE and quarterly review checkpoint will be implemented.

Crowe's Additional Recommendation

In addition to the Corrective Action Plan proposed, Crowe recommends the following:

1. Define quality metrics: Establish specific, measurable indicators to evaluate QAIP effectiveness and alignment with the Standards.
2. Enhance review procedures and documentation requirements: Implement standardized processes and documentation expectations to support consistent execution of QAIP activities.
3. Formalize reporting to the Audit Committee: Ensure results of internal quality assessments and related identified improvements are reported at least annually to the Audit Committee to strengthen oversight and accountability.

4. Implement Interim Monitoring and Reporting: Establish periodic progress monitoring against the five-year requirement, including defined updates to the Audit Committee, including status updates, milestone tracking, and escalation of delays, to ensure transparency, accountability, and timely completion.

Standard 8.4 - Practices do not Conform with the Standards

Standard

The process for the board determining and approving the type, scope, and frequency of the external quality assessment.

Conformance Gap

There is no established process or schedule for External Quality Assessments, as required every five years under the Standards.

Corrective Action Plan Proposed by ATRS

Establish a schedule for External Quality Assessments every five years as required by the Standards. Identify qualified external reviewers and include this requirement in the Audit Committee Charter.

Crowe's Additional Recommendation

In addition to the Corrective Action Plan proposed, Crowe recommends that ATRS documents Audit Committee Approval in the Audit Committee materials or meeting minutes to evidence oversight and alignment with governance expectations.

Standard 9.1 – Practices Partially Conform with the Standards

Standard

The process for developing and maintaining an understanding of the organization's governance, risk management, and control processes.

Conformance Gap

There is a need to strengthen understanding of Governance, Risk Management, and Control Processes to enhance audit planning and execution.

Corrective Action Plan Proposed by ATRS

Create a structured training plan for audit staff on ATRS governance framework, risk management practices, and control processes. Incorporate this into annual training and onboarding programs.

Crowe's Recommendation

In addition to the Corrective Action Plan proposed, Crowe recommends the following:

1. Establish Periodic Updates to Risk Understanding: Implement an annual process to update the Internal Audit Unit's understanding of Governance, Risk Management, and Control Processes to reflect changes in the organization's risk profile and key processes, including input from key stakeholders such as senior management and process owners.
2. Define Scope and Ownership of Updates: Identify which risk areas, processes, and controls are subject to update and assign responsibility for maintaining and validating this information to ensure accountability and completeness.
3. Communicate and Incorporate Updates: Ensure updates are communicated within the Internal Audit Unit and incorporated into audit planning and risk assessment activities to maintain alignment with current organizational risks.

Standard 9.3 - Practices Generally Conform with the Standards

Standard

The methodologies for the internal audit function are developed, maintained, and communicated to ensure conformance with the Standards and other relevant requirements.

Conformance Gap

There is an absence of a documented follow-up methodology, limiting consistency and efficiency.

Corrective Action Plan Proposed by ATRS

Develop and document a formal follow-up methodology for verifying implementation of audit recommendations. Include timelines, evidence requirements, and reporting protocols to the Audit Committee.

Crowe's Additional Recommendation

In addition to the Corrective Action Plan proposed, Crowe recommends the following:

1. **Integrate Follow-Up Methodology:** Ensure the follow-up methodology is formally incorporated into the overall Internal Audit methodology and consistently applied across all engagements.
2. **Define Remediation Validation Criteria:** Establish specific criteria for validating the effectiveness and completeness of remediation efforts.
3. **Establish Escalation Procedures:** Develop clear escalation procedures for overdue actions to promote timely resolution and accountability, ultimately reporting to the Audit Committee as needed.
4. **Standardize Reporting Metrics:** Define standard reporting metrics to enhance consistency, accountability, and efficiency in follow-up activities.

Standard 9.5 - Practices Generally Conform with the Standards

Standard

Whether the methodologies for the internal audit function are developed, maintained, and communicated to ensure conformance with the Standards and other relevant requirements.

Conformance Gap

The documentation process for reliance on the work of other assurance services is not sufficient.

Corrective Action Plan Proposed by ATRS

None noted.

Crowe's Additional Recommendation

Crowe recommends the following:

1. **Establish a Formal Framework:** Develop and document a structured framework outlining how Internal Audit coordinates with other providers, including roles, responsibilities, and areas of coverage.
2. **Define Reliance Criteria:** Establish clear criteria for when and how Internal Audit can place reliance on the work of other providers.
3. **Document Reliance Assessments:** Require documentation of the evaluation performed to support reliance decisions, including the scope, quality, and results of the work reviewed.

Standard 12.1 - Practices do not Conform with the Standards

Standard

The effectiveness of the internal quality assessment processes: ongoing monitoring; periodic self-assessments; and communication of results to the board and senior management. Comment on the progress towards completing previously identified actions to address nonconformance or enhancement opportunities.

Conformance Gap

Internal Quality Assessments are informal and undocumented, reducing the ability to demonstrate compliance.

Corrective Action Plan

Formalize internal quality assessment procedures by creating a checklist and documentation process for annual reviews. Report results to the Audit Committee.

Crowe's Additional Recommendation

In addition to the Corrective Action Plan proposed, Crowe recommends the following:

1. **Define Monitoring and Self-Assessment Approach:** Establish the scope and frequency of ongoing monitoring activities and periodic self-assessments, ensuring they are conducted at least annually.
2. **Require Documentation of Results and Remediation:** Implement requirements to document assessment results, identified gaps, and corresponding remediation actions to support transparency and consistency.
3. **Track and Report Progress of Prior Findings:** Maintain a process to track the status of prior findings and demonstrate continuous improvement and conformance over time. Provide the Audit Committee updates on an annual basis.

Standard 12.2 - Practices do not Conform with the Standards

Standard

How the chief audit executive, board, and senior management collaborate to set performance objectives for the internal audit function, and how the measures are monitored.

Conformance Gap

There are shortcomings in performance measures, reducing the ability to evaluate audit effectiveness and value delivery.

Corrective Action Plan Proposed by ATRS

Define and implement key performance indicators (KPIs) for audit effectiveness (e.g., timely completion of audits, recommendation implementation rate, stakeholder satisfaction). Review KPIs quarterly.

Crowe's Recommendation

In addition to the Corrective Action Plan proposed, Crowe recommends the following:

1. **Align KPIs with Objectives and Stakeholder Expectations:** Ensure key performance indicators are aligned with stakeholder expectations and the Internal Audit Unit's strategic objectives to support relevant performance measurement.
2. **Define KPI Targets:** Establish and document clear performance targets for each KPI to enable consistent evaluation of success.

3. Standardize Monitoring and Reporting Protocols: Develop defined processes for ongoing and current performance monitoring and reporting to support consistency and effective evaluation of performance.

Crowe Conformance Gaps

This section includes conformance gaps noted by Crowe during the independent validation. These gaps were not noted by ATRS during their self-assessment.

Standard 10.2 - Practices Generally Conform with the Standards

Standard

The process for ensuring human resources is appropriate, sufficient, and effectively deployed to meet the charter, strategy, and audit plan.

Conformance Gap

The process for recruiting and retaining auditors is not clearly documented.

Corrective Action Plan Proposed by ATRS

Internal Audit plans on clearly documenting procedures for recruiting and retaining staff auditors as well as including procedures for co-sourcing audit work for areas where the team lack the appropriate knowledge and skills.

Crowe's Recommendation

Crowe recommends the following:

1. Develop a Multi-Year Resourcing Plan: Establish a multi-year resourcing plan focused on employee attraction and retention to support the Internal Audit Unit's long-term staffing needs.
2. Monitor Capacity and Utilization: Implement ongoing monitoring (quarterly or annually) of staffing capacity and engagement-level utilization to ensure resources are effectively aligned with audit demands.

Standard 11.5 – Practice do not Conform with the Standards

Standard

The process for communicating unacceptable levels of risk to the board and senior management, citing specific instances if there have been any in the last two years.

Conformance Gap

There is no documented procedure to discuss with management or escalate to the board if a risk exceeds the risk tolerance as defined in their risk assessment.

Corrective Action Plan Proposed by ATRS

An escalation metrics will be developed along with instructions on how unacceptable risks will be escalated to the Board.

Crowe's Recommendation

Crowe recommends the following:

1. Define Escalation Criteria and Risk Thresholds: Establish and document clear criteria and thresholds for determining unacceptable risk to ensure consistent identification and evaluation across the Internal Audit function.

2. **Formalize Communication to the Board:** Develop a process to communicate identified instances of unacceptable risk to the board on an annual basis to support transparency and oversight.
3. **Document Board Review and Risk Acceptance:** Ensure board review of reported risks is formally documented, including any decisions regarding risk acceptance and related rationale.

Standard 15.2 – Practices Partially Conform with the Standards

Standard

The effectiveness of processes for confirming that management has implemented agreed-upon action plans. Identify instances of management subsequently accepting risks versus completing agreed-upon actions.

Conformance Gap

There is a lack of a formal process for confirming the implementation of Management Action Plans.

Corrective Action Plan Proposed by ATRS

Implement a structured follow-up tracking system to confirm completion of action plans. Require management to provide evidence and report status to the Audit Committee.

Crowe's Recommendation

In addition to the Corrective Action Plan proposed, Crowe recommends the following:

1. **Define Criteria for Required Evidence:** Establish clear criteria for what constitutes adequate evidence of implementation to support consistent evaluation of corrective actions.
2. **Require Validation:** Implement a process for Internal Audit to independently validate remediation efforts prior to formally closing action plans.
3. **Document Risk Acceptance Decisions:** Develop a process to document instances where management elects to accept risk rather than remediate, including rationale and appropriate approvals.
4. **Report Risk Acceptance to the Audit Committee:** Ensure risk acceptance decisions are communicated to the Audit Committee at least annually to support oversight and accountability.

Appendix A - ATRS Enhancement Opportunities

The self-assessment identified several opportunities to enhance the Internal Audit Unit's efficiency, effectiveness, and ability to deliver greater value to the ATRS. These opportunities are not required for compliance but represent best practices that can strengthen audit performance and stakeholder confidence.

Element of the Standards	Enhancement Opportunity
<i>Standard 3.1 Competency</i>	<i>Increase specialized training in emerging risks such as cybersecurity, fraud detection, and regulatory compliance.</i>
<i>Standard 3.2 Continuous Professional Development</i>	<i>Implement a formal continuous improvement process, including lessons learned after each engagement.</i>
<i>Standard 4.2 Due Professional Care</i>	<i>Demonstrate competency and due professional care by leveraging advanced tools for deeper insights and improved audit coverage.</i>
<i>Standard 9.2 Internal Audit Strategy</i>	<i>Adopt audit management software to streamline documentation, tracking, and reporting processes.</i>
<i>Standard 11.1 Building Relationships and Communicating with Stakeholders</i>	<i>Develop regular communication channels (e.g., newsletter or dashboards) to share audit insights and progress with stakeholders.</i>



2027

Annual Audit Plan



Internal Audit Unit

Published June 1, 2026

TABLE OF CONTENTS

Executive Summary.....	1
Policies & Processes.....	5
Purpose	5
Mission.....	5
Objectives	5
Audit Planning Process.....	5
Other Considerations.....	6
Coordinating Assurance Coverage.....	6
Staffing the Audit Plan	7
Independence	7
Communication.....	7
Risk Assessment Summary.....	8
Summary	8
Overview of Engagements and Other Activities	9
Assurance Activities & Rollover Projects	9
Advisory Activities.....	9
Administrative Activities	10
Resource Plan.....	11
Conformance with the Code of Ethics and the Standards.....	13
Approval Signatures.....	14
List of Appendices	
Appendix A: References to Specific Standards.....	15
Appendix B: ATRS Organizational Chart.....	21
Appendix C: ATRS Strategic Plan 2024-2029.....	22
Appendix D: Risk Assessment Detail.....	32
Appendix E: List of Reports.....	45
Appendix F: Proposal to Replace Scheduled Cybersecurity Audit.....	46

EXECUTIVE SUMMARY

The Internal Audit Unit (IA Unit) presents the following plan of internal audit activities for July 1, 2026, through June 30, 2027. The overall goal for these activities is to provide reasonable assurance that systems of risk management and control have been designed effectively and are operating as intended.

A risk-based approach was utilized to develop the plan which will enable the IA Unit to properly align and focus its limited resources to produce insightful assurance and advice as well as provide value to Arkansas Teacher Retirement System (“ATRS” or System”) management. The risk-based approach includes multiple methods for assessing risks, which are discussed in further detail in the following section titled *Policy and Processes*. The result of the risk assessment is further described in the section titled *Risk Assessment Summary*. In addition to using the risk-based approach, the following factors were considered in selecting audit activities for the year:

- An analysis of the results of a survey sent in March 2026
- Management input
- Review of previous audit reports (internal and external) and other reports
- Review of ATRS Board of Trustees (“Board”) meeting minutes
- Review of control self-assessments
- Review of the System’s strategic plan
- Review of the System’s financial statements and other information

Projects selected for this plan are described in further detail in the section titled *Overview of Engagements and Other Activities*.

The plan includes spending approximately 60% of total hours on assurance activities (audits and reviews). Projects were selected by identifying auditable units and ranking each unit by a risk category. The auditable units selected for audit are Information Technology, Investments, Human Resources, Legal, and Financial Management. The IA Unit employs two FTEs who will be performing audit work (in addition to the projects mentioned above, follow-up audits, and two rollover audits from the previous period).

Hours have also been allocated for unplanned requested audits. If management does not request any unplanned audits, these hours will be assigned to other projects.

The plan also includes spending approximately 15% of total hours on advisory (consulting) activities. It should be noted that the IA Unit is not limited to performing only assurance services but can perform consulting services as well. According to the Global Internal Audit Standards (Standards) of the Institute of Internal Auditors (IIA), Standard 9.4, the Chief Auditor should consider accepting proposed consulting engagements based on the engagement’s potential to improve management of risks, add value, and improve the organization’s operations. Accepted engagements must be included in the annual audit plan. Advisory engagements included in the plan are:

- **IT Risk Assessment Framework Development:** The IA Unit will provide guidance, subject-matter expertise, and leading-practice insights to assist the Information Technology Unit in developing a comprehensive and ATRS-specific IT Risk Assessment Framework designed to support the identification, evaluation, and prioritization of IT risks affecting ATRS operations.

- **ARTMIS Calculation Logic & Manual Inputs:** The purpose of this advisory engagement is to assist ATRS in evaluating and documenting the calculation logic and related manual inputs within the Arkansas Retired Teachers Information System (ARTMIS). Internal Audit will provide consultative guidance to help management clarify system calculations, identify potential risks or inefficiencies in manual processes, and strengthen the accuracy, consistency, and transparency of benefit-related computations.
- **Fraud Risk Management Framework Development:** The purpose of this advisory engagement is to provide guidance, facilitate risk-identification discussions, and offer subject-matter expertise to assist management in establishing a structured approach for identifying, assessing, mitigating, and monitoring fraud risks across ATRS operations.
- **Other Management Requests:** Hours have been allocated for other management requests. If management does not have requests which result in projects that exceed the hours allotted, the remaining hours will be assigned to other projects.

The plan includes spending approximately 25% of total hours on internal audit administrative activities. Hours allocated for expected employee leave, employees attending continuing professional education (CPE) classes or conferences, timekeeping, meetings, and other miscellaneous activities are considered as administrative activities. The number of hours displayed in the audit plan for administrative activities are estimates. Additionally, there are specific administrative projects planned which will be completed with two FTEs which are:

- **Annual Internal Audit Report:** Prepare annual report of audit activities.
- **Annual Internal Audit Quality Assurance:** Perform and report on Internal Audit Quality Assurance Improvement Program (QAIP) Self-Assessment.
- **Staff Training Initiative:** Develop and launch auditor training in key areas including report writing, workpaper documentation, and audit risk assessment.
- **Fiscal Year 2028 Audit Planning:** Prepare annual audit plan based on a documented risk assessment in accordance with professional auditing standards.
- **Audit Committee Meetings Preparation:** Prepare communications and attend Audit Committee and Board meetings.

The funding resources needed for the audit plan year are described below:

Estimated Salaries \$187,250

(This estimate does not include payroll additives which are calculated to be \$67,410).

Estimated Expenditures \$1,814

The following page displays two tables which are discussed further in the section titled *Resource Plan*. The table titled "Schedule of Available Hours for Audit Activities" notes the available hours for audit activities totals 3,120.

Schedule of Available Hours for Audit Activities	
2 FTEs (52 Weeks @ 40 Hours)	4,160
Total Hours	4,160
Less:	
Specific Administrative Projects	
Annual Internal Audit Report	96
Annual IA Quality Assurance	96
Staff Training Initiative	96
FY2028 Audit Planning	96
Audit Committee Meeting Prep	96
Other Administrative Activities	
Estimated Leave	260
Holidays (2 FTEs @ 8 Hours)	96
Anticipated CPE (2 FTEs@ 40 Hours)	80
Other (Estimated % by Position)	124
Chief Audit Executive (70%)	
Auditor II (100%)	
Total	1,040
Available Hours for Audit Activities	3,120

Internal Audit Activities by Type	
Assurance	
Policies & Procedures Assessment	320
Retirement Benefit Calculation Accuracy	240
Employer Contribution Reporting & Recon	240
Survivor Benefits	160
Unplanned Requested Assurance	250
Follow-Up Audits	280
Rollover Projects	
Records Information Review	320
IT Governance & Organizational Structure	320
Core Application Change Management	366
60% Assurance	2,496
Advisory	
IT Risk Assessment Framework	180
ARTMIS Calculation Logic	180
Fraud Risk Management Framework	140
Unplanned Requested Advisory	124
15% Advisory	624
Budgeted Hours for Audit Activities (Assurance plus Advisory)	
3,120	
Specific Administrative Projects	
Annual Internal Audit Report	96
Annual IA Quality Assurance	96
Staff Training Initiative	96
Fiscal Year 2028 Audit Planning	96
Audit Committee Meeting Prep	96
Other Administrative Activities	
Estimated Leave (including Holidays)	356
Anticipated CPE	80
Other (timekeeping, meetings, etc.)	124
25% Administration	1,040
100% Total	4,160

POLICIES & PROCESSES

Purpose

The purpose of the Internal Audit Unit is to strengthen Arkansas Teacher Retirement System's (ATRS or System) ability to create, protect, and sustain value by providing the Board of Trustees Audit Committee (Audit Committee) and senior management with independent, risk-based, and objective assurance, advice, insight, and foresight.

Mission

The mission of the Internal Audit Unit is to provide Management and the Board of Trustees objective and reasonable assurance that internal controls are present, well-designed, and operating effectively and efficiently in the pursuit of the Arkansas Teacher Retirement System's goals and objectives.

Objectives

The following objective have been set forth to achieve the mission:

1. Conduct work to adhere to the IPPF of the IIA and the Topical Requirements, Practice Guides, and Position Papers of The IIA;
2. Audit the control activities and the transactions of System to determine the level of compliance with established laws, standards, rules, and procedures, as well as the operational effectiveness and efficiency of the control activities;
3. Consult with System personnel in establishing appropriate internal controls to prevent errors or irregularities; and
4. Perform other functions as directed by the Committee or ATRS Executive Director.

Audit Planning Process

The following audit planning process was performed to establish an annual audit plan and associated audit activities to fulfill the purpose, achieve the mission, and obtain the objectives set forth for the IA Unit.

Establishing the Audit Universe and Assessing Risk

The organizational structure of the System was reviewed for significant changes from 2025 to 2026. Changes were noted and considered in developing the audit universe. A copy of the new organizational chart can be found in **Appendix B**.

Internal Audit identified a total of 56 auditable processes. The IA Unit identified risks related to processes (for which control activities could be reasonably tested). The risks were then mapped to the related auditable processes and ranked by inherent likelihood of occurrence and the potential impact effect to determine which of the processes were the highest risk to the agency. The following factors were used for this analysis:

Likelihood of Occurrence

- **Process Complexity & Manual Entry:** The process complexity and manual error risk criteria measures how likely a process is to fail due to the amount of manual activity, decision-making, judgment, or multi-step workflows required. Higher complexity increases the probability of errors, inconsistencies, and delays – especially in sub-areas where staff must rely on spreadsheets, ad-hoc reconciliations, manual calculations, or multi-layered procedures. The

more steps, exceptions, or manual touchpoints a process has, the more likely it is to experience mistakes or operational breakdowns.

- **Staffing Capacity & Knowledge Continuity:** This category evaluates the degree to which staffing levels, turnover, skill specialization, cross-training, and institutional knowledge affect a sub-area's operational stability. Processes that rely on a single subject-matter expert, have high rate of vacancies, or are impacted by hiring freezes are significantly more vulnerable to delays or failures. The thinner the staffing coverage or knowledge base, the greater the risk that the process cannot be performed accurately, consistently, or timely.
- **System Reliance & Stability:** System reliance and stability assesses how dependent a process is on information systems – and how reliable, modern, integrated, and stable those systems are. Processes that rely on aging platforms custom code, manual workarounds, or systems in transition (e.g., modernization initiatives) face elevated risk. System disruptions, integration issues, or limited automation can increase the likelihood of operational failures and data inaccuracies.

Potential Impact Effect

- **Financial Materiality:** Financial materiality risk measures the financial significance of the transactions, calculations, or data elements that the process handles. Processes involving large-dollar amounts (such as benefit payments, employer contributions, investment transactions, or payroll) carry higher impact because errors can result in material misstatements, financial losses, or costly corrections. The greater the monetary value at stake, the more severe the consequences of process failure.
- **Member Impact:** Member impact captures how process failures affect ATRS members and beneficiaries. Processes that determine retirement eligibility, calculate benefit amounts, process payments, update member records, or communicate directly with members have higher consequences when errors occur. The more directly a process influences members' financial security, retirement decisions, or expectations, the greater the member impact.
- **Regulatory / Compliance Impact:** Regulatory or compliance impact reflects how much a process is governed by laws, regulations, statutory deadlines, or formal reporting requirements. Processes tied to IRS rules, state procurement laws, actuarial standards, GASB requirements, or legislative mandates have higher exposure. Failure to comply can result in audit findings, penalties, legal disputes, forced corrections, or heightened oversight – making this a critical impact factor.

Other Considerations

Other considerations in developing the audit plan included the analysis of the results of a survey sent in March 2026 to Unit managers and staff, senior management input, review of previous audit findings, review of commission meeting minutes, control self-assessments performed by ATRS personnel, and ATRS' financial statements.

Coordinating Assurance Coverage

Coordinating assurance coverage for the audit plan included performance of the following:

- Reading reports issued by federal agencies, state agencies, legislative audit, and considering the last date of the audit reports within each risk assessment conducted.
- Assessing that monitoring activities are in place and performed by ATRS personnel.
- Evaluating audit staff competencies and experience.

Staffing the Audit Plan

Audit activities and projects were determined for the audit plan based on the analysis from identifying the audit universe, conducting risk assessments, and considering other factors, including coordinating audit coverage. The process used to estimate staffing the audit plan included estimating hours for activities and projects. Audit plan hours are estimates and may change throughout the audit plan year. When necessary, the Chief Audit Executive will notify the ATRS Executive Director and the Audit Committee if it is anticipated that the hours will be significantly greater than estimated for a project or activity, as well as justification. If hours are expected to be significantly lower than estimated for a project, the Chief Audit Executive will decide on other activities or projects where the remaining hours will be spent. The Chief Audit Executive will notify the ATRS Executive Director and the Audit Committee if the decrease in hours is significant and if the reason for the decreased hours is due to a project or activity scope limitation which will keep the Internal Audit Unit from performing the planned work.

Independence

The Chief Auditor confirms that the organizational independence of the Internal Audit Unit is appropriate. Additionally, the Chief Auditor will ensure that the IA Unit remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, and reporting content. If the Chief Auditor determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to appropriate parties.

Communication

The frequency of report to the Audit Committee will be based upon the importance of the information to be communicated and the urgency of the related actions to be taken by senior management and/or the Audit Committee.

ATRS management will receive the results of audit activities related to their area of management. The Chief Auditor may also discuss specific audit findings or issues directly with senior management before an audit report is complete depending upon importance and urgency or the related actions to be taken by senior management.

All internal audit communications are solely intended for management and the Audit Committee. Release of internal audit communications to external parties by the IA Unit will only be given with expressed permission of management or the Audit Committee.

To be responsive to organizational changes, risks will be continuously assessed, risk priorities will be reevaluated, and the plan will be adjusted accordingly by the Chief Auditor. Management and the Audit Committee will be advised of significant changes to the plan as needed throughout the audit plan year.

RISK ASSESSMENT SUMMARY

Summary

In April 2026, the Audit Committee approved a multi-year IT expansion engagement plan outlining the assurance and advisory engagements Internal Audit will be carried out for the next three years. To determine additional projects to include in the annual plan, a risk assessment was performed using Microsoft Excel. A summary of processes scoring a 10.67 and above is displayed in the following table. A detailed description of each risk rating can be found in Appendix C, pages XX-XX.

Process	Risk Description	Total Rating of Inherent Risk
Retirement Benefit Calculations	Retirement benefits may be calculated incorrectly due to manual inputs, ARTMIS dependencies, or inconsistent documentation.	12.00
ARTMIS Calculation Logic & Manual Inputs	Incorrect ARTMIS system calculations or manual overrides could result in inaccurate benefit payments and member dissatisfaction.	12.00
Employer Contributions Reporting & Reconciliation	Employer contributions may be misstated or not reconciled properly, resulting in funding variances or compliance failures.	11.00
Survivor Benefits	Survivor benefits may be miscalculated or approved without proper verification, resulting in financial loss or reputational impacts.	10.67
Fraud Risk Management	Undetected benefit fraud, member identity misuse, or external fraud attempts due to gaps in monitoring.	10.67

Although the Data Governance & System Integrity process obtained a total inherent risk rating of 11.33, Internal Audit does not currently have sufficient staffing capacity to conduct the engagement during this audit cycle. The risk will continue to be monitored, and the engagement may be reconsidered in future planning periods as resources allow.

OVERVIEW OF ENGAGEMENTS AND OTHER ACTIVITIES

Using the IA Unit resources currently available, the following list of activities have been determined to be the most efficient means to the achievement of the IA Unit objectives.

Assurance Activities & Rollover Projects

The plan included spending approximately 60% of total hours on assurance activities (audits and reviews). The following assurance activities were selected based upon a risk analysis:

Project Title	Preliminary Objective	Budgeted Hours
Policies & Procedures Assessment	Evaluate whether ATRS units maintain accurate, updated, and effective policies & procedures that support consistent operations, regulatory compliance, and risk mitigation.	320
Retirement Benefits Calculation Accuracy	Ensure benefit calculations are accurate, complete, and based on validated salary, service, and member data.	240
Employer Contributions Reporting & Reconciliations	Evaluate the accuracy, completeness, and timeliness of employer contribution reporting and reconciliations, ensuring all contributions are properly recorded, validated, and aligned across ATRMIS, JADE, and AASIS.	240
Survivor Benefits	Provide assurance that Survivor Benefits are processed accurately, timely, and in accordance with ATRS rules and member eligibility requirements.	160
Unplanned Requested Assurance	Hours have been allocated for unplanned requested engagements. If management does not request any unplanned engagements, these hours will be assigned to other projects.	250
Follow-Up	A Microsoft List will be used to list findings, observations, and management action plans and determine follow-up engagements as needed. Hours have been allocated to conduct these engagements.	280
Records Information Management*	Assess whether ATRS has effective and compliant Records Information Management practices that ensure accurate, consistent, secure, and retrievable records across all business units.	320
IT Governance & Organizational Structure (formally Cybersecurity Assessment)*	Assess whether ATRS' IT governance, leadership structure, and supporting organizational processes effectively guide technology operations, modernization initiatives, risk management, and regulatory compliance.	320
Core Application Change Management*	Evaluate current capability in managing change, identifying strengths and gaps, and create a clear roadmap to enhance change effectiveness across applications.	366
Total Budgeted Audit Hours		2,496

*Project that was carried over from prior fiscal year.

Advisory Activities

The plan includes spending approximately 15% of total hours on advisory (consulting) activities. It should be noted that the IA Unit is not limited to performing only assurance services but can perform advisory

services as well. Standard 9.4 of the Institute of Internal Auditors’ (IIA) *Global Internal Audit Standards (Standards)* require the Chief Auditor to review and revise the internal audit plan as necessary and communicate timely to the Board and senior management any conflicting demands involving high-priority requests based on emerging risks and requests to replace planned assurance engagement with advisory engagements. Accepted engagements must be included in the plan. Advisory engagement included in the plan are:

Project Title	Preliminary Objective	Budgeted Hours
IT Risk Assessment Framework Development	Provide guidance, subject-matter expertise, and leading-practice insights to support the Information Technology Unit in developing a comprehensive and ATRS-specific IT Risk Assessment Framework to support the identification, evaluation, and prioritization of IT risks affecting ATRS operations.	180
ARTMIS Calculation Logic & Manual Inputs	Assess and advise on the accuracy, consistency, and reliability of ARTMIS benefit calculation logic and the manual inputs that influence member and retiree benefit outcomes.	180
Fraud Risk Management Framework Development	Provide guidance, facilitate risk-identification discussions, and offer subject-matter expertise to assist management in establishing a structured approach for identifying, assessing, mitigating, and monitoring fraud risks across ATRS operations.	140
Unplanned Requested Advisory	Hours have been allocated for unplanned requested engagements. If management does not request any unplanned engagements, these hours will be assigned to other projects.	124
Total Budgeted Hours for Advisory Services		624

Administrative Activities

The plan includes spending approximately 25% of total hours on internal audit administrative activities. Hours allocated for expected employee leave, employees attending continuing professional education (CPE) classes or conferences, timekeeping, meetings, and other miscellaneous activities are considered as administrative activities. The number of hours displayed in the audit plan for administrative activities are estimates. Additionally, there are specific administrative projects planned which will be completed with two FTEs (including the Chief Auditor and Audit II) which are:

Project Title	Preliminary Objective
Annual Internal Audit Report	Provide the Audit Committee with a clear summary of yearly audit results, key risks, and management’s remediation progress.
Annual Internal Audit Quality Assurance	Assess Internal Audit’s adherence to professional standards and identify opportunities to improve audit quality and consistency.
Staff Training Initiative	Strengthen Internal Audit’s skills and capabilities to support higher-quality assurance and advisory work.
Fiscal Year 2028 Audit Planning	Develop a risk-based audit plan aligned with ATRS priorities, emerging risks, and available resources for FY2028.
Audit Committee Meeting Preparations	Prepare accurate, timely materials to support effective oversight and informed decision-making by the Audit Committee.

RESOURCE PLAN

A calculation to determine available hours for audit activities was performed and a summary is shown in the following table. The total number of hours available for audit activities is estimated at 3,120.

Schedule of Available Hours for Audit Activities	
2 FTEs (52 Weeks @ 40 Hours)	4,160
Total Hours	4,160
Less:	
Specific Administrative Projects	
Annual Internal Audit Report	96
Annual Internal Audit Quality Assurance	96
Staff Training Initiative	96
Fiscal Year 2028 Audit Plan	96
Audit Committee Meeting Preparation	96
Other Administrative Activities	
Estimated Leave	260
2 FTEs (12 Holidays @ 8 Hours)	96
Anticipated CPE (2 FTEs @ 40 hours)	80
Other (Estimated % by position)	124
Chief Auditor (70%)	
Auditor II (100%)	
Total	1,040
Available Hours for Audit Activities	3,120

The projects and activities were also categorized by assurance, advisory, and administrative type and are displayed on the next table titled "Internal Audit Activities by Type." The IA Unit plans to spend approximately 60% of hours on assurance activities, 15% on advisory activities, and 25% on administrative activities.

Internal Audit Activities by Type	
Assurance Engagements	
Policy & Procedure Assessment	320
Retirement Benefits Calculation Accuracy	240
Employer Contributions Reporting & Recon	240
Survivor Benefits	160
Unplanned Requested Audits	250
Follow-Up audits	280
Rollover Projects	
Records Information Management	320
IT Governance & Organizational Structure	320
Core Application Change Management	366
60% Assurance	2,496
Advisory	
IT Risk Assessment Facilitation	180
ARTMIS Calculation Logic & Manual Inputs	180
Fraud Risk Management	140
Unplanned Requested Engagements	124
15% Advisory	624
Budgeted Hours for Audit Activities (Assurance plus Advisory)	
	3,120
Specific Administrative Projects	
Annual Internal Audit Report	96
Annual Internal Audit Quality Assurance	96
Staff Training Initiative	96
Fiscal Year 2028 Audit Plan	96
Audit Committee Meeting Preparation	96
Other Administrative Activities	
Estimated Leave (includes Holidays)	356
Anticipated CPE	80
Other (timekeeping, meetings, etc.)	124
25% Administration	1,040
100% Total	4,160

The funding resources needed for the audit plan year are discussed below:

Estimated Salaries \$187,250

(This estimate does not include payroll additives which are calculated to be \$67,410).

Estimated Expenditures \$1,814

CONFORMANCE WITH THE CODE OF ETHICS AND THE STANDARDS

The following are statements or comments which related to conformance with the IIA Global Internal Audit Standards regarding the organizational independence and code of ethics. References to the applicable Standard are shown in parenthesis.

Organizational independence is appropriate for the IA Unit. The chief audit executive must confirm to the board the organizational independence of the internal audit function at least annually (Standard 7.1)

The IA Unit began following the Standards on July 1, 2024, and will be utilizing a quality assurance and improvement program. Hours have been dedicated to the execution of this program. The next self-assessment with independent validation is planned for July 2031 (Standard 8.4).

APPROVAL SIGNATURES

ATRS Chief Auditor

Date

ATRS Executive Director

Date

ATRS Audit Committee Chair

Date

REFERENCES TO THE SPECIFIC STANDARDS

Introduction

The International Professional Practices Framework (IPPF)[®] organizes the authoritative body of knowledge, promulgated by The Institute of Internal Auditors (The IIA), for the professional practice of internal auditing. The IPPF includes Global Internal Audit Standards, Topical Requirements, and Global Guidance.

Global Internal Audit Standards guide the worldwide professional practice of internal auditing and serve as a basis for evaluating and elevating the quality of the internal audit function. At the heart of the Standards are 15 guiding principles that enable effective internal auditing. Each principle is supported by standards that contain requirements, considerations for implementation, and examples of evidence of conformance. Together, these elements help internal auditors achieve the principles and fulfill the Purpose of Internal Auditing.

Topical Requirements are designed to enhance the consistency and quality of internal audit services related to specific audit subjects and to support internal auditors performing engagements in those risk areas. Internal auditors must conform with the relevant requirements when the scope of an engagement includes one of the identified topics.

Topical Requirements strengthen the ongoing relevance of internal auditing in addressing the evolving risk landscape across industries and sectors.

Global Guidance supports the Standards by providing nonmandatory information, advice, and best practices for performing internal audit services. It is endorsed by The IIA through formal review and approval processes.

Global Practice Guides provide detailed approaches, step-by-step processes, and examples on subjects including:

- Assurance and advisory services.
- Engagement planning, performance, and communication
- Financial services.
- Fraud and other pervasive risks.
- Strategy and management of the internal audit function.
- Public sector.
- Sustainability.

Global Technology Audit Guides (GTAG)[®] provide auditors with the knowledge to perform assurance or consulting services related to an organization's information technology and information security risks and controls.

Independence & Objectivity

Standard	Description
2.1	Internal auditors must maintain professional objectivity when performing all aspect of internal audit services. Professional objectivity requires internal auditors to apply an impartial and unbiased mindset and make judgments based on balanced assessments of all relevant circumstances.
2.2	Internal auditors must recognize and avoid or mitigate actual, potential, or perceived impairments to objectivity. The chief audit executive must establish methodologies to address impairments to objectivity. Internal auditors must discuss impairments and take appropriate actions according to relevant methodologies.
2.3	If objectivity is impaired in fact or appearance, the details of the impairment must be disclosed promptly to the appropriate parties. If the objectivity of the chief audit executive is impaired in face or appearance, the chief audit executive must disclose the impairment to the board. (See also Standard 7.1)
6.3	The chief audit executive must coordinate the internal audit function’s board communications with senior management to support the board’s ability to fulfill its requirements.
7.1	The chief audit executive must confirm to the board the organizational independence of the internal audit function at least annually. This includes communicating incidents where independence may have been impaired and the actions or safeguards employed address the impairment.
8.1	The chief audit executive must report to the board and senior management: <ul style="list-style-type: none"> • Potential impairments to independence.

Conformance of organizational independence is noted in the audit plan.

Quality

Standard	Requirements
8.3	The chief audit executive must develop, implement, and maintain a quality assurance and improvement program that covers all aspects of the internal audit function. The program includes two types of assessments: <ul style="list-style-type: none"> • External assessments. • Internal assessments.
8.4	The chief audit executive must develop a plan for an external quality assessment and discuss the plan with the board. The external assessment must be performed at least once every five years by a qualified, independent assessor or assessment team. The requirement for an external quality assessment may also be met through a self-assessment with independent validation.
12.1	The chief audit executive must establish a methodology for internal assessments, as described in Standard 8.3, that includes: <ul style="list-style-type: none"> • Ongoing monitoring of the internal audit function’s conformance with the Standards and progress toward performance objectives.

	<ul style="list-style-type: none"> • Periodic self-assessments or assessments by other persons within the organization with sufficient knowledge of internal audit practices to evaluate conformance with the Standards. • Communication with the board and senior management about the results of internal assessments.
12.2	The chief audit executive must develop a performance measurement methodology to assess progress toward achieving the function’s objectives and to promote the continuous improvement of the internal audit function.

The IA Unit began following the Standards on July 1, 2024, and has undergone a self-assessment with independent validation from Crowe Chizek LLC (Crowe). According to the report issued by Crowe on June 1, 2026, the Internal Audit Unit has received a rating of “Generally Conforms” with the Standards. Hours have been allocated to conduct a partial self-assessment annually to ensure the unit maintains this rating as part of its quality improvement program.

Audit Planning

Standard	Requirement
9.4	<p>The chief audit executive must create an internal audit plan that supports the achievement of the organization’s objectives.</p> <p>The chief audit executive must base the internal audit plan on a documented assessment of the organization’s strategies, objectives, and risks. This assessment must be informed by input from the board and senior management as well as the chief audit executive’s understanding of the organization’s governance, risk management, and control processes. The assessment must be performed at least annually.</p> <p>The internal audit plan must:</p> <ul style="list-style-type: none"> • Consider the internal audit mandate and the full range of agreed-to internal audit services. • Specify internal audit services that support the evaluation and improvement of the organization’s governance, risk management, and control processes. • Be dynamic and updated timely in response to changes in the organization’s business, risks operations, programs, systems, controls, and organizational culture. <p>The chief audit executive must review and revise the internal audit plan as necessary and communicate timely to the board and senior management:</p> <ul style="list-style-type: none"> • Conflicting demands for services between major stakeholders, such as high-priority requests based on emerging risks and requests to replace planned assurance engagements with advisory engagements.
9.5	The chief audit executive must coordinate with internal and external providers of assurance services and consider relying upon their work. Coordination of services minimizes duplication of efforts, highlights gaps in coverage of key risks, and enhances the overall value added by providers.

A risk-based approach was used to compile the annual audit plan. See the *Risk Assessment Summary* section of the audit plan for more detailed information about the risk assessment performed. Discussions with senior management and a review of the ATRS Control Self-Assessment was used to assist in identifying

risks. Advisory engagements have been considered and accepted engagements have been included in the annual audit plan.

Communication and Approval

Standard	Requirement
9.4	<p>The chief audit executive must discuss the internal audit plan, including significant interim changes, with the board and senior management. The plan and significant changes to the plan must be approved by the board.</p> <p>The internal audit plan must:</p> <ul style="list-style-type: none"> Identify the necessary human, financial, and technological resources necessary to complete the plan. <p>The chief audit executive must review and revise the internal audit plan as necessary and communicate timely to the board and senior management:</p> <ul style="list-style-type: none"> The impact of any resource limitations on internal audit coverage.
10.1	The chief audit executive must seek budget approval from the board. The chief audit executive must communicate promptly the impact of insufficient financial resources to the board and senior management.
10.2	The chief audit executive must communicate with the board and senior management regarding the appropriateness and sufficiency of the internal audit function’s human resources. If the function lacks appropriate and sufficient human resources to achieve the internal audit plan, the chief audit executive must determine how to obtain the resources or communicate timely to the board and senior management the impact of the limitations.
10.3	The chief audit executive must communicate the impact of technology limitations on the effectiveness or efficiency of the internal audit function to the board and senior management.
11.3	The chief audit executive must communicate the results of internal audit services to the board and senior management periodically and for each engagement as appropriate. The chief audit executive must understand the expectations of the board and senior management regarding the nature and timing of communications.
13.3	Scope limitations must be discussed with management when identified, with a goal of achieving resolution. Scope limitations are assurance engagement conditions, such as resource constraints or restrictions on access to personnel, facilities, data, and information, that prevent internal auditors from performing the work as expected in the audit work program.

Communication and approval are addressed in the annual audit plan in the following sections: *Policies and Processes* (under the heading “Communication”), *Resource Plan*, and *Approval Signature*.

Resource Management

Standard	Description
8.2	The chief audit executive must evaluate whether internal audit resources are sufficient to fulfill the internal audit mandate and achieve the internal audit plan. If not, the chief audit executive must develop a strategy to obtain sufficient resources and inform the board about the impact of insufficient resources and how any resource shortfalls will be addressed.
10.1	The chief audit executive must develop a budget that enables the successful implementation of the internal audit strategy and achievement of the plan. The budget

	includes the resources necessary for the function’s operation, including training and acquisition of technology and tools. The chief audit executive must manage the day-to-day activities of the internal audit function effectively, efficiently, in alignment with the budget.
10.2	<p>The chief audit executive must strive to ensure that human resources are appropriate, sufficient, and effectively deployed to achieve the approved internal audit plan. <i>Appropriate</i> refers to the mix of knowledge, skills, and abilities; <i>sufficient</i> refers to the quality of resources; and <i>effective development</i> refers to assigning resources in a way that optimizes the achievement of the internal audit plan.</p> <p>The chief audit executive must evaluate the competencies of individual internal auditors within the internal audit function and encourage professional development. The chief audit executive must collaborate with internal auditors to help them develop their individual competencies through training, supervisory feedback, and/or mentoring.</p>
10.3	The chief audit executive must strive to ensure that the internal audit function has technology to support the internal audit process. The chief audit executive must regularly evaluate the technology used by the internal audit function and pursue opportunities to improve effectiveness and efficiency.

Resource management has been considered in the development of the annual audit plan. Hours have been allocated by project.

Coordination and Reliance

Standard	Description
9.5	When the internal audit function relies on the work of other assurance service providers, the chief audit executive must document the basis for that reliance and is still responsible for the conclusions reached by the internal audit function.

Coordination and reliance of other internal and external assurance and consulting service providers was considered in the annual audit plan. The section titled *Assurance Coverage* discusses specific reports which were given consideration.

Reporting to Senior Management and the Board

Standard	Description
6.1	<p>The chief audit executive must provide the board and senior management with the information necessary to establish the internal audit mandate.</p> <p>To help the board and senior management determine the scope and types of internal audit services, the chief audit executive must coordinate with other internal and external assurance providers to gain an understanding of each other’s roles and responsibilities.</p> <p>Periodically, the chief audit executive must assess whether changes in circumstances justify a discussion with the board and senior management about the internal audit mandate. If so, the chief audit executive must discuss the internal audit mandate with the board and senior management to assess whether the authority, roles, and responsibilities continue to enable the internal audit function to achieve its strategy and accomplish its objectives.</p>
6.3	The chief audit executive must provide the board and senior management with the information needed to support and promote recognition of the internal audit function throughout the organization.

	The chief audit executive must coordinate the internal audit function’s board communications with senior management to support the board’s ability to fulfill its requirements.
8.1	The chief audit executive must provide the board with the information needed to conduct its oversight responsibilities. This information may be specifically requested by the board or may be, in the judgment of the chief audit executive, valuable for the board to exercise its oversight responsibilities.
11.5	When the chief audit executive concludes that management has accepted a level of risk that exceeds the organization’s risk appetite or risk tolerance, the matter must be discussed with senior management. If the chief audit executive determines that the matter has not been resolved by senior management, the matter must be escalated to the board. It is not the responsibility of the chief audit executive to resolve the risk.
12.2	The chief audit executive must develop objectives to evaluate the internal audit function’s performance. The chief audit executive must consider the input and expectations of the board and senior management when developing the performance objectives.

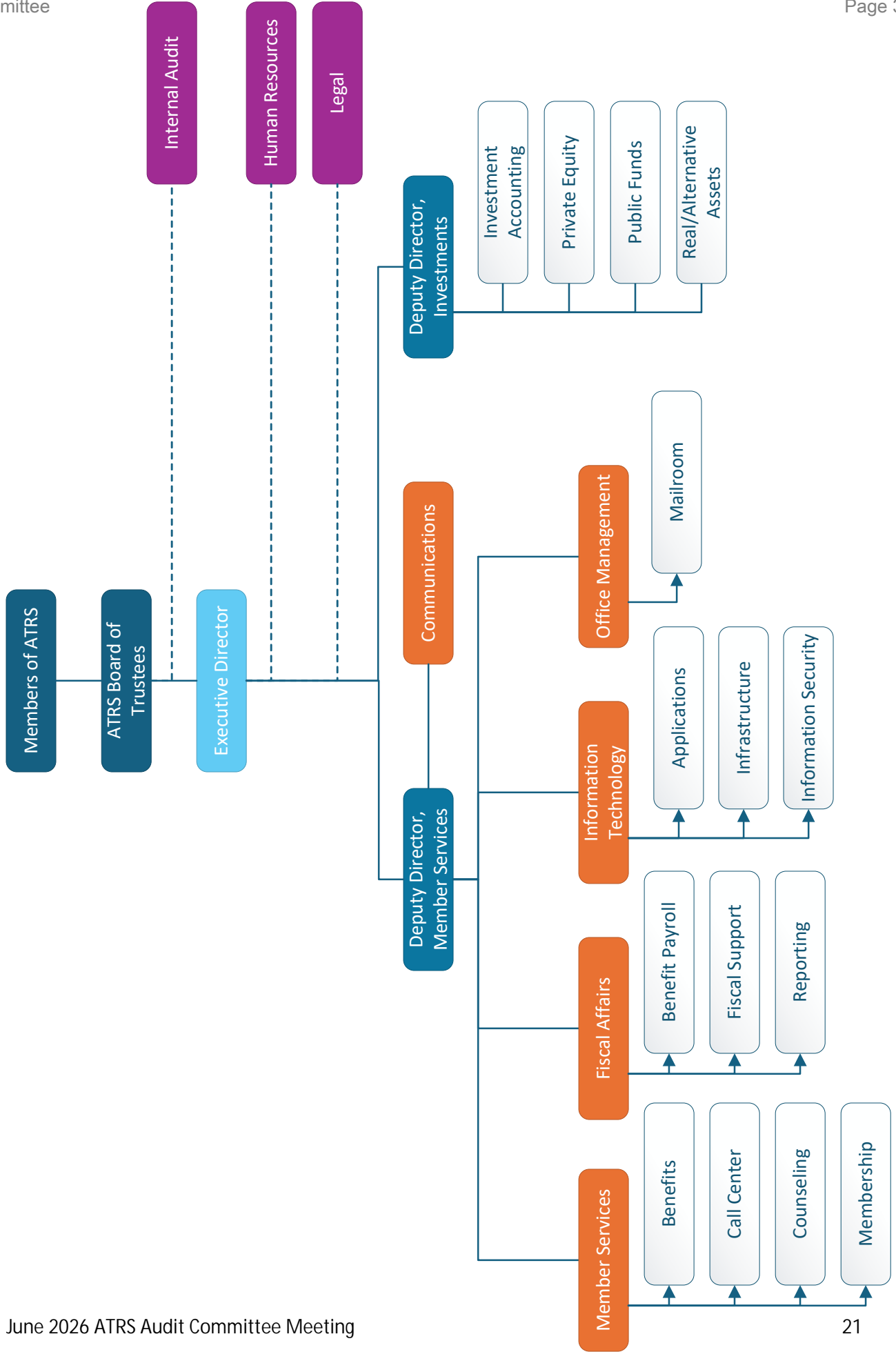
The frequency of communication is discussed in the section titled *Policies and Processes* under the heading “Communication.” Comments related to conformance with the Code of Ethics and the Standards can be found in the section titled *Conformance with the Code of Ethics and the Standards*.

Governance

Standard	Requirement
9.1	To understand governance processes, the chief audit executive must consider how the organization: <ul style="list-style-type: none"> • Establishes strategic objectives and makes strategic and operational decisions. • Oversees risk management and control. • Promotes an ethical culture. • Delivers effective performance management and accountability. • Structures its management and operating functions. • Communicates risk and control information throughout the organization. • Coordinates activities and communications among the board, internal and external providers of assurance services, and management.
9.4	The internal audit plan must: <ul style="list-style-type: none"> • Consider coverage of information technology governance, fraud risk, and the effectiveness of organization’s compliance with ethics programs.
14.4	Internal Auditors must determine whether to develop recommendations, request action plans from management, or collaborate with management to agree on actions to: <ul style="list-style-type: none"> • Resolve the differences between the established criteria and the existing condition. • Mitigate identified risks to an acceptable level. • Address the root cause of the finding. • Enhance or improve the activity under review.

Governance processes were considered in the development of the annual audit plan. Assessing and making appropriate recommendations to improve the organization’s governance processes will be incorporated within individual projects as appropriate.

Arkansas Teacher Retirement System
Organizational Chart



Strategic Plan 2024-2029





Table of Contents

Overview:
 It's a Beautiful Day - Don't Let it Get Away! 3

Who We Are 4

The Plan:
 Embracing Change, Accelerating Excellence 5

Outreach and Engagement 6

Integrated Systems and Technology 7

Staff Development 8

Conclusion:
 It's Not Just Business; It's Personal 9

Overview: **It's a Beautiful Day - Don't Let it Get Away!**

A line in a classic U2 song perfectly captures the proud 87-year history of the Arkansas Teacher Retirement System (ATRS) as well as our optimistic aspirations for the future: "It's a beautiful day - don't let it get away."

Since 1937, ATRS has been in the business of creating beautiful days - for our retirees, for members who are active in the workforce, for employers of those members, and for our internal teams who work hard every day to enable our retirees to live out their dreams.

The ATRS Strategic Plan 2024-2029 reflects an unwavering dedication to building on past success by innovating to meet the changing dynamics of tomorrow. As the remaining Baby Boomers move into retirement, younger generations bring unique experiences and expectations, and our commitment is to a future that provides world-class service to all of our members and employers.

The good news: We are delivering excellent customer service. In a survey earlier this year that generated more than 6,000 responses from members of all ages, 61% said they are "very satisfied" with ATRS. And less than 3% reported being "somewhat dissatisfied" or "very dissatisfied." Questions about their customer service experience, ease of using our website, and understanding of their benefits produced similarly high marks.

When we drill into the results, however, we see clear room for improvements, especially when it comes to serving younger generations and members who have not yet retired.

The call is clear: We must proactively engage our stakeholders in the changing communication styles they prefer, get out front of technological innovations, and train and equip our staff for new levels of excellence.

This strategic plan reflects ATRS's commitment to providing our staff with the resources and motivation to fully engage with and support our members and their employers. We will earn their trust through a seamless customer experience and equip them with everything they need to plan for and enjoy a fruitful retirement.

When it comes to beautiful days for our members, we won't let them get away.

**"Arkansas has the best
Teacher Retirement
System of ANY state!
Please keep it this
way for retirees, future
retirees and new teachers
entering the field."**

- Survey Respondent

Who We Are

ATRS secures a healthy financial future for our members through trusted stewardship of their retirement assets. Within that broader mission and vision, we developed this strategic plan with a specific vision and approach that adheres to our shared values.

ATRS Mission

Providing retirement security for Arkansas’s past, present, and future public education professionals.

ATRS Vision

To be a model retirement system that sustains the trust of its members and the people of Arkansas through prudent financial stewardship and exceptional customer service.

ATRS Values

Accountability and Accessibility

We act in our members’ best interests, knowing that we answer to them and the public. We meet our members where they are, empowering them to understand and effectively use our services.

Trust and Transparency

We earn and sustain the trust of our members, our board, elected officials, and the public by being open, honest, and straightforward in every interaction and by providing timely, accurate information.

Responsiveness and Reliability

We pursue excellence, timeliness, and consistency in every customer interaction, always evolving to meet our members’ needs and exceed their expectations.

Security and Stability

We protect our members’ financial futures through trusted stewardship of their assets to ensure that they will have a secure and stable income in retirement.

Strategic Vision

We will do everything we can to make retirement a beautiful day for our members.

Strategic Approach

The world-class customer service of ATRS will evolve and improve in the ways we engage, inform, and support our members and their employers.

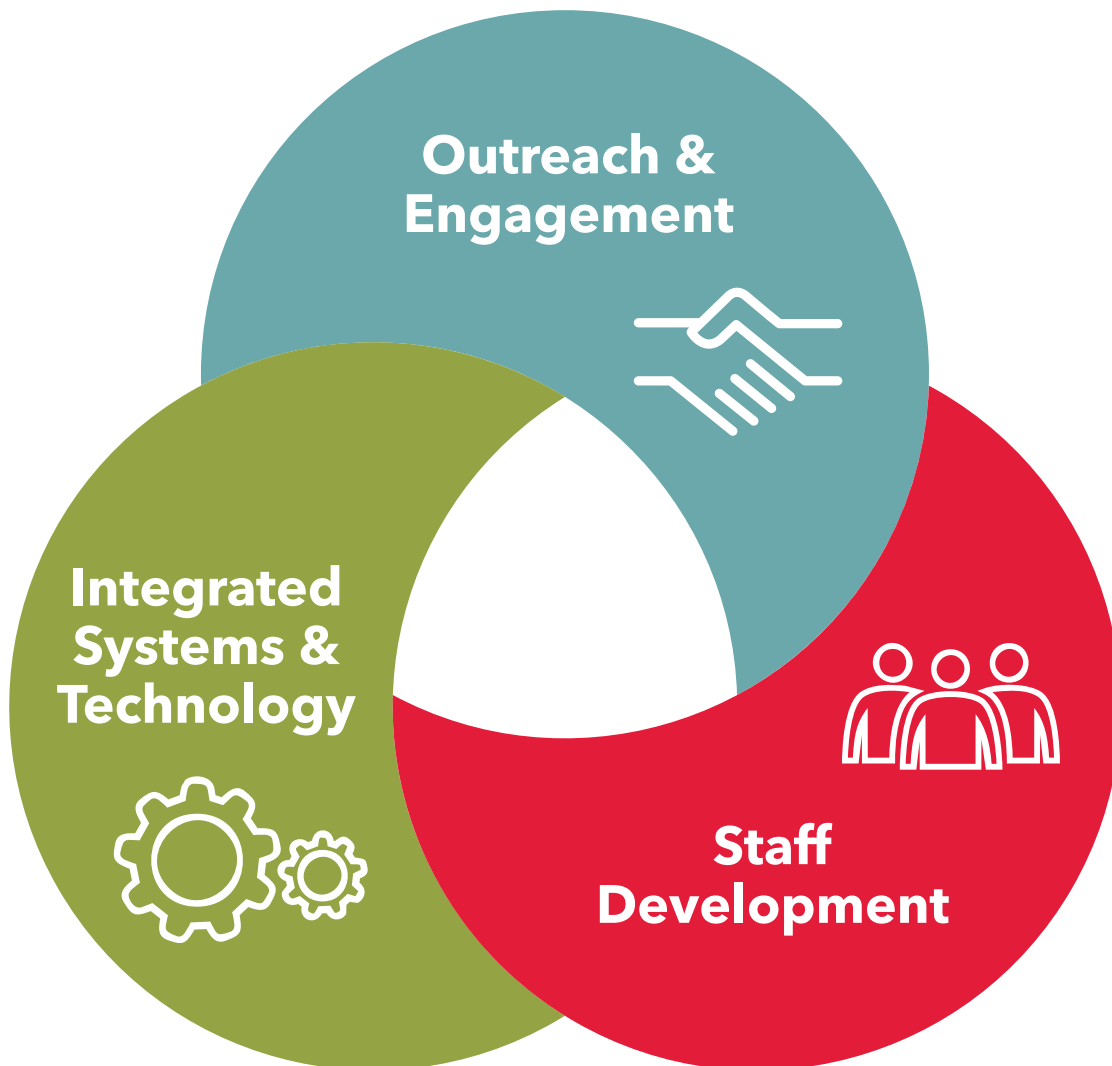


The Plan: Embracing Change, Accelerating Excellence

The ATRS Strategic Plan is a formalized shared vision around what we collectively want to accomplish and an actionable roadmap for making it happen. But it also represents the path we're already on.

While the senior leadership and management teams crafted this plan, the details were informed by staff input from throughout the organization and from our member survey. Those stakeholders will continue to contribute and collaborate on how the plan comes to life and is executed.

The plan is organized around strategic focus areas that serve three primary objectives. We have identified more than 20 initiatives that will help us reach those objectives during the next five years. Here's an overview:



Outreach & Engagement

Objective: Increase & Enhance Customer Touchpoints

Initiatives

Timelines

Set up satellite regional offices
(in progress)

July 2024 through June 2025

Establish a member education team
(planning stage)

July 2024 through December 2024

Develop and begin implementing a
communications strategy

January 2025 through June 2025

Assess employer satisfaction and
engagement

January 2025 through June 2025

Begin website revamp

January 2025 through December 2025

Implement engagement initiatives for
teacher retirement milestones

July 2025 through June 2026

Develop and begin implementation of
bookkeeper workshops

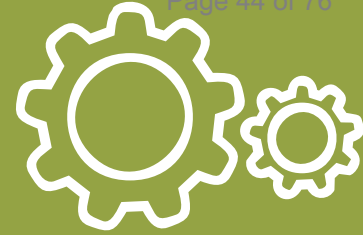
July 2025 through June 2026

Expand educational content

July 2025 through June 2026

Develop online modules for financial
wellness and retirement readiness

July 2026 through June 2028



Integrated Systems & Technology

Objective: Modernize Operations

Initiatives

Timelines

Conduct tech assessment (in progress)	July 2024 through December 2024
Complete process mapping for all departments (in progress)	July 2024 through June 2026
Enhance the member portal for self-service	January 2025 through December 2025
Begin implementation of tech assessment, to include <ol style="list-style-type: none">1. Migrate to a more flexible collection of software systems (tech stack)2. Organize and update business documents system3. Automate processes and reduce manual data entry4. Implement software to track member contacts and staff performance	January 2025 through June 2029





Staff Development

Objective: Strengthen Organizational Structures & Efficiency

Initiatives

Timelines

Create functional job descriptions for all staff roles (planning stage)

July 2024 through December 2024

Conduct an agency-wide assessment of organizational structure and staffing needs

January 2025 through June 2025

Establish cross-training plans for all staff positions

July 2025 through December 2026

Launch a comprehensive professional development program

January 2025 through June 2029

Create career pathways with performance-based pay tiers

January 2026 through December 2026



Conclusion: It's Not Just Business; It's Personal

More than 140,000 members depend on ATRS for their current or future retirement, including the 80-plus employees of our organization. Almost everyone who works for or with ATRS, including our board members, has family and friends who work for public schools, state colleges and universities, state agencies, and other education-related groups that are participating employers.

When your work supports the life dreams of everyone from a front-line cafeteria worker to a classroom teacher to a school district superintendent, it matters in significant ways. And when the people who benefit from that work are your friends and family, then it's not just business, it's personal.

Making sure the beautiful days of retirement become a reality for our members is a personal mission of everyone involved at ATRS. We won't let it get away.



“Our calling is to create beautiful days for the public servants doing our state’s most important work: educating the next generation.”

Mark White, Executive Director, Arkansas Teacher Retirement System



RISK ASSESSMENT CRITERIA

Introduction

Risk criteria have been identified, applied, and rated for each process risk.

The rate of occurrence (likelihood) and significance (impact) of risks listed in the table below were assessed for each process risk.

Likelihood of Occurrence
Process Complexity & Manual Error
Staffing Capacity & Knowledge Continuity
System Reliance & Stability
Potential Impact Effect
Financial Materiality
Member Impact
Regulatory / Compliance Impact

A list of auditable process risks can be found following the risk definitions. This list includes the detailed summary ratings for each auditable process risk.

The System’s strategic plan was considered when developing the list of risk processes.

Likelihood of Occurrence

Process Complexity & Manual Error

The process complexity and manual error risk criteria measures how likely a process is to fail due to the amount of manual activity, decision-making, judgment, or multi-step workflows required. Higher complexity increases the probability of errors, inconsistencies, and delays – especially in sub-areas where staff must rely on spreadsheets, ad-hoc reconciliations, manual calculations, or multi-layered procedures. The more steps, exceptions, or manual touchpoints a process has, the more likely it is to experience mistakes or operational breakdowns.

Process Complexity & Manual Error		
<i>Below is a rating scale for this criterion which is to be used in rating risks. Scores for a risk are within a numerical range from 1 to 5.</i>		
Rating	Descriptor	Definition
5	Almost Certain	The process is complex, multi-stepped, highly manual, or dependent on spreadsheets or workarounds; errors are recurring or expected unless major controls are added.
4	Likely	The process is heavily manual, includes multiple decision points, or depends on significant staff judgment, making errors likely without strong oversight.
3	Possible	The process involves a mix of manual and system-driven steps, required moderate decision-making or review, and has a reasonable possibility of human error occurring.
2	Unlikely	The process includes some routine manual steps but remains largely structured and predictable, with low probability of significant errors.
1	Rare	The process is highly streamlined, primarily automated, and requires minimal judgment or manual input; the likelihood of error or inconsistency is very limited.

Staffing Capacity & Knowledge Continuity

This category evaluates the degree to which staffing levels, turnover, skill specialization, cross-training, and institutional knowledge affect a sub-area’s operational stability. Processes that rely on a single subject-matter expert, have high rate of vacancies, or are impacted by hiring freezes are significantly more vulnerable to delays or failures. The thinner the staffing coverage or knowledge base, the greater the risk that the process cannot be performed accurately, consistently, or timely.

Staffing Capability & Knowledge Continuity		
<i>Below is a rating scale for this criterion which is to be used in rating risks. Scores for a risk are within a numerical range from 1 to 5.</i>		
Rating	Descriptor	Definition
5	Almost Certain	Critical tasks rely on a single person, major vacancies exist, or institutional knowledge is limited; process failure is likely if staffing changes occur.
4	Likely	Staffing shortages, turnover, or specialized roles create vulnerabilities; the process may stall or degrade if a key individual is unavailable.
3	Possible	Some dependency exists on key staff or specialized knowledge; absences could impact timeliness or consistency.
2	Unlikely	Staffing is generally adequate with minor skills or coverage gaps, but disruptions are unlikely to materially affect the process.
1	Rare	Staffing levels are stable with strong cross-training; work is not dependent on any one individual, and continuity is well protected.

System Reliance & Stability

System reliance and stability assesses how dependent a process is on information systems – and how reliable, modern, integrated, and stable those systems are. Processes that rely on aging platforms custom code, manual workarounds, or systems in transition (e.g., modernization initiatives) face elevated risk. System disruptions, integration issues, or limited automation can increase the likelihood of operational failures and data inaccuracies.

System Reliance & Stability		
<i>Below is a rating scale for this criterion which is to be used in rating risks. Scores for a risk are within a numerical range from 1 to 5.</i>		
Rating	Descriptor	Definition
5	Almost Certain	The process depends on system with known or recurring failures, extensive workarounds, or custom legacy applications under transition, creating a high likelihood of disruption.
4	Likely	System limitations, aging platforms, or modernization transitions frequently require manual intervention or create instability.
3	Possible	Systems require periodic workarounds or manual steps; integration or stability issues occasionally affecting processing.
2	Unlikely	Systems are generally reliable with occasional minor issues; manual overrides are rare and do not materially affect outcomes.
1	Rare	Systems are modern, stable, and highly automated with minimal need for manual intervention or corrective action.

Potential Impact

Financial Materiality

Financial materiality risk measures the financial significance of the transactions, calculations, or data elements that the process handles. Processes involving large-dollar amounts (such as benefit payments, employer contributions, investment transactions, or payroll) carry higher impact because errors can result in material misstatements, financial losses, or costly corrections. The greater the monetary value at stake, the more severe the consequences of process failure.

Financial Materiality		
<i>Below is a rating scale for this criterion which is to be used in rating risks. Scores for a risk are within a numerical range from 1 to 5.</i>		
Rating	Descriptor	Definition
5	Severe	Failures would affect more than \$100M annually or interrupt highly sensitive financial processes, potentially impacting the ACFR or actuarial soundness.
4	High	Failures would result in large-scale financial errors, generally between \$50M-\$100M, affecting reporting or required adjustments.
3	Moderate	Failures would result in material financial impact, typically between \$10M-\$50M.
2	Low	Failures would create minor financial discrepancies in the range of \$1M-\$10M.
1	Insignificant	Failures would result in negligible financial impact, generally below \$1M annually.

Member Impact

Member impact captures how process failures affect ATRS members and beneficiaries. Processes that determine retirement eligibility, calculate benefit amounts, process payments, update member records, or communicate directly with members have higher consequences when errors occur. The more directly a process influences members’ financial security, retirement decisions, or expectations, the greater the member impact.

Member Impact		
<i>Below is a rating scale for this criterion which is to be used in rating risks. Scores for a risk are within a numerical range from 1 to 5.</i>		
Rating	Descriptor	Definition
5	Severe	Failures directly affect member benefits, payment amounts, eligibility, or critical retirement outcomes; consequences are severe and immediate.
4	High	Errors may directly affect member-facing outcomes such as estimates, eligibility determinations, or communications.
3	Moderate	Failures may impact member data accuracy, service credit, responsiveness, or guidance and could affect member decisions.
2	Low	The process indirectly supports members; errors may cause small delays or minor confusion but no significant benefits impact.
1	Insignificant	The process has no direct effect on members, and failures would not meaningfully influence member experience.

Regulatory / Compliance Impact

Regulatory or compliance impact reflects how much a process is governed by laws, regulations, statutory deadlines, or formal reporting requirements. Processes tied to IRS rules, state procurement laws, actuarial standards, GASB requirements, or legislative mandates have higher exposure. Failure to comply can result in audit findings, penalties, legal disputes, forced corrections, or heightened oversight – making this a critical impact factor.

Regulatory / Compliance Impact		
<i>Below is a rating scale for this criterion which is to be used in rating risks. Scores for a risk are within a numerical range from 1 to 5.</i>		
Rating	Descriptor	Definition
5	Severe	The process is highly regulated with strict deadlines or legal consequences; noncompliance could lead to penalties, legal disputes, legislative intervention, or significant public scrutiny.
4	High	The process is closely tied to statutory or regulatory mandates; failures may result in audit findings or forced corrections.
3	Moderate	The process is subject to some state regulations or reporting requirements; errors may trigger internal or oversight body reviews.
2	Low	Compliance considerations exist but errors would require only internal corrective action without external repercussions.
1	Insignificant	The process has minimal exposure to formal rules, external oversight, or statutory deadlines.

Risk Assessment

Appendix D

Unit	Process	Process Risk Description	Process Complexity & Manual Error	Staffing Capacity & Knowledge Continuity	System Reliance & Stability	Total Inherent Likelihood	Financial Materiality	Member Impact	Regulatory / Compliance Impact	Total Inherent Impact	Time Since Last Audit	Total Inherent Risk	Risk Number
Member Services	Retirement Benefit Calculations	Retirement benefits may be calculated incorrectly due to manual inputs, ARTMIS dependencies, or inconsistent documentation.	5	4	4	4.33	5	5	4	4.67	3	12.00	1
Member Services	ARTMIS Calculation Logic & Manual Inputs	Incorrect ARTMIS system calculations or manual overrides could result in inaccurate benefit payments and member dissatisfaction.	5	4	4	4.33	5	5	4	4.67	3	12.00	2
IT	Custom Applications	Application errors, unsupported code, or manual workarounds may lead to inaccurate data processing or outages.	5	4	5	4.67	4	5	4	4.33	3	12.00	3
IT	Cybersecurity Program & Threat Monitoring	Cyber threats may not be detected or mitigated timely due to staffing shortages or informal processes.	4	5	4	4.33	4	4	5	4.33	3	11.67	4
IT	Batch Jobs & Automated Payroll Transfers	Scheduled jobs may fail or process incorrectly, leading to payroll errors or system interruptions.	4	3	4	3.67	5	5	4	4.67	3	11.33	5
IT	Disaster Recovery/Business Continuity	Critical services may not be restored timely during outages due to inadequate DR planning.	4	4	5	4.33	4	4	4	4.00	3	11.33	6
Enterprise-Level	Data Governance & System Integrity	Data inconsistencies across multiple systems may result in inaccurate reporting or flawed decision-making.	4	4	5	4.33	4	4	4	4.00	3	11.33	7
Fiscal	Employer Contributions Reporting & Reconciliation	Employer contributions may be misstated or not reconciled properly, resulting in funding variances or compliance failures.	4	3	4	3.67	5	4	4	4.33	3	11.00	8
IT	Database & File Permissions/Data Integrity	Unauthorized data changes or system errors due to improper permission settings or inconsistent data controls.	4	4	4	4.00	4	4	4	4.00	3	11.00	9
Member Services	Survivor Benefits	Survivor benefits may be miscalculated or approved without proper verification, resulting in financial loss or reputational impacts.	4	3	3	3.33	4	5	4	4.33	3	10.67	10
IT	IT Modernization Program Governance	Modernization efforts may face delays, cost overruns, or integration issues due to limited documentation and staffing.	4	4	5	4.33	3	3	4	3.33	3	10.67	11

Risk Assessment

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<u>Enterprise-Level</u>	Fraud Risk Management	Undetected benefit fraud, member identity misuse, or external fraud attempts due to gaps in monitoring.	4	4	3	3.67	4	4	4	4.00	3	10.67	12
<u>Member Services</u>	TDROP Entry Processes	Inaccurate TDROP entries due to manual inputs or misunderstandings of eligibility requirements, affecting future benefit obligations.	4	3	3	3.33	4	5	3	4.00	3	10.33	13
<u>Fiscal</u>	Monthly Benefit Payroll	Benefit payments may be inaccurate or delayed due to manual reconciliations or system gaps, leading to financial misstatements or member hardship.	4	4	4	4.00	5	5	5	5.00	1	10.00	14
<u>Fiscal</u>	General Ledger & Journal Entry Controls	Journal entries may be incorrect or unsupported, leading to misstated financial data or undetected errors.	4	3	4	3.67	5	1	4	3.33	3	10.00	15
<u>IT</u>	Vendor/Cloud Security	Third-party systems may not provide adequate security controls, exposing ATRS data to unauthorized access.	3	4	4	3.67	3	3	4	3.33	3	10.00	16
<u>Investments</u>	Trade Capture	Trade details may not be captured completely or accurately, resulting in exposure to financial loss, errors in portfolio valuation, or breaches of investment policy.	4	3	3	3.33	5	1	4	3.33	3	9.67	17
<u>Member Services</u>	Refund Processing	Refunds may be issued to ineligible individuals or calculated inaccurately due to manual processing weaknesses.	4	3	3	3.33	3	4	3	3.33	3	9.67	18
<u>Human Resources</u>	Payroll Inputs & Benefits Administration	Payroll inputs or benefits enrollments may be incorrect due to manual entries or insufficient verification.	4	3	3	3.33	3	3	4	3.33	3	9.67	19
<u>Legal</u>	Litigation and Records Management	Legal records may be incomplete or inaccessible, hindering case management or violating confidentiality.	4	4	2	3.33	3	2	5	3.33	3	9.67	20
<u>IT</u>	IT General Controls	Critical system changes or access may be unauthorized or unmonitored, exposing ATRS to security threats and data loss.	4	5	5	4.67	4	3	5	4.00	1	9.67	21

Risk Assessment

Appendix D

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<u>Member Services</u>	Counseling Accuracy & Documentation	Counseling sessions may provide incorrect benefit guidance or lack sufficient documentation, resulting in member complaints or erroneous retirements.	4	3	2	3.00	2	5	3	3.33	3	9.33	22
<u>Member Services</u>	Beneficiary/Member Information Updates	Changes to sensitive member information may not be validated or processed accurately, increasing exposure to fraud or improper benefit payments.	3	3	3	3.00	3	4	3	3.33	3	9.33	23
<u>Fiscal</u>	1099 Reporting & Tax Withholding	Inaccurate or late tax reporting due to manual processes or system limitations, exposing ATRS to IRS penalties.	3	3	3	3.00	3	2	5	3.33	3	9.33	24
<u>Legal</u>	Regulatory & Legislative Compliance Monitoring	Statutory changes may not be identified or implemented timely, resulting in non-compliance.	3	4	2	3.00	3	2	5	3.33	3	9.33	25
<u>Investments</u>	External Manager Oversight	Insufficient oversight of external managers and consultants could lead to underperformance, unauthorized strategies, or noncompliance with Board directives.	3	3	2	2.67	5	1	4	3.33	3	9.00	26
<u>Member Services</u>	Disability Benefits	Improper disability determinations due to incomplete documentation or manual processing errors.	4	4	3	3.67	4	5	4	4.33	1	9.00	27
<u>Legal</u>	Legal Request Intake & Timeliness	Legal requests may not be tracked or fulfilled timely, resulting in operational delays or compliance failures.	3	4	2	3.00	2	2	4	2.67	3	8.67	28
<u>Legal</u>	Contract Review Processes	Contracts may move forward without proper legal review, exposing ATRS to unfavorable terms or legal non-compliance.	3	4	2	3.00	2	1	5	2.67	3	8.67	29
<u>Communications</u>	Member-Facing Communication Accuracy	Forms, letters, or updates may contain errors, leading to confusion or improper member decisions.	3	3	2	2.67	2	5	2	3.00	3	8.67	30
<u>Investments</u>	Investment Accounting	Investment transactions may be recorded inaccurately or untimely due to complex manual processes and high-volume activity, leading to misstated financial results or regulatory noncompliance.	4	3	3	3.33	5	2	5	4.00	1	8.33	31

Risk Assessment

Appendix D

Unit	Process	Process Risk Description	Process Complexity & Manual Error	Staffing Capacity & Knowledge Continuity	System Reliance & Stability	Total Inherent Likelihood	Financial Materiality	Member Impact	Regulatory / Compliance Impact	Total Inherent Impact	Time Since Last Audit	Total Inherent Risk	Risk Number
<u>Human Resources</u>	Personnel File Management (PII/HIPAA)	Unauthorized access or incomplete employee documentation, exposing the agency to privacy violations and compliance issues.	3	3	2	2.67	1	3	4	2.67	3	8.33	32
<u>Communications</u>	Website Updates & Accessibility (WCAG)	Website changes may be inaccurate, incomplete, or non-compliant with accessibility requirements.	3	3	2	2.67	1	4	3	2.67	3	8.33	33
<u>Office Administration</u>	Mailroom Operations & PII Handling	Sensitive mail may be mishandled or accessed improperly, leading to privacy breaches or lost documents.	3	3	2	2.67	1	4	3	2.67	3	8.33	34
<u>Enterprise-Level</u>	Policy & Procedure Documentation	Lack of updated or formalized procedures will lead to inconsistent practices and control failures.	3	3	2	2.67	2	2	4	2.67	3	8.33	35
<u>Member Services</u>	Call Center Operations & Communication Controls	Member inquiries may be handled inconsistently or inaccurately, resulting in miscommunication, privacy breaches, or member dissatisfaction.	3	3	2	2.67	1	4	2	2.33	3	8.00	36
<u>Fiscal</u>	Contract Management	Contracts may lapse, renew automatically, or fail to meet compliance standards due to insufficient monitoring and documentation.	3	3	2	2.67	2	1	4	2.33	3	8.00	37
<u>Human Resources</u>	Compliance with OPM/HR Policies	Non-compliance with state HR regulations due to policy changes or unclear guidance.	3	3	2	2.67	1	2	4	2.33	3	8.00	38
<u>Legal</u>	Document Review Workflow	Legal documents may contain errors or be reviewed inconsistently due to lack of written procedures.	3	4	2	3.00	1	1	4	2.00	3	8.00	39
<u>Communications</u>	Content Governance & Approval Process	Public-facing content may be released without proper approval, resulting in inaccurate or inconsistent information.	3	3	2	2.67	1	4	2	2.33	3	8.00	40
<u>Office Administration</u>	Board Meeting Preparation & Records	Board packets or minutes may be inaccurate or incomplete, affecting governance oversight.	3	3	2	2.67	1	2	4	2.33	3	8.00	41
<u>Office Administration</u>	Physical Access & Key Management	Inadequate key controls or physical access measures could allow unauthorized entry to sensitive areas.	2	3	2	2.33	2	3	3	2.67	3	8.00	42

Risk Assessment

Appendix D




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<u>Investments</u>	Portfolio Reporting & Data Integrity	Investment data reported to leadership or the Board may be inaccurate due to data-handling weaknesses or system dependencies, impairing decision-making.	4	3	3	3.33	4	2	4	3.33	1	7.67	43
<u>Member Services</u>	Membership Data Accuracy & Status Changes	Member data may be entered inaccurately or changed incorrectly, leading to benefit calculation errors or compliance issues.	4	3	3	3.33	3	4	3	3.33	1	7.67	44
<u>Fiscal</u>	Asset Management Lifecycle	Assets may not be accurately tracked, safeguarded, or disposed of, resulting in loss, theft, or inaccurate reporting.	3	3	2	2.67	2	1	3	2.00	3	7.67	45
<u>Human Resources</u>	Recruitment & Hiring Controls	Non-compliance with hiring restrictions or improper documentation resulting in inconsistent hiring decisions.	3	3	2	2.67	1	1	4	2.00	3	7.67	46
<u>Human Resources</u>	Time & Leave	Time and leave records may be inaccurate or abused due to weak supervisory review or system limitations.	3	3	2	2.67	2	1	3	2.00	3	7.67	47
<u>Communications</u>	Social Media Account Security	Social media accounts may be accessed by unauthorized parties, leading to reputational damage or misinformation.	2	3	3	2.67	1	3	2	2.00	3	7.67	48
<u>Enterprise-Level</u>	Segregation of Duties	Incompatible system or process access may allow fraud, error, or unauthorized activity.	4	4	3	3.67	4	3	5	4.00	0	7.67	49
<u>Enterprise-Level</u>	Regulatory Compliance	ATRS may fail to comply with federal or state requirements, resulting in penalties or operational disruption.	3	3	3	3.00	4	3	5	4.00	0	7.00	50
<u>Investments</u>	Investment Wire Authorization & Segregation of Duties	Unauthorized or improper wire transfers due to inadequate segregation of duties or approval controls, exposing ATRS to financial loss or fraud.	3	3	3	3.00	5	1	5	3.67	0	6.67	51
<u>Member Services</u>	Work Queue Management & Timeliness	Work items may not be processed timely or prioritized effectively, resulting in backlogs, member dissatisfaction, or operational delays.	3	3	3	3.00	2	3	2	2.33	1	6.33	52

Risk Assessment

Appendix D

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<u>Office Administration</u>	Continuity of Operations (COOP)	Incomplete COOP plans could impede operational recovery during emergencies.	3	3	4	3.33	2	3	4	3.00	0	6.33	53
<u>Investments</u>	Compliance with Investment Policy/Board Directives	Investment practices may deviate from required policies or directives, increasing exposure to fiduciary, financial, and reputational harm.	3	3	2	2.67	4	2	5	3.67	0	6.33	54
<u>Fiscal</u>	Accounts Payable/Vendor Payments	Duplicate, erroneous, or unauthorized vendor payments due to weak invoice processing or approval controls.	4	3	3	3.33	3	1	4	2.67	0	6.00	55
<u>Fiscal</u>	Procurement Compliance	Purchases may not comply with state procurement laws or internal policies, exposing ATRS to financial and legal consequences.	3	3	2	2.67	2	1	5	2.67	0	5.33	56

LIST OF REPORTS

Entity	Work Type	ATRS Area	Comments
ATRS Internal Audit	2026 Annual Audit Plan	Enterprise-Level Fiscal Information Technology Operations 	Audits schedule per the 2026 audit plan: Legislative Implementation Review Procurement Process Review Continuity of Operations Program Review Investment Liquidity Management
ATRS Internal Audit	2025 Annual Audit Plan	Fiscal Information Technology Investments Office Management Operations 	Audit performed in 2025: Retiree Payroll Review IT Network Infrastructure Management Disability Application Process Membership Management
Arkansas Legislative Audit	Annual Audit	Fiscal Affairs 	Financial Audit

March 19, 2026

TO: ATRS Audit Committee

FROM: Kevin Chadwick, CIA, Chief Audit Executive

SUBJECT: Proposal to Replace Scheduled Cybersecurity Audit with Multi-Year IT Expansion Engagement Plan

Purpose

Internal Audit is requesting approval from the Audit Committee to replace the originally scheduled Cybersecurity Audit with a broader and more strategic Multi-Year IT Expansion Engagement Plan beginning in Quarter 4 of Fiscal Year 2026 (April 1, 2026). This updated approach provides stronger alignment with the Arkansas Teacher Retirement System's (ATRS) transition from a Data Processing Unit into a fully functioning IT Unit.

Background

The current audit plan includes a standalone Cybersecurity Audit. Since the time that project was scheduled, ATRS' IT function has begun a significant transition, expanding its scope, responsibilities, and structure. As the organization progresses through this transformation, Internal Audit has determined that a phased, multi-year approach will yield more meaningful oversight and support than a single point-in-time cybersecurity review.

Rational for Change

A standalone cybersecurity assessment at this early stage would not fully address the broader risks ATRS faces as the IT Unit evolves. Foundational elements such as governance, policies, organizational structure, and risk management must be strengthened before a full cybersecurity evaluation can be reliably performed. The multi-year plan is designed to mature IT controls over time and ensure cybersecurity is reviewed in a more developed environment, producing higher-value results for the Committee.

Overview of Multi-Year Engagement Plan

Year 1 (Starting April 1, 2026): Establish the Foundation

- IT Governance & Organizational Structure Review
- IT Policies & Procedures Assessment
- Comprehensive IT Risk Assessment
- Advisory support for IT modernization projects

Year2: Strengthen Controls & Operations

- Cybersecurity Program Audit
- Change Management & Configuration Controls Audit
- Data Quality & Data Governance Review
- IT Asset Lifecycle Audit

Year 3: Maturity, Resilience, and Optimization

- Business Continuity & Disaster Recovery Audit
- Application Controls Review
- Vendor Management & Contract Review
- Cloud Governance & Security Review

Benefits of Approval

Approving the multi-year engagement plan provides ATRS with a more effective and sustainable audit approach that aligns with the IT Unit's current maturity and long-term strategic transformation. Rather than performing a single, point-in-time cybersecurity review, the multi-year plan builds a stronger control environment by first establishing foundational governance and policies, then progressively evaluating cybersecurity, operational controls, data integrity, and system resilience as the IT environment matures. This phased approach ensures audit work is timely, meaningful, and actionable, reduces the risk of premature or incomplete cybersecurity findings, and provides continuous advisory support during system modernization. Ultimately, it positions ATRS to strengthen oversight, reduce exposure to emerging IT risks, and enhance the reliability and security of member data and critical systems.

Requested Action

Internal Audit respectfully requests that the Audit Committee approve the replacement of the scheduled Cybersecurity Audit with the proposed Multi-Year IT Expansion Engagement Plan, effective April 1, 2026.

Upon approval, Internal Audit will finalize the plan, communicate changes to IT leadership, begin Year 1 planning activities, and provide regular progress updates to the Committee.

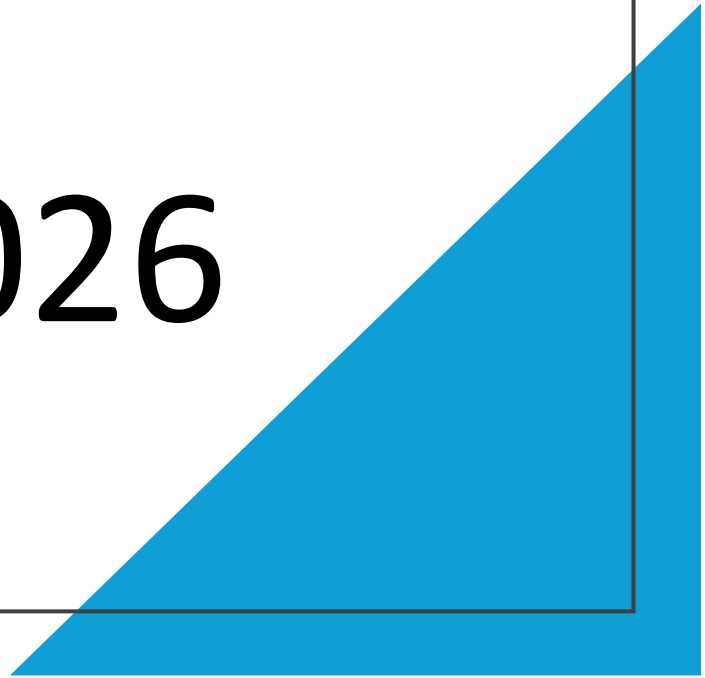


Audit Plan for FY2026

Plan Year: July 1, 2026 – June 30, 2027

Presented by: Kevin Chadwick, CIA

Date: June 1, 2026



Executive Summary

- The FY2027 Audit Plan was developed using a risk-based approach to ensure resources address ATRS' most significant risks.
- Plan objectives include providing reasonable assurance that ATRS systems for risk management and internal control are designed effectively and operating as intended.
- Plan development incorporated:
 - Risk assessment results
 - March 2026 management survey
 - Review of past audit reports and Board minutes
 - Strategic plan review
 - Control self-assessments and financial information.

Resource Allocation Overview

Total Available Hours for Audit
Activities: 3,120

Total IA Unit Hours: 4,160 (2 FTEs)

Breakdown:

- 60% Assurance – 2,496 hours
- 15% Advisory – 624 hours
- 25% Administrative – 1,040 hours

Key Risk Assessment Highlights

Five highest-rated areas (scores ≥ 10.67)

- Retirement Benefit Calculations – 12.00
- ARTMIS Calculation Logic & Manual Inputs – 12.00
- Employer Contribution Reporting & Reconciliation – 11.00
- Survivor Benefits – 10.67
- Fraud Risk Management – 10.67

(Data Governance & System Integrity deferred due to capacity constraints)

Assurance Projects (60%)

Selected based on risk ratings and organizational priority:

- Policies & Procedures Assessment (320 hrs)
- Retirement Benefit Calculation Accuracy (240 hrs)
- Employer Contributions Reporting & Reconciliation (240 hrs)
- Survivor Benefits (160 hrs)
- Follow-Up Audits (280 hrs)
- Unplanned Assurance Requests (250 hrs)

Rollover Projects:

- Records Information Management (320 hrs)
- IT Governance & Organizational Structure (320 hrs)
- Core Application Change Management (366 hrs)

Total Assurance Hours: **2,496**

Advisory Projects (15%)

- IT Risk Assessment Framework Development – 180 hrs
- ARTMIS Calculation Logic & Manual Inputs – 180 hrs
- Fraud Risk Management Framework Development – 140 hrs
- Unplanned Advisory – 124 hrs

Total Advisory Hours: **624**

Purpose: Provide subject-matter expertise and support process improvements aligned with IIA Standards (Standard 9.4).

Administrative Activities (25%)

- Annual Internal Audit Report
- Internal Quality Assessment
- Staff Training Initiative
- FY2028 Audit Planning
- Audit Committee Meeting Preparation
- Leave, Holidays, CPE, meetings, timekeeping

Total Administrative Hours: **1,040**

Audit Planning Process Overview

W

Internal Audit conducted a rigorous planning process:

- Reviewed organizational structure changes
- Identified 56 auditable processes
- Rated risks using:
 - Likelihood (complexity, staffing, system reliability)
 - Impact (financial materiality, member impact, regulatory exposure)
- Adjusted for management input, survey results, and external audit coverage

Independence & Communication

- Internal Audit confirms organizational independence in accordance with IIA Standard 7.1
- Regular reporting to management and the Audit Committee
- Significant changes to the audit plan will be communicated timely
- External distribution of internal audit reports requires approval

Staffing & Resource Considerations

- IA Unit consists of 2 FTE: Chief Audit Executive & Auditor II
- Hours are estimates and may be adjusted as needed
- Oversight will be maintained to ensure workload flexibility and resource effectiveness
- Estimated salaries: \$187,250
- Estimated expenditures: \$1,814 (not including payroll additives)

Conformance with Standards

- IA Unit operates under the IIA Global Internal Audit Standards
- Next external validation of QAIP is scheduled for July 2031
- Hours are included in this year's plan for ongoing QAIP activities

Closing Summary

- The FY2027 Plan:
- Directly supports ATRS mission and strategic objectives
- Focuses resources on highest-risk processes
- Balances assurance, advisory, and administrative needs
- Provides structured oversight of benefit calculations, employer reporting, IT governance, fraud risk management, and core system processes
- Ensures transparency, accountability, and independence in all audit activities

Questions?

