NOTE: The Board of Trustees (Board) of the Teacher Retirement System of Texas will not consider or act upon any item before the Audit, Compliance and Ethics Committee (Committee) at this meeting of the Committee. This meeting is not a regular meeting of the Board. However, because the full Audit, Compliance and Ethics Committee constitutes a quorum of the Board, the meeting of the Committee is also being posted as a meeting of the Board out of an abundance of caution.
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<td><strong>TAB 2</strong></td>
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Minutes of the Audit, Compliance and Ethics Committee
December 13, 2018

The Audit, Compliance and Ethics Committee of the Board of Trustees of the Teacher Retirement System of Texas met on December 13, 2018, in the boardroom located on the fifth floor of the TRS East Building offices at 1000 Red River Street, Austin, Texas.

Committee Members present:
Mr. Chris Moss, Chair
Mr. David Corpus
Dr. Greg Gibson
Mr. James D. Nance
Ms. Nanette Sissney

Other Board Members present:
Mr. Joe Colonetta
Mr. John Elliott
Mr. Jarvis V. Hollingsworth
Ms. Dolores Ramirez

Others present:
Brian Guthrie, TRS     Ann Fickel, TCTA
Don Green, TRS        Mike Bentrott, Aetna
Amanda Jenami, TRS    Hillary Eckford, SAO
Carolina de Onis, TRS  Sarah Puerto, SAO
Heather Traeger, TRS  Dan Barron, Grant Thornton
Jerry Albright, TRS   Bhakti Patel, Grant Thornton
Jase Auby, TRS        Carol Hamilton, IBM Watson Health
Barbie Pearson, TRS    Amy Merrick, IBM Watson Health
Richard Scheel, TRS    John Meka, IBM Watson Health
Yimei Zhao, TRS        Bill Destache, IBM Watson Health
Katherine Farrell, TRS  Suzi Hilliard, Department of Information Resources
Frank Williams, TRS    Michael Clayton, SAO
Cristi Woods, TRS     Anca Pinchas, SAO
Nick Ballard, TRS      Katrina Daniel, TRS
Toma Miller, TRS       Amy Barrett, TRS
Melody Austin, TRS     Lih-Jen Lan, TRS
Adam Fambrough, TRS    Anandhi Mani, TRS
Kate Rhoden, TRS       Simin Pang, TRS
Mark Chi, TRS          Mary Presley, TRS
Art Mata, TRS          Carol Casey, TRS
Karen Marino, TRS      Falguni Sampat, TRS
Keith Johnson, Reinhart Boerner Van Deuren

Audit, Compliance and Ethics Committee Chair Mr. Moss called the meeting to order at 2:09 p.m.
1. **Call roll of Committee members.**

Ms. Farrell called the roll. A quorum was present.

2. **Approve minutes of September 2018 Audit, Compliance and Ethics Committee meeting – Committee Chair Mr. Chris Moss**

On a motion by Mr. Nance, seconded by Mr. Corpus, the proposed minutes for the September 2018 Audit Compliance and Ethics Committee meeting were approved as presented.

3. **Receive State Auditor’s Office (SAO) report on the Audit of Incentive Compensation Plans for FY17 – Hillary Eckford and Sarah Puerto, SAO**

Ms. Puerto explained the objective of her report which is to determine whether Teacher Retirement System (TRS) has calculated and paid incentive compensation in accordance with its policies and procedures. She discussed the results from the two plans they audited—the Performance Incentive Pay Plan and Executive Performance Incentive Pay Plan. She said their results indicated that TRS calculated and paid incentive compensation in accordance with their policies and procedures.

4. **Receive Grant Thornton report for financial audit of Teacher Retirement Investment Company of Texas (TRICOT) (for fiscal year ending August 31, 2018) – Richard Scheel; and Bhakti Patel, Grant Thornton**

Mr. Dan Barron presented the audit findings regarding the Teacher Retirement Investment Company (TRICOT) for the fiscal year ending in August 31, 2018. He stated the audit only covered the financial statements. Ms. Patel stated everything was materially stated in all areas reviewed. She noted there was one item that was found as a misstatement which was a $5,900 adjustment based on allocation methodology on salaries. She said there were no control deficiencies for this year. Mr. Barron added they had a clean, unmodified opinion, there were no audited adjustments, corrected audit adjustments.

5. **Receive reports for TRS health plan and pharmacy plan administration for TRS-Care and TRS-ActiveCare – Katrina Daniel and Yimei Zhao; Carol Hamilton, Amy Merrick, John Meka, and Bill Destache with IBM Watson Health**

   A. **Results overview of TRS-Care and TRS-ActiveCare health plan and pharmacy benefit administration executive summaries for the most recent audit cycle**

Ms. Zhao provided an overview of the TRS-Care and TRS-ActiveCare health plan. She noted for TRS-ActiveCare fiscal year 2017 for the medical and pharmacy plan was audited and for TRS-Care the audit covered FY17 pharmacy plan plus the four remaining months in that medical standard plan and calendar year 16 and 17 for Medicare Part D Plan. Mr. John Meka reviewed the audit methodology. He stated over $4.5 billion worth of claims broken down between the various plans and almost 26 million claims in total were analyzed.
She reported for the Medicare Advantage plan, ESI was performing at acceptable levels for Medicare claims processing. For the ActiveCare plan, Caremark performed at acceptable levels for claim processing.

B. Review the executive summary of TRS-Care health plan administration by Aetna for September 1, 2016 to December 31, 2017

He reported for Aetna with the TRS-Care plan, Aetna is performing above acceptable levels. Mr. Meka then discussed opportunities for improvement.

C. Review the executive summary of TRS-ActiveCare health plan administration by Aetna for September 1, 2016 to August 31, 2017

For the TRS-ActiveCare plan, Mr. Meka reported Aetna’s performance as above acceptable levels. He then discussed opportunities for improvement.

D. Review the executive summary of TRS-Care pharmacy plan administration by ESI for September 1, 2016 to August 31, 2017

Ms. Merrick discussed the pharmacy plan administration and said ESI has performed at acceptable levels for claim processing. She said there were no significant claim findings for the fiscal year of 2017.

E. Review the executive summary of TRS-Care pharmacy plan administration of the Employer Group Waiver Plan (EGWP) by ESI for January 1, 2016 to December 31, 2017

Ms. Merrick discussed the Employer Group Waiver plan which they audited from January 1, 2016 to December 31, 2017.

F. Review the executive summary of TRS-ActiveCare pharmacy plan administration by Caremark for September 1, 2016 to August 31, 2017

Ms. Merrick reviewed the ActiveCare which they audited from September 1 through August 31, 2017. She said Caremark has performed at acceptable levels for claim processing and that the benchmark is industry standard. She discussed some of the errors that Caremark has agreed to and went over the results on their audit findings.

6. Receive Texas DIR Cybersecurity Assessments presentation – Frank Williams; and Andy Bennett, Department of Information Resources

Mr. Cutler gave an overview of the cybersecurity controls that they use to ensure security. Afterwards, Mr. Williams discussed partnering with DIR to ensure TRS is meeting the criteria that is required by state. Then Ms. Suzi Hilliard, the statewide security services manager for
DIR, standing in for Mr. Andy Bennett, talked about the different services that DIR offers which TRS has taken advantage of that results in a comprehensive report listing vulnerabilities and recommendations for remediation.

7. **Receive Business Continuity and Disaster Recovery presentation – Cristi Woods**

Ms. Woods discussed the business continuity and disaster recovery. She noted TRS is considered within the Texas Essential Functions for maintaining economic stability based upon the amount of benefits paid. She provided Hurricane Harvey as an example of how TRS must maintain a nimble position in order to assist our members and partners when they experience an event. Ms. Woods noted this continuity and recovery plan aligns with TRS Strategic Plan’s Goal 4, which is to align the people, processes and technology.

8. **Receive TRS Compliance reports including those related to ethics and fraud, conflicts of interest, and investment policies – Heather Traeger**

Ms. Traeger reported on four report categories. The first one is the hotline report where she said that a few new items were received, mostly regarding delays on refunds. She reported these refunds have been investigated and paid out. The second report she provided was regarding the 541C filings for disclosure of potential conflicts of interest. The third area is letting the board know that the personal trading policy gets reviewed every year for updates and we also hold annual training as well. The last report dovetails with an Audit finding regarding the code of ethics, where a contractor did not complete the code of ethics certification timely. She noted that the automation of this compliance function should help to reduce untimely filings.

9. **Receive Internal Audit reports**

A. **Quarterly TRS compliance testing (Agreed-Upon Procedures) – Nick Ballard and Heather Traeger**

Mr. Nick Ballard reviewed the quarterly compliance report for the period ended in September 20, 2018. He stated that this report looks at compliance around four business objectives. These include reporting complete and accurate information, looking at new investments and determining if they are approved within policy, looking at other investment policy activities, and looking at provisions of ethics policies within TRS from quarter to quarter. Mr. Ballard discussed the one issue they had with the compliance report regarding an error in the calculation of total derivatives. For the other objectives, Mr. Ballard reported everything was in compliance, noting the late financial disclosure statement Ms. Traeger previously reported.

B. **Employers Testing (Agreed-Upon Procedures) – Kate Rhoden, Barbie Pearson, Melody Austin, and Mark Chi**

Ms. Rhoden discussed the two reporting entity partners that they looked at this quarter—Houston ISD and Aldine ISD. She said they focused on eligibility because that is where most issues are identified when auditing school districts. She discussed the results which she said 75 percent of 40
people tested should have been included in the TRS membership. Mr. Mark Chi noted the training that is available to reporting entities and Ms. Pearson stated the Employer Advisory Group has assisted with disseminating information to their peers.

C. Disability Retirement and Medical Board Audit – Toma Miller, Barbie Pearson, Melody Austin, and Adam Fambrough

Ms. Miller reviewed the results from the disability retirement and medical board audit. She said there were 11,802 disability retirees receiving annuity payments. She said this area is very well-documented, procedures are being well followed and overall it was a very clean audit.

D. Annual Internal Audit Report - FY18 – Amanda Jenami

Ms. Jenami reviewed the annual internal audit report which is a summary of Audit’s activities. She said it is required by the Texas Internal Auditing Act.

E. Status of prior audit and consulting recommendations – Amanda Jenami

Ms. Jenami discussed the status of prior audit and consulting recommendations. She reported everything as on target.

10. Discuss or consider Internal Audit and TRS Compliance administrative reports and matters related to governance, risk management, internal control, compliance violations, fraud, regulatory reviews or investigations, fraud risk areas, audits for the annual internal audit plan, or auditors' ability to perform duties – Christopher Moss, Amanda Jenami, and Heather Traeger

Ms. Jenami talked about the Internal Audit staff accomplishments.

Without further discussion, the meeting adjourned at 4:34 p.m.


______________________________ ___________________
Christopher Moss       Date
Chair, Audit, Compliance, and Ethics Committee
Board of Trustees
Teacher Retirement Systems of Texas
TAB 3
Fiscal Year 2018 Teacher Retirement System Financial Statement Audit

Overall Conclusion:

• We issued unmodified (clean) opinion dated November 20, 2018 for the fiscal year 2018 Teacher Retirement System’s (TRS) financial statements.

Background:

For fiscal year 2018 the System reported:

• Net Position for Pension and Other Employee Benefits of $155.4 billion.
• Total Contributions and Other of $8.5 billion.
• Total Investment Income of $11.3 billion.
• Total Benefit Expenses of $10.2 billion.
Fiscal Year 2018 Teacher Retirement System Financial Statement Audit

**Significant Deficiencies:**

- The System should strengthen controls to ensure:
  - (1) the completeness and accuracy of the active employee census data that employers submit through the Teacher Retirement Unified System for Technology (TRUST), and;
  - (2) that unfunded commitment amounts are properly reported in the notes to its financial statements.
Questions?
Management's Response

Richard L Scheel, CPA
April 25, 2019
Implemented in 2018, TRUST is a complete Pension Line of Business solution which includes a benefit calculation and payroll reporting system for TRS, as well as census data. TRUST is in the first year of implementation and management agrees with the control deficiencies outlined in the report. In addition to expected difficulties implementing large systems responsible for integrating highly complex data relationships, TRS must contend with the responsibility shift introduced under GASB 67/68. TRS will take several actions to correct the noted deficiencies:

1. TRS will implement additional review processes to identify likely reporting entity errors and take further steps to contend with the additional requirements imposed by GASB 67/68. Estimated completion date August 2020.

2. TRS will complete an analysis of employer opening balances and book any necessary correcting entries. Estimated completion date August 2019.

3. TRS will institute detective controls to identify unauthorized modifications to member records. Estimated completion date August 2019.
Management’s Response – Unfunded Commitment

• Process and control gaps resulted in delayed and incorrect reporting of some unfunded commitments on a total unfunded commitment balance of $33,100,158,756.

Investment Accounting is formalizing oversight of unfunded commitments and all investment related financial reporting activities through several mechanisms:

• standing up formal program of Internal Controls Over Financial Reporting,
• developing reporting analytics covering all investment related financial reporting areas including investment commitment oversight and reporting, and
• establishing formal Service Level Agreements with Investment Management Division profit centers.

• Unfunded Commitment controls and processes estimated completion date June 2019.
December 20, 2018

Members of the Legislative Audit Committee:

In our audit report dated November 20, 2018, we concluded that the Teacher Retirement System’s (the System) basic financial statements for fiscal year 2018 were materially correct and presented in accordance with accounting principles generally accepted in the United States of America. The System published our audit report as part of its basic financial statements, which it has posted on its Web site at https://www.trs.texas.gov/TRS%20Documents/cafr_2018.pdf.

We also issued a report on internal control over financial reporting and on compliance and other matters as required by auditing standards (that report, including responses from management, is presented in the attachment to this letter). In that report, auditors determined that the System should strengthen controls to help ensure (1) the completeness and accuracy of the active employee census data that employers submit through the Teacher Retirement Unified System for Technology (TRUST), and (2) that unfunded commitment amounts are properly reported in the notes to its financial statements.

Our procedures were not intended to provide an opinion on internal control over financial reporting or to provide an opinion on compliance with laws and regulations. Accordingly, we do not express an opinion on the effectiveness of the System’s internal control over financial reporting or on compliance with laws and regulation.

Testing of Plan Member Census Data

Auditors conducted census data testing for fiscal year 2018 (see text box for the key data elements tested) as part of this audit. The completeness and accuracy of employees’ census data is important because the System uses that data to calculate the System’s pension and other post-employment liabilities (OPEB).

As in previous years, the auditors implemented a risk-based approach for selecting employers (including school districts, charter schools, and higher education institutions) for fiscal year 2018 census data testing as required by American Institute of Certified Public Accountants guidance. That resulted in auditors selecting 33 employers for which census data was tested.
However, the System chose to calculate the pension and other post-employment liability using the roll forward method for fiscal year 2018, as allowed by Government Accounting Standards\(^1\). Following this method, the System rolled forward the actuarial valuation as of August 31, 2017, and adjusted the liabilities based on any significant economic or plan demographic changes that occurred during fiscal year 2018. One of the adjustments, which affected the pension liability included the System reducing its projected long-term expected rate of return on investments from 8.00 percent in fiscal year 2017 to 7.25 percent in fiscal year 2018.

**Other Issues**

Auditors communicated certain issues that were not material or significant to the audit objectives separately in writing to the System’s management.

As required by auditing standards, we will also communicate to the System’s Board of Trustees certain matters related to the conduct of a financial statement audit.

We appreciate the System’s cooperation during this audit. If you have any questions, please contact Michael O. Clayton, Audit Manager, or me at (512) 936-9500.

Sincerely,

Lisa R. Collier, CPA, CFE, CIDA
First Assistant State Auditor

Attachment

\[cc: \text{The Honorable Greg Abbott, Governor}\]
\[
\text{Members of the Teacher Retirement System Board of Trustees}\]
\[
\text{Mr. Jarvis V. Hollingsworth, Chairman}\]
\[
\text{Ms. Dolores Ramirez, Vice Chair}\]
\[
\text{Mr. Joe Colonnetta}\]
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\text{Mr. David Corpus}\]
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\text{Mr. John Elliott}\]
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\text{Dr. Greg Gibson}\]
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\text{Mr. Christopher Moss}\]
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\text{Mr. James D. Nance}\]
\[
\text{Ms. Nanette Sissney}\]
\[
\text{Mr. Brian Guthrie, Executive Director, Teacher Retirement System}\]

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\(^1\) Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans.*
Section 1

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters as Required by Auditing Standards

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the major enterprise fund and the aggregate remaining funds information, consisting of the fiduciary funds and the non-major enterprise fund, of the Teacher Retirement System (System), a component unit of the State of Texas as of and for the year ended August 31, 2018, and the related notes to the financial statements, which collectively comprise the System’s basic financial statements and have issued our report thereon dated November 20, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System’s internal control. Accordingly, we do not express an opinion on the effectiveness of the System’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be
prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control described in the accompanying schedule of findings and responses that we consider to be significant deficiencies.

<table>
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<tr>
<th>Summary of Findings and Responses</th>
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<tr>
<td>Finding Numbers</td>
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<td>2018-2</td>
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**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the System’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Auditors communicated certain issues that were not material or significant to the audit objectives in writing to the System’s management.

**System’s Response to Findings**

System’s response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The System’s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.
Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity’s internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity’s internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

Lisa R. Collier, CPA, CFE, CIDA
First Assistant State Auditor

November 20, 2018
Schedule of Findings and Responses

Section 1

The System Should Strengthen Controls to Help Ensure the Completeness and Accuracy of the Active Employee Census Data That Employers Submit Through TRUST

Reference No. 2018-1

Type of finding: Significant Deficiency

The Teacher Retirement System (System) should strengthen controls over active employee census data submitted through the Teacher Retirement Unified System for Technology (TRUST) to help ensure that data is complete and accurate (see text box for additional information about the census data). More than 1,300 school districts, colleges, and universities submit data regarding the active members who participate in the System’s pension plan. The completeness and accuracy of the active employees’ census data is important because the System uses that data to calculate (1) member pension benefits and (2) the pension and Other Post-employment Benefits (OPEB) liability amounts that the System presents in its financial statements.

During the audits of the System’s financial statements for fiscal years 2014, 2015, 2016, and 2017, auditors reported findings related to the System’s controls over the completeness and accuracy of active employee census data. Since the initial finding in 2014, the System has begun performing audits on a limited basis of the employer census data information submitted. In addition, for fiscal year 2018, the System implemented TRUST, a new employer census data reporting system. TRUST was designed to (1) collect the entire payroll data from participating employers and (2) allow the System to perform a comprehensive review of the employer data submitted to the System. However, the System’s controls over TRUST do not adequately ensure the completeness and accuracy of active employee census data.


Schedule of Findings and Responses
Report on Internal Control over Financial Reporting and on Compliance with Government Auditing Standards
Performed in Accordance with Government Auditing Standards
SAO Report No. 19-314
November 2018
Page 1
TRUST replaced the Teacher Retirement Reporting and Query System (TRAQS). TRUST collects all payroll data from the employers participating in the System’s plans. While TRUST collects comprehensive employee information, auditors identified the following areas in which the System should strengthen its controls:

- The System does not have sufficient processes to ensure that reporting entities review and correct data elements that TRUST identifies as potential errors. In addition, TRUST allows reporting entities to delete records instead of requiring the records to be corrected.

- The System did not transfer the ending balances from the TRAQ system as beginning balances in TRUST. As a result, the System’s general ledger balances do not agree with the TRUST system balances. Because TRUST contains the detailed contribution information for each employer and is a sub-ledger system for the general ledger, the balances should match.

- The System did not have adequate access controls to TRUST to ensure that only necessary personnel have the ability to edit the data.

The lack of sufficient controls over the active employee census data in TRUST represent a significant deficiency in internal control over financial reporting, as noted in guidance issued by the American Institute of Certified Public Accountants.²

**Recommendation**

The System should strengthen controls over active employee census data in the TRUST system.

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² See Chapter 13 in State and Local Governments – Audit and Accounting Guide, American Institute of Certified Public Accountants.
Management’s Response

Implemented in 2018, TRUST is a complete Pension line of Business solution that includes a benefit calculation and payroll reporting system for TRS, as well as census data. TRUST is in the first year of implementation and management agrees with the control deficiencies outlined above. In addition to expected difficulties implementing large systems responsible for integrating highly complex data relationships, TRS must contend with the responsibility shift introduced under GASB 67/68. TRS will take several actions to correct the noted deficiencies:

1. TRS will implement additional review processes to identify likely reporting entity errors and take further steps to contend with the additional requirements imposed by GASB 67/68. Estimated completion date August 2020

2. TRS will complete an analysis of employer opening balances and book any necessary correcting entries. Estimated completion date August 2019.

3. TRS will institute detective controls to identify unauthorized modifications to member records. Estimated completion date August 2019.
Section 2

The System Should Strengthen Controls to Help Ensure that Unfunded Commitment Amounts Are Properly Reported in the Notes to Its Financial Statements

Reference No. 2018-2

Type of finding: Significant Deficiency

The Teacher Retirement System (System) should strengthen controls for its reporting and review of unfunded investment commitments disclosed in the notes to its financial statements to help ensure that amounts are properly reported. The System manages unfunded capital commitments (see text box) that it is legally obligated to fund when an external fund manager requests those funds.

The funding of committed capital may occur over an extended time period and can take several years before the total allocation to each asset class or manager is fully invested. Because an individual investment may begin to return capital to the System prior to the full funding of the System’s commitment, there may be times when the outstanding invested capital of the investment is substantially less than the total commitment. It is important to accurately track and report the amount of unfunded capital commitments outstanding to ensure that the System (1) does not provide more capital to an asset class or manager than required by legal agreements and (2) accurately reports investment allocation information to external parties.

In determining the unfunded capital commitment for its fiscal year 2018 financial statements, the System miscalculated the totals for several investments types and did not update the unfunded commitment when new agreements were signed or terminated, which resulted in some amounts being reported too high and some amounts being reported too low. Those errors resulted in the the System overstating the total unfunded capital commitment by $636 million. After auditors brought the errors to the Systems attention, it corrected them in the notes to its financial statements for fiscal year 2018.

Recommendation

The System should strengthen its controls for its reporting and review of unfunded capital commitments disclosed in the notes to its financial statements.
Management’s Response

Process and control gaps resulted in delayed reporting of unfunded commitments on a total unfunded commitment balance of $33,100,158,756. In response to these deficiencies, TRS will revise processes and controls to timely identify unfunded commitments. Estimated completion date March 2019.
TAB 4

The information for this agenda item is confidential
TAB 5
Proposed Revisions to the Audit Plan for Fiscal Year 2019

Amanda Jenami
April 25, 2019
MEMORANDUM

TO: Audit, Compliance and Ethics Committee  
Brian Guthrie, Executive Director

FROM: Amanda Jenami, Chief Audit Executive

SUBJECT: Proposed Revisions to the Audit Plan for Fiscal Year 2019

DATE: April 25, 2019

Per the approved *Fiscal Year 2019 Audit Plan*, amendments to the approved Audit Plan deemed to be significant will be submitted to the Board of Trustees for approval. The State Auditor’s Office also requires notification of material changes to the Audit Plan. Staff requests that the Audit, Compliance, and Ethics Committee approve the proposed amendments to the FY19 Audit Plan and recommend that the Board of Trustees adopt the proposed revisions. Below is a list of proposed changes for your consideration:

<table>
<thead>
<tr>
<th>Project</th>
<th>Change</th>
<th>Reason</th>
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<tbody>
<tr>
<td>Health Care</td>
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<tr>
<td>Pharmacy Rebate Audit Support</td>
<td>Defer</td>
<td>Management requires more time to procure a vendor. Management expects to complete the process by First Quarter, FY 2020.</td>
</tr>
<tr>
<td>Consult on TRS-Care Revenue Collection Processes</td>
<td>Add</td>
<td>Management Request</td>
</tr>
<tr>
<td>Data Analytics Projects (Advisory):</td>
<td>Add</td>
<td>Management Request</td>
</tr>
<tr>
<td>1. TRS-Care Surcharge payments</td>
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<td>2. TRS-Care Coverage for Members in Pending</td>
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<td>Retirement Status</td>
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<td>Pension Benefits and Employer Reporting</td>
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<tr>
<td>Employer Testing</td>
<td>Expand Scope</td>
<td>Management Request to increase number of reporting entities tested by 50%</td>
</tr>
<tr>
<td>Investment Management</td>
<td></td>
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<tr>
<td>Audit of Investment Valuation</td>
<td>Defer</td>
<td>IA no longer has the capacity to perform this audit. IA lost approximately 700 audit hours due to a vacancy in the Investment Auditor position (from December 2018 to April 2019).</td>
</tr>
<tr>
<td>Technology</td>
<td></td>
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<tr>
<td>CAPPS IT Controls Audit</td>
<td>Cancel</td>
<td>IA will rely on the work of the State Auditor’s Office, State Comptroller’s Internal Audit Division and periodic SOC reports (from an independent third party) to provide the necessary assurance that IT controls within the CAPPS system are suitably designed and operating effectively</td>
</tr>
</tbody>
</table>
Fiscal Year 2019 Audit Plan with proposed changes

April 25, 2019
Executive Summary

Professional and Statutory Requirements

This document provides the *Fiscal Year 2019 Audit Plan* (Audit Plan) as required by professional auditing standards, the *Texas Internal Auditing Act* (Act), and *Texas Government Code 2102.008* for the Teacher Retirement System of Texas (TRS). The Act requires state agencies to conduct a program of internal auditing that includes an annual audit plan that is prepared using risk assessment techniques and identifies individual audit projects to be conducted during the year. The Audit Plan is required to be evaluated and updated annually for recommendation of approval by the TRS Audit Committee of the Board of Trustees (Audit Committee) to the TRS Board of Trustees (Board). Internal Audit is independent of management and provides objective assurance and consulting services designed to add value and improve TRS’ operations.

Audit Plan Development and Scope

Our Audit Plan is designed to provide coverage of key risks, given the existing staff and approved budget. See the *Appendices* for information regarding the internal audit budget, performance measures, and audit plan mapped to the TRS Risk Assessment.

Changes Subsequent to Approval

Interim changes to the Audit Plan will occur from time to time due to changes in business risks, timing of TRS’ initiatives, and staff availability. We will report Audit Plan changes to executive management and present changes to the Audit Committee at the next quarterly Audit Committee meeting. Amendments to the approved Audit Plan deemed to be significant (based on discussions with the executive director and audit committee chair) will be submitted to the Audit Committee for recommendation to the Board for approval. We will also notify the State Auditor’s Office of material changes to the Audit Plan.
Interviews of TRS trustees, executives and staff, risk assessment surveys from prior years, and the current TRS Risk Assessment developed by the Enterprise Risk Management (ERM) team were used to identify areas of risk and potential internal audit projects. This information was combined into an overall audit plan designed to address critical risks to achieving TRS objectives while being sensitive to operational requirements. The Audit Plan also includes hours for ad hoc projects and special requests. The following approach was taken in creating the Audit Plan:

**Information Gathering and Scoping**

- A. Gained understanding of industry trends and current environmental risks through training, publications, and industry personnel
- B. Read technical guidance from GASB and AICPA to identify changes to audit and accounting requirements
- C. Gained understanding of TRS' strategic objectives and key initiatives by reading the strategic plan
- D. Updated audit universe based upon changes in organizational structure, information from TEAM, and input from staff

**Risk Analysis**

- A. Interviewed trustees, members of the TRS executive team, and staff to obtain various points of view on risks
- B. Reviewed previous surveys of executives and selected leadership team members on their assessment of risk in the categories of fraud, compliance, materiality, complexity, suspected concerns, and emerging risks
- C. Obtained latest ERM Stoplight Report to identify additional areas of risk

**Development and Vetting of Proposed Audit Plan**

- A. Developed a proposed Audit Plan based on interviews, risk assessments, resource availability, budget, and division coverage
- B. Met with Risk Oversight Committee to discuss proposed audit plan
- C. Proposed update to TRS Internal Audit Charter to ensure alignment with proposed audit activities and standards

**Next Steps**

- A. Review and discuss the proposed Audit Plan with the Audit Committee
- B. Obtain Audit Committee recommendation and Board approval of Audit Plan

April 2019 Board Audit, Compliance and Ethics Committee Meeting
An important part of the Audit Plan is that the identified processes, systems, and initiatives should receive differing types and levels of review based on their importance, perceived risk, and most efficient approach. Our suggested levels of review activities are as follows:

**Audit**
- Audit Focus: Assess evidence available in order to provide assurance on an audit objective
- Deliverable: Audit report for public distribution unless protected by statute
- Estimated level of effort per project: 400 - 500 hours

**Agreed-Upon Procedures**
- Agreed-Upon Procedures Focus: Determine specific steps to test with management’s agreement and report on results; used for data analytics and quarterly testing of specific data and transactions
- Deliverable: Agreed-upon procedures report for public distribution (use is limited to those with understanding of procedures performed)
- Estimated level of effort per project: 100 - 300 hours

**Formal Consulting**
- Consulting Focus: Respond to requests for formal study or assessment with recommendations; no assurance provided
- Deliverable: Consulting report or memo for limited distribution; significant material weaknesses identified would be reported to executive management and the Audit Committee as required by professional auditing standards
- Estimated level of effort per project: 100 - 200 hours

**Informal Consulting (Advisory)**
- Advisory Focus: Participate in activities in a non-voting capacity, e.g., provide training and input on policies and procedures
- Deliverable: Verbal discussion or a brief memo to management
- Estimated level of effort per year: 10 – 100 hours
## Audit Plan: Executive

<table>
<thead>
<tr>
<th>Title</th>
<th>Type</th>
<th>Preliminary Scope</th>
</tr>
</thead>
<tbody>
<tr>
<td>Communications Audit</td>
<td>Audit</td>
<td>Assess effectiveness of external communications processes, including overall strategies/plans, policies, procedures, training/awareness program, and execution of communications plans to TRS stakeholders by TRS trustees, executives, employees, and vendors</td>
</tr>
<tr>
<td>Building the Fleet Readiness Audit</td>
<td>Audit</td>
<td>Assess TRS’s preparedness to build the fleet. Talent areas to evaluate may include processes and controls related to human resource strategy, governance and operational processes (recruiting, hiring, onboarding, performance management and incentives, employee separation, and termination). Other areas to evaluate may include diversity and inclusiveness programs, organization culture, work-from-home program, and the linkage of division and department performance measures to headcount plans</td>
</tr>
<tr>
<td>Executive Incentive Pay Testing</td>
<td>Agreed-Upon Procedures</td>
<td>Independently recalculate executive incentive pay in order to test the accuracy of the calculation by management</td>
</tr>
<tr>
<td>Travel Consulting</td>
<td>Consulting</td>
<td>Benchmark board travel policy with other retirement systems; review implementation of Concur travel system processes and procedures for consistency with TRS travel requirements</td>
</tr>
<tr>
<td>Special Requests and Emerging Issues</td>
<td>Advisory or Consulting</td>
<td>Set aside time to address special requests and emerging issues during the year as requested by management</td>
</tr>
<tr>
<td>Meetings Participation</td>
<td>Advisory</td>
<td>Participate (non-voting) in various TRS-wide meetings such as Executive Council, Leadership Team, and Strategy and Risk Oversight Committee</td>
</tr>
<tr>
<td>Title</td>
<td>Type</td>
<td>Preliminary Scope</td>
</tr>
<tr>
<td>-------</td>
<td>------</td>
<td>------------------</td>
</tr>
<tr>
<td>TEAM Phase II Annuity Payroll Testing</td>
<td>Advisory</td>
<td>Assist management with testing of TEAM phase II annuity payroll conversion testing prior to go live</td>
</tr>
<tr>
<td>HILOB Pre-Cutover Reconciliation</td>
<td>Advisory</td>
<td>Assist with development of criteria to be used in the pre-cutover reconciliation for Health Insurance Line of Business application (HILOB)</td>
</tr>
<tr>
<td>TEAM Independent Program Assessment (IPA) Vendor Support</td>
<td>Advisory</td>
<td>Coordinate and facilitate activities of the IPA vendor and ensure direct access to executive management and the board</td>
</tr>
<tr>
<td>TEAM Committees, Projects, and Controls Assessment Participation</td>
<td>Advisory</td>
<td>Participate in TEAM Executive Steering Committee (ESC) and other committees and requirements-gathering sessions in a non-voting capacity, and provide advisory services related to TEAM project activities as outlined in the TEAM charter of internal audit activities. Provide input into controls identification projects. In FY 17, Internal Audit participated in the following TEAM committees and projects: - Executive Program Oversight Committee (including TEAM budget) - Organizational Change Management Advisory Groups - Business Procedures and Training Project - Monthly meetings with TEAM program manager and DXC executives</td>
</tr>
</tbody>
</table>
Audit Plan: Pension Benefits and Employer Audits

The tables on this page and the following pages provide the name of each project, type of project, and preliminary scope of work to be performed. Scope of work will be finalized as part of each project’s formal planning phase.

<table>
<thead>
<tr>
<th>Title</th>
<th>Type</th>
<th>Preliminary Scope</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medical Board Audit</td>
<td>Audit</td>
<td>Assess the effectiveness of the process for approving disability retirements and benchmark our retirements with similar systems to determine reasonableness of payments</td>
</tr>
<tr>
<td>Annual Benefits Testing</td>
<td>Agreed-Upon Procedures</td>
<td>Recalculate a sample of benefit payments annually and determine whether documentation on file supports the calculation; scope in other tests related to benefits as agreed-upon with management</td>
</tr>
<tr>
<td>Employer Testing</td>
<td>Agreed-Upon Procedures</td>
<td>Test reports submitted to TRS based on procedures agreed to with management, especially in the areas of eligibility, compensation, contributions, and surcharges (pension and healthcare)</td>
</tr>
<tr>
<td>Employer Data Analysis Testing</td>
<td>Agreed-Upon Procedures</td>
<td>Gather and use full payroll data to risk assess reporting entities for audit, to identify noncompliance with TRS Laws and Rules, and identify errors in edit checks and missing data</td>
</tr>
<tr>
<td>TRS Reporting Entity Website Audit Information Update and Communication Activities</td>
<td>Advisory</td>
<td>Update audit-related information and tools on the TRS employer (reporting entity) website. Information may include self-audits, audit programs, audit results, technical guidance, and frequently asked questions about reporting entity audits</td>
</tr>
<tr>
<td>Title</td>
<td>Type</td>
<td>Preliminary Scope</td>
</tr>
<tr>
<td>--------------------------------------------</td>
<td>-------------------</td>
<td>-----------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Business Process Improvement Project</td>
<td>Consulting or Advisory</td>
<td>In conjunction with Enterprise Risk Management (ERM) staff, consult with Health Insurance Benefits (HIB) and Benefit Service (in areas overlapping HIB) on ways to improve efficiencies of operations and reduce rework</td>
</tr>
<tr>
<td>Pharmacy Rebate Audit Support</td>
<td>Advisory</td>
<td>Participate in external audit verifying accuracy of pharmacy rebates received by TRS-Care and TRS-ActiveCare</td>
</tr>
<tr>
<td>Health Care Vendor Update Meetings Attendance</td>
<td>Advisory</td>
<td>Attend quarterly meetings with health care vendors to understand results, issues, and TRS management’s monitoring controls</td>
</tr>
<tr>
<td>Health Care Vendor Selection Observation</td>
<td>Advisory</td>
<td>Observe selection process of large vendor and service providers, when applicable</td>
</tr>
</tbody>
</table>
## Audit Plan: Investment Management

<table>
<thead>
<tr>
<th>Title</th>
<th>Type</th>
<th>Preliminary Scope</th>
</tr>
</thead>
<tbody>
<tr>
<td>Derivatives Accounting Audit</td>
<td>Audit</td>
<td>Assess the accuracy of derivatives accounting and adequacy of processes supporting those activities</td>
</tr>
<tr>
<td>Valuations Audit</td>
<td>Audit</td>
<td>Assess the accuracy of investment valuations and adequacy of processes supporting those activities</td>
</tr>
<tr>
<td>Quarterly TRS Compliance and Ethics Policies Compliance Testing</td>
<td>Agreed-Upon Procedures</td>
<td>Test compliance with TRS policies including the Investment Policy Statement, ethics policies, and other policies as agreed upon with the TRS Compliance Officer</td>
</tr>
<tr>
<td>Annual Testing of Investment Incentive Pay Plan</td>
<td>Agreed-Upon Procedures</td>
<td>Prior to payment, recalculate the investment incentive compensation award amounts to determine if they are calculated in accordance with plan provisions; reconcile performance to the service provider.</td>
</tr>
<tr>
<td>Investment Committees Attendance</td>
<td>Advisory</td>
<td>Stay current on Investment Management Division initiatives by attending the Internal Investment Committee, Derivatives Operations, monthly staff, and other meetings such as the Annual Town Hall meeting and meeting with risk, compliance, and operations staff</td>
</tr>
</tbody>
</table>
## Audit Plan: Technology

<table>
<thead>
<tr>
<th>Title</th>
<th>Type</th>
<th>Preliminary Scope</th>
</tr>
</thead>
<tbody>
<tr>
<td>CAPPS IT Controls Audit</td>
<td>Audit</td>
<td>Evaluate general IT controls relating to IT change management and IT security practices administered by the Comptrollers for the CAPPS financial application</td>
</tr>
<tr>
<td>Cloud Computing Consulting</td>
<td>Consulting</td>
<td>Assess whether TRS has an effective process for evaluating cloud vendors in terms of operational efficiency, IT security, and data protection</td>
</tr>
<tr>
<td>Active Directory Audit</td>
<td>Audit</td>
<td>Determine whether Active Directory is configured to ensure effective and efficient access control to TRS systems</td>
</tr>
<tr>
<td>IT Governance Consulting</td>
<td>Consulting</td>
<td>Assess the effectiveness of processes for identifying, evaluating, approving, funding, monitoring, and closing out major IT projects</td>
</tr>
<tr>
<td>IT Risk Assessment</td>
<td>Advisory</td>
<td>Obtain an understanding of various IT processes that have not been audited in a while for purposes of determining their risk level</td>
</tr>
<tr>
<td>Disaster Recovery, Network Penetration Tests; Security Risk Assessment Review</td>
<td>Advisory</td>
<td>Observe, obtain, read, and follow-up on any issues identified during the network disaster recovery, penetration tests, and the security risk assessment conducted by the TRS Information Security Officer</td>
</tr>
</tbody>
</table>

April 2019 Board Audit, Compliance and Ethics Committee Meeting
## Audit Plan: Finance and Staff Services

<table>
<thead>
<tr>
<th>Title</th>
<th>Type</th>
<th>Preliminary Scope</th>
</tr>
</thead>
<tbody>
<tr>
<td>Comprehensive Annual Financial Report (CAFR) testing of annuity payments</td>
<td>Audit</td>
<td>Conduct pension benefits testing on behalf of the State Auditor’s Office (SAO) to be used in completion of the CAFR audit</td>
</tr>
<tr>
<td>CAFR Audit Coordination (SAO, auditors)</td>
<td>Advisory</td>
<td>Coordinate activities of the SAO to ensure deadlines are met; coordinate quarterly update meetings with executive management and the SAO; maintain SAO document request SharePoint site; walkthrough CAFR development process and identify opportunities for efficiencies</td>
</tr>
<tr>
<td>Teacher Retirement Investment Company of Texas (TRICOT) Financial Audit Coordination (Grant Thornton, auditors)</td>
<td>Advisory</td>
<td>Coordinate a financial audit of TRICOT, a wholly-owned subsidiary of TRS in London</td>
</tr>
</tbody>
</table>
## Audit Plan: Internal Audit Activities

<table>
<thead>
<tr>
<th>Title</th>
<th>Project Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>External Quality Assurance Review</td>
<td>Obtain an independent assessment of Internal Audit’s compliance with auditing standards and make recommendations for improvement.</td>
</tr>
<tr>
<td>Annual Internal Audit Report</td>
<td>Prepare annual report of audit activities in accordance with SAO instructions</td>
</tr>
<tr>
<td>Quarterly Audit Recommendations Follow-Up</td>
<td>Follow-up and report on the status of outstanding audit recommendations</td>
</tr>
<tr>
<td>Data Analysis Process Buildout</td>
<td>Continue to build out data analysis skills of audit staff; incorporate into audit projects and annual audit plan development; and pilot analysis projects in various business units</td>
</tr>
<tr>
<td>Staff training initiative</td>
<td>Develop and launch auditor training in key areas including report writing, workpaper documentation, and audit risk assessment</td>
</tr>
<tr>
<td>Fiscal Year 2020 Audit Plan</td>
<td>Prepare annual audit plan based on a documented risk assessment in accordance with professional auditing standards and the Texas Internal Auditing Act</td>
</tr>
<tr>
<td>Audit Committee Meetings Preparation</td>
<td>Prepare communications and attend Audit Committee and Board Meetings</td>
</tr>
</tbody>
</table>
**High Risk Areas are defined as (High, Elevated, or Caution). Areas of interest to the SAO (Procurement and IT Security) excluded from the Audit Plan.**

<table>
<thead>
<tr>
<th>Area</th>
<th>Reason for Exclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Records &amp; Information Management</td>
<td>TRS is in process of revising its records management system and procedures</td>
</tr>
<tr>
<td>Procurement &amp; Contracting</td>
<td>TRS in process of implementing recommendations made in the prior year’s procurement audit</td>
</tr>
</tbody>
</table>
**Proposed Changes to Fiscal Year 19 Audit Plan**

<table>
<thead>
<tr>
<th>Project</th>
<th>Change</th>
<th>Reason</th>
</tr>
</thead>
</table>
| Pharmacy Rebate Audit Support               | Defer   | • Management requires more time to procure a vendor  
• Management expects to complete the process by First Quarter, FY 2020 |
| Consult on TRS-Care Revenue Collection Processes | Add     | Management request                                                                                   |
| Data Analytics Projects (Advisory):          | Add     | Management request                                                                                   |
| 1. TRS-Care surcharge payments               |         |                                                                                                     |
| 2. TRS-Care coverage for members in pending retirement status |         |                                                                                                     |
| Employer Testing                             | Expand Scope | Management request to increase number of reporting entities tested by 50%                        |
| Audit of Investment Valuation               | Defer   | IA no longer has the capacity to perform this audit.  IA lost approximately 700 audit hours due to a vacancy in the Investment Auditor position (from December 2018 to April 2019) |
| CAPPS IT Controls Audit                     | Cancel  | IA will rely on the work of the State Auditor’s Office, State Comptroller’s Internal Audit Division and periodic SOC reports (from an independent third party) to provide the necessary assurance that IT controls within the CAPPS system are suitably designed and operating effectively |
TAB 6A
Teacher Retirement System of Texas – Internal Audit

Quarterly TRS Compliance Testing
Agreed Upon Procedures

Nick Ballard
April 25, 2019
SCOPE OF TESTING

BUSINESS OBJECTIVES

Ensure compliance with:

1. Investment Policy Statement (IPS) requirements for Board Reports
2. IPS requirements for investment selection
3. Select Securities Lending Policy (SLP) provisions and Wire Transfer Procedures
4. Select TRS Code of Ethics for Contractors provisions

SCOPE

Quarter ended December 31, 2018, unless otherwise noted
1. BOARD REPORTING REQUIREMENTS

**Test**
- Compare Board reports to IPS requirements
- Trace sample information included in Board reports to supporting documentation

**Result**
Complete and accurate

**Management Response**
None required
2. INVESTMENT SELECTION AND APPROVAL

Test
- Trace investments approved by the Internal Investment Committee (IIC) to supporting documentation

Result
Complete and accurate

Management Response
None required
### 3. OTHER INVESTMENT POLICIES AND PROCESSES

#### Test
- Securities lending assets & collateral meet requirements
- Wire transfers trace to supporting documentation
- Confirm TRS managers’ awareness of any compliance violations

#### Result
- Management reported one Investment Integrity Questionnaire (IIQ) was received 2 days after an investment was presented to the January 2019 IIC
- All other tests were in compliance

#### Management Response
Not required. The Chief Compliance Officer already reported the violation to the TRS Board and executive management.
RESULT

4. CODE OF ETHICS FOR CONTRACTORS

Test
Determine if contractors filed:
• Code of Ethics for Contactors on commencement of business
• Contractor Annual Ethics Compliance Statement

Result
• Noted that one contractor filed annual certification 47 days after the due date
• All other tests were in compliance

Management Response
Not required. The reported issue is similar to results in last quarter’s Compliance report. Steps have been taken to automate filing processes and require filing earlier to allow time for follow-up.
## Business Objectives

1. **Board Reports**
   
   All required information is reported to the TRS Board of Trustees

2. **Investment Selection and Approval**
   
   Investments made are within delegated limits and established selection criteria

3. **Other (IPS, SLP, wire transfers, other reporting)**
   
   Risk limits are followed for other investment programs and activities

4. **Ethics Policies**
   
   Ethics policy requirements are met

## Business Risks

- Board is not informed of key investment decisions and critical information

## Management Assertions

- All required information is reported to the Board

## Agreed-Upon Procedures

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>• Compare Board reports to IPS requirements</td>
</tr>
<tr>
<td></td>
<td>• Trace sample information included in Board reports to supporting documentation</td>
</tr>
<tr>
<td>2</td>
<td>• Obtain evidence that TRS complied with investment restrictions</td>
</tr>
<tr>
<td></td>
<td>• Compare approval amounts of new investments with IPS limits</td>
</tr>
<tr>
<td></td>
<td>• Trace investments approved by the Internal Investment Committee (IIC) to supporting documentation</td>
</tr>
<tr>
<td></td>
<td>• Obtain evidence that Investment Integrity Questionnaires (IIQs) were received prior to investing</td>
</tr>
<tr>
<td>3</td>
<td>• Obtain senior management disclosure about known compliance violations</td>
</tr>
<tr>
<td></td>
<td>• Validate completeness of wires</td>
</tr>
<tr>
<td></td>
<td>• Check securities lending pool for compliance with investing guidelines</td>
</tr>
<tr>
<td>4</td>
<td>• Obtain evidence that contractors filed the TRS Code of Ethics for Contractors form on commencement of business with TRS</td>
</tr>
<tr>
<td></td>
<td>• Obtain evidence that contractors filed the TRS Contractor Annual Ethics Compliance Statement and annual expenditure report.</td>
</tr>
</tbody>
</table>

## Test Results

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>All policy and procedure requirements tested were met except as noted below</td>
</tr>
<tr>
<td></td>
<td>The disclosure of a known compliance violation of an IIQ not obtained prior to IIC approval for the transaction</td>
</tr>
</tbody>
</table>

## Management Responses

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>N/A - Chief Compliance Officer already reported the issue to the Board in February 2019</td>
</tr>
</tbody>
</table>

## Notes

- Management Responses
  - N/A - Issue is similar to prior quarter test result. Management has taken steps to improve contractor reporting process.

---

March 13, 2019
Project #19-302
March 13, 2019

Carolina de Onis, TRS General Counsel

Subject: Report on Independent Testing of TRS Compliance

We have completed the Quarterly TRS Compliance Testing for the quarter ended December 31, 2018, as included in the Fiscal Year 2019 Audit Plan. The scope of this engagement included the requirements of the Investment Policy Statement (IPS), Securities Lending Policy (SLP), Code of Ethics for Contractors, and Wire Transfer Procedures. We have also considered any compliance violations that came to our attention as of the report date.

We performed the procedures that were agreed to by the TRS Legal and Compliance division. These procedures include tests that supplement the current compliance monitoring procedures performed by State Street Bank and the Chief Compliance Officer.

This agreed-upon procedures engagement was performed in accordance with generally accepted government auditing standards contained in the Government Auditing Standards issued by the Comptroller General of the United States.

The sufficiency of the agreed-upon procedures performed is solely the responsibility of those parties specified in this report. Consequently, we make no representations regarding the sufficiency of the procedures described in Appendix A either for the purpose for which this report has been requested or for any other purpose.

Our testing procedures and results are included in Appendix A.

We were not engaged to and did not perform an examination, the objective of which would be the expression of an opinion. Accordingly, we do not express an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for information and use by TRS management, the Board of Trustees, and oversight agencies, and is not intended to be and should not be used by anyone other than those specified parties. However, this report is a matter of public record and its distribution is not limited.
We express our appreciation to management and key personnel of the Investment Management Division, Investment Accounting, and Legal and Compliance for their cooperation and professionalism shown to us during this quarterly testing.

Amanda Jenami, CIA, CPA, CISA, CFE
Chief Audit Executive

Nick Ballard, CIA, CPA, CFA
Director of Investment Audit Services

Anandhi Mani, CIA, CPA, FCCA (UK)
Sr. Investment Auditor
## APPENDIX A
### AGREED-UPON PROCEDURES AND RESULTS

<table>
<thead>
<tr>
<th>STEP #</th>
<th>BUS. OBJ. #</th>
<th>TEST PURPOSE</th>
<th>TEST DESCRIPTION</th>
<th>TEST RESULT</th>
<th>MANAGEMENT RESPONSE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1</td>
<td>IPS Article 1.7a - 1.7o – Obtain evidence that requirements tested were reported to Board of Trustees. Quarterly: investment performance, policy compliance monitoring, asset class exposures, external investments under consideration, external investment activities, liquidity positions, and consultant engagements. Semi-annual: outstanding derivatives, risk limits, leverage, transparency reports, placement agent disclosures. Annual: reports include staffing, Private Markets strategy review, and Governing Boards participation.</td>
<td>Obtain all information required to be reported to Board of Trustees and compare to reporting requirements per Investment Policy Statement (IPS). Trace Transparency Report Performance Summary updates to supporting documentation.</td>
<td>Information required to be reported to Board of Trustees complied with IPS requirements. Obtained support for information tested.</td>
<td>No response required</td>
</tr>
<tr>
<td>2</td>
<td>2</td>
<td>IPS Article 1.8d – Obtain evidence that Restricted Securities lists annual reports were filed</td>
<td>Obtain evidence that TRS complied with filing annual report of Sudan/Iran/Foreign Terrorist Organizations and companies that boycott Israel investment activity to the Legislature and the Attorney General</td>
<td>TRS complied with the notification requirement</td>
<td>No response required</td>
</tr>
<tr>
<td>STEP #</td>
<td>BUS. OBJ. #</td>
<td>TEST PURPOSE</td>
<td>TEST DESCRIPTION</td>
<td></td>
<td></td>
</tr>
<tr>
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</tr>
</tbody>
</table>
|        |             | IPS Article 2.5 – Obtain evidence that the Investment Management Division (IMD) evaluated hedge fund classification | • Select sample of approved investments in hedge funds and external managers  
• Obtain analysis indicating whether each investment is hedge fund or not. If analysis is unavailable, inconclusive, or erroneous, report that result  
• For any analysis requiring Board approval of classification, obtain Board minutes to test whether approval was obtained |
| 3      | 2           |              | Each of the approved investments in external managers tested had analysis indicating whether the investment was a hedge fund or not. No Board approval was required. |
|        |             | IPS Article 2.6a – Obtain existence of Internal Investment Committee (IIC) approval of all private and relevant public markets fund investments. | For the private and public markets funds approved during the quarter, obtain existence of IIC approval |
| 4      | 2           |              | IIC approval existed for all funds we tested during the quarter |
|        |             | IPS Article 2.6c – Obtain information about the allocation of funds added to previously approved investments for purposes of rebalancing or adjusting risks to ensure that they did not exceed 2% of associated portfolios | Obtain the Quarterly Rebalance Authority tracking spreadsheet and trace amounts to the appropriate Rebalance Authority form to ensure that additional investments or allocations did not exceed 2% of Hedge Fund Portfolio, External Manager Portfolio, or Other Absolute Return Portfolio (as appropriate) per investment on a monthly basis |
| 5      | 2           |              | Additional funds added to previously approved investments for purposes of rebalancing or adjusting risks did not exceed 2% of associated portfolios |
|        |             | IPS Article 12.4 - Obtain evidence of existence of Investment Integrity Questionnaire (IIQ) for each new investment selected for testing and test for inclusion in summary report to the Board. | • For each investment selected for testing, obtain copies of the Investment Integrity Questionnaire (IIQ) to ensure that IMD obtained responses to the questionnaire  
• Obtain evidence that responses were obtained prior to IIC meeting.  
• Obtain evidence that all responses are reported to the Board at least semi-annually |
| 6      | 2           |              | Each investment tested had a completed questionnaire and was included in the summary report to the Board |

TRIS Internal Audit  
Quarterly TRS Compliance Testing  
March 13, 2019
<table>
<thead>
<tr>
<th>STEP #</th>
<th>BUS. OBJ. #</th>
<th>TEST PURPOSE</th>
<th>TEST DESCRIPTION</th>
<th>TEST RESULT</th>
<th>MANAGEMENT RESPONSE</th>
</tr>
</thead>
</table>
| 7      | 2           | IPS Appendix B – Obtain evidence that investments approved are within policy limits. | - Select sample of approved investments, obtain tear sheet for each, and observe the approved amounts are within authorized limits  
  a) Initial allocation – .50%  
  b) Additional or follow-on – 1%  
  c) Total Manager Limits – 3%  
  d) Total limit each manager organization – 6%  
  - Trace tear sheet calculations to the supporting documentation to ensure that the above authorized limits were not exceeded by any manager or partner organization  
  - Inquire if any “Special Investment Opportunities” were made for the quarter | For the sample investments tested, no manager or partner organization exceeded the authorized limits and documentation existed for IMD staff calculations of authorized limits. There were no Special Investment Opportunities. | No response required |
| 8      | 2           | IPS Appendix G – Obtain evidence that participation in external advisory committees or boards meet the requirement of the IPS by requesting a sample of limited partnership agreements (LPAs). | Obtained evidence that the LPAs for the approved public markets investments contained the following requirements:  
  - TRS employee representative may not serve in a position that has general liability to third parties  
  - Agreement must be in writing and address certain limitations  
  - External entity’s insurance/indemnification will be primary relative to any available TRS insurance/indemnification  
  - Compensation/reimbursement of expenses will be paid directly to TRS | Obtained evidence that IMD is in compliance with this policy | No response required |
<table>
<thead>
<tr>
<th>STEP #</th>
<th>BUS. OBJ. #</th>
<th>TEST PURPOSE</th>
<th>TEST DESCRIPTION</th>
<th>TEST RESULT</th>
<th>MANAGEMENT RESPONSE</th>
</tr>
</thead>
<tbody>
<tr>
<td>9</td>
<td>3</td>
<td>Quarterly Compliance Certification – Obtain evidence that all known compliance violations have been reported.</td>
<td>Confirm with the Chief Compliance Officer that she has received compliance certification from IMD management, Legal Investment staff, and CIO regarding any known compliance violations that occurred during the testing period</td>
<td>Obtained quarterly compliance certification from the Chief Compliance Officer (CCO). The compliance certification identified that one IIQ was received two days after a new investment was presented to the IIC. The IPS requires that IIQs be obtained prior to IIC.</td>
<td>No response required. This IPS violation was already reported in a memo from the CCO to TRS executive management on January 31, 2019. The CCO also informed the Chairs of the Audit, Compliance, and Ethics Committee and the Investment Management Committee on February 21, 2019. This information was also included in the February 2019 Transparency Report.</td>
</tr>
<tr>
<td>10</td>
<td>3</td>
<td>Wire Transfer Procedures – Obtain evidence that TRS Investment Accounting’s record of processed investment funding was complete.</td>
<td>Obtain evidence that TRS Investment Accounting investment funding log reconciles to State Street outgoing wires log to determine if the funding log is complete and accurate.</td>
<td>The Investment Accounting funding log reconciled to the State Street Outgoing wires log for the period tested.</td>
<td>No response required</td>
</tr>
<tr>
<td>STEP #</td>
<td>BUS. OBJ. #</td>
<td>TEST PURPOSE</td>
<td>TEST DESCRIPTION</td>
<td>TEST RESULT</td>
<td>MANAGEMENT RESPONSE</td>
</tr>
<tr>
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</tr>
</tbody>
</table>
| 11     | 3           | Securities Lending Policy – Obtain evidence that IMD reviews the securities lending program and performance of lender. | Obtain evidence from the monthly securities lending program performance reviews conducted by the TRS Asset Allocation team and the Securities Lending Agent that investments in the securities lending program comply with the following policy requirements:  
• Sec 3.4. Cash collateral collective investments authorized  
• Sec 3.5. Cash collateral authorized portfolio investments  
• Sec 3.6. Maturity limits of cash collateral investments  
• Sec 3.7. Portfolio maturity limits for cash collateral investments  
• Sec 3.8. Minimum credit ratings for cash collateral investments | The securities lending program monthly reports showed that TRS collateral pool investments met the investing guidelines tested. | No response required |
<table>
<thead>
<tr>
<th>STEP #</th>
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<th>TEST DESCRIPTION</th>
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<th>MANAGEMENT RESPONSE</th>
</tr>
</thead>
<tbody>
<tr>
<td>12</td>
<td>4</td>
<td>Code of Ethics for Contractors – Obtain evidence that each contractor signed and returned the TRS Code of Ethics for Contractors upon commencement of business with TRS. Obtain evidence that TRS contractors annually signed the Annual Ethics Compliance Statement and filed annual expenditure reports.</td>
<td>Select a sample of current TRS contractors, and obtain evidence that the selected contractors signed and returned a copy of the TRS Code of Ethics for Contractors to TRS upon commencement of business with TRS and whether the contractors signed the TRS Contractor Annual Ethics Compliance Statement annually and filed annual expenditure reports.</td>
<td>15 of 15 tested contractors signed and returned a copy of the TRS Code of Ethics for Contractors form upon commencement of business with TRS. 1 of 15 tested contractors returned their signed TRS Contractor Annual Ethics Compliance Statement and expenditure report 47 days after the April 15 annual due date.</td>
<td>No response required. The identified issue relates to late submission of documents required by the Code of Ethics for Contractors. This issue is similar to results included in last quarter’s Compliance Testing report. To ensure timely reporting going forward, management has taken steps to automate processes for receiving required documents and has changed the due date to allow for follow-up with contractors.</td>
</tr>
</tbody>
</table>

Note: Testing procedures for compliance with the Investment Policy Statement (IPS), Securities Lending Policy (SLP), Wire Transfer Procedures and Code of Ethics for Contractors are for the activities for the quarter ending December 31, 2018, except as noted.
Incentive Compensation Testing
Agreed-Upon Procedures

Nick Ballard
April 25, 2019
SCOPE OF TESTING

BUSINESS OBJECTIVE

Award performance incentive compensation in accordance with the Investment Management Division and Executive Director (ED) Performance Incentive Pay Plan

SCOPE

Performance period ended September 30, 2018
1. PARTICIPANT ELIGIBILITY

Test

- Compare eligible participants provided by Organizational Excellence (OE) to the participants included in the calculation worksheet
- Confirm existence of personnel action forms for participants, including for employees with status changes during the year

Result

Complete and accurate

Management Response

None required
2. AWARD COMPONENTS AND CALCULATIONS

**Test**
- Confirm investment performance results for profit centers and peer group were prepared by independent parties
- Trace investment performance and alpha targets to source data
- Compare qualitative scores used in the calculation to the information provided

**Result**
Correct

**Management Response**
None required
3. ED INVESTMENT OVERSIGHT PERFORMANCE AWARD

**Test**
- Calculate ED Investment Oversight Performance Award in accordance with ED Performance Incentive Pay Plan

**Result**
Correct

**Management Response**
None required
4. ACCESS TO DOCUMENTS

Test
• Review access to project folder to determine if only appropriate individuals have access

Result
Appropriate

Management Response
None required
INVESTMENT INCENTIVE AWARD

No issues noted

146

TRS participants

~$8.7M

February 2019 Payout
## Testing of Performance Incentive Pay Calculations

**Plan Year Covering October 1, 2017 through September 30, 2018**

**TRS Internal Audit Department**

### Business Objectives

To accurately calculate and award performance incentive compensation amounts in accordance with the Investment Management Division (IMD) and Executive Director (ED) Performance Incentive Pay Plan (PIP)

### Award Components and Calculation

- Incorrect investment performance number or benchmarks used
- Wrong peer group or peer performance number used
- Incorrect qualitative scores
- Incorrect award amount calculated

### ED Investment Oversight Performance Award

- Incorrect investment performance data or benchmarks are used
- Incorrect formulas included in worksheets
- Incorrect award amount calculated

### Access to PIP Documents

- Inappropriate access granted to PIP calculation documents
- Unauthorized changes made to the calculation formula and results in the worksheets

### Participant Eligibility

- Ineligible employees included in the calculation
- Wrong salary amount used
- Incorrect job classification used
- Incorrect profit center used
- Incorrect proration percentage used for partial plan year participants

### Correct award percentages of alpha (excess returns over benchmarks), peer group performance, and qualitative scores are used for calculations

### Correct award percentage of total fund alpha, base salary, and Maximum Award Opportunity (MAO) percentage are used in calculation

### Agreed-upon Procedures

- Compare eligible participants provided by Organizational Excellence (OE) to the participants included in the calculation worksheet
- Confirm existence of personnel action forms for participants, including for employees with status changes during the year

### Only eligible employees and their correct classifications, salaries, and profit centers are used for incentive pay calculations

### Only authorized users have access to the project and types of access are assigned based on tasks required in the PIP calculation process

### Test Results

- Eligible participant list used in incentive pay calculation is complete and accurate
- Award amounts are calculated correctly using accurate components data
- ED award amount is calculated correctly using accurate components data

### None

### Management Comment

- None

---

December 18, 2018
Project #: 19-303
December 18, 2018

Don Green, Chief Financial Officer

**Subject:** Report on Independent Testing of Performance Incentive Pay

We have completed the **Testing of Performance Incentive Pay Calculations** as included in the *Fiscal Year 2019 Audit Plan*. The scope of this engagement included calculations of award amounts in accordance with the Investment Management Division (IMD) and Executive Director (ED) Performance Incentive Pay Plans (IMD and ED Plan), effective for the period from October 1, 2017 through September 30, 2018.

We performed the procedures agreed to by the TRS Finance Division. These procedures include tests of:

A. IMD Participant Eligibility  
B. Award Calculations  
C. ED Investment Oversight Performance Award  
D. Access to Calculation Documentation

The detailed procedures and results are included in **Appendix A**.

This agreed-upon procedures engagement was performed in accordance with generally accepted government auditing standards contained in the *Government Auditing Standards* issued by the Comptroller General of the United States.

The sufficiency of the agreed-upon procedures performed is solely the responsibility of management of the departments specified in this report. Consequently, we make no representations regarding the sufficiency of the procedures described in **Appendix A** either for the purpose for which this report has been requested or for any other purpose.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion. Accordingly, we do not express an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. This report is intended solely for information and use by TRS management, the Board of Trustees, and oversight agencies, and is not intended to be and should not be used by anyone other than those specified parties. However, this report is a matter of public record and its distribution is not limited, except as protected by statute.
We express our appreciation to management and key personnel of the Investment Accounting, Organizational Excellence (OE), IMD, and State Street Bank for their cooperation and professionalism shown to us during this testing.

Amanda Jenami, CIA, CPA, CISA, CFE
Chief Audit Executive

Nick Ballard, CIA, CPA, CFA
Director of Investment Audit Services

Anandhi Mani, CIA, CPA, FCCA
Senior Investment Auditor

Simin Pang, CIA, CISA
Senior IT Auditor
# APPENDIX A

## AGREED-UPON PROCEDURES AND RESULTS

### A. IMD PARTICIPANT ELIGIBILITY

<table>
<thead>
<tr>
<th>NO</th>
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</tr>
</thead>
</table>
| 1. | List of Eligible Participants and MAO Calculation | Determine if eligible participant list and Maximum Award Opportunity (MAO) amounts are correct.  
Compare the Investment Management Division (IMD) participant list from Organizational Excellence (OE) to the Texas Comptroller of Public Accounts Uniform Statewide Payroll/Personnel System (USPS)\(^1\) report to determine whether eligible participants match.  
Within the OE participant list determine whether:  
- Annual salary base matches USPS report  
- Correct annual proration percentage (e.g. 100%, 75%, 50%, or 25%) is used for each participant based on their plan participation date  
- Correct profit center proration percentage is used for participants that worked in multiple IMD profit centers by tying amounts to support from IMD or OE personnel actions  
- Each participant’s MAO percentage is correct based on their IMD Incentive Pay Plan title  

\[ MAO \text{ Formula} = Proration \times \text{Profit Centers} \times \text{MAO }\% \text{ by incentive title} \]  
| No issue | None |
| 2. | Confirmation of Eligible Participants | Determine if participant list has been reviewed and certified as correct.  
Confirm that list of eligible participants has been reviewed by IMD Director of Professional Development and/or Investment Management Committee members.  
Confirm that the OE Compensation team reviewed, certified in writing, and provided the final participant list to the Executive Director by the due date stated in the IMD Incentive Pay Plan. | No issue | None |
| 3. | Participant Status Changes | Determine if participant personnel action forms support status.  
Sample eligible participants and determine if personnel action forms support status, including status changes (i.e. additions, promotions, and transfers). | No issue | None |

\(^1\) USPS – System maintained by the Texas Comptroller of Public Accounts to process payrolls for state employees
B. AWARD CALCULATIONS

<table>
<thead>
<tr>
<th>NO</th>
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</thead>
</table>
| 4  | Passive Returns | Determine if 1- and 3-year investment returns for each IMD profit center are correct in the Investment Accounting calculation worksheet. Test that returns are appropriately prepared and reviewed by contacting:  
  - Custodian Bank representative to confirm that returns are independently calculated  
  - Director of Investment Accounting to obtain evidence that returns for select profit centers were compared to State Street investment performance report dated September 30, 2018  
  - IMD Investment Management Committee and/or Investment Operations personnel to confirm whether they reviewed returns for reasonableness  
  Test that passive return calculations are correct by:  
  - Tracing alpha² target numbers and profit center performance allocation percentages to Addendum A of the IMD Plan document  
  - Tracing actual return percentages and participant alpha to custodian bank’s investment performance report (not applicable to private markets)  
  - Recalculating alpha for each profit center  
  - Recalculating profit center alpha allocations for each participant | No Issue | None          |

² Alpha – Excess return of an investment relative to the return of benchmark index
### B. AWARD CALCULATIONS (CONTINUED)

<table>
<thead>
<tr>
<th>NO</th>
<th>TEST AREA</th>
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</tr>
</thead>
<tbody>
<tr>
<td>5.</td>
<td>Peer Performance</td>
<td>Determine if peer performance returns and excess return calculations are correct in the Investment Accounting calculation worksheet by:</td>
<td>No Issue</td>
<td>None</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Tracing Total Trust, Private Equity, and Real Assets alpha targets and performance allocation percentages to Addendum B of the IMD Plan document</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Tracing Total Trust, Private Equity, and Real Assets peer median returns to the Trust Universe Comparison Services (TUCS)³ report</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Tracing TRS Trading Group peer median returns to Investment Technology Group (ITG)⁴ report</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Recalculating profit center returns in excess of each peer benchmark</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Recalculating profit center alpha allocations for each participant</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| 6. | Qualitative Award| Determine if Qualitative Scores were awarded in accordance with IMD policies and procedures (P&Ps) by: | No Issue    | None         |
|    |                  | • Interviewing IMD managers and reviewing records to confirm score methodology adheres to P&Ps |             |              |
|    |                  | • Tracing Qualitative Score to IMD performance system                               |             |              |

| 7. | Award Amounts    | Calculate the percentage of MAO earned for each participant using the following weights: | No Issue    | None         |
|    |                  | • 50% for passive award percentage                                                   |             |              |
|    |                  | • 30% for peer group award percentage                                               |             |              |
|    |                  | • 20% qualitative award percentage                                                 |             |              |
|    |                  | Recalculate each participant’s award amount to confirm amount calculated in Investment Accounting’s calculation worksheet by: |             |              |
|    |                  | • Tracing payment amounts for prior year deferrals (i.e. 50% of the award amount) to OE or Payroll records |             |              |
|    |                  | • Calculating payment amounts (by adding the 50% of the current year’s award amount to the remainder of the prior year’s award amount) |             |              |
|    |                  | Confirm that Investment Accounting sent the preliminary award amounts to IMD Investment Management Committee members for review prior to finalization. |             |              |

---

³ TUCS – Collaboration between Wilshire Associates and custodial organizations to collect and report universe of actively managed tax-exempt portfolio performance data

⁴ ITG – Broker and asset manager technology consulting company
### C. EXECUTIVE DIRECTOR INVESTMENT OVERSIGHT PERFORMANCE AWARD

<table>
<thead>
<tr>
<th>NO</th>
<th>TEST AREA</th>
<th>TEST DESCRIPTION</th>
<th>TEST RESULT</th>
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</tr>
</thead>
</table>
| 8. | Executive Director Award | Determine if the Executive Director (ED) Investment Oversight Performance Award is calculated in accordance with ED Plan. Recalculate ED Award using plan provisions below:  
  - 25% MAO  
  - Passive return is based on excess of total fund return over passive total fund index  
  - 1- and 3-year alpha target is 100 basis points (BPS) and performance is weighted 1/3 for 1-year and 2/3 for 3-year returns  
  - 50% of award is paid in the current year for the prior plan year, and 50% is paid in the second year after the prior plan year  

  \[ \text{Award Amount} = \text{Base Salary} \times \text{MAO} \times \% \text{ of target alpha achieved} \times 50\% + \text{prior year deferred amount} \]  
                                                                                                                                 | No Issue    | None          |

### D. ACCESS TO CALCULATION DOCUMENTATION

<table>
<thead>
<tr>
<th>NO</th>
<th>TEST AREA</th>
<th>TEST DESCRIPTION</th>
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</tr>
</thead>
</table>
| 9. | Access to calculation documents | Determine if personnel have appropriate access to incentive pay calculation support by:  
  - Obtaining the list of personnel authorized to access calculation folder from TRS Help Desk  
  - Reviewing the list to ensure only appropriate personnel are included  
  - Contacting a sample of authorized users to confirm their access to the calculation folder  
  - Contacting a sample of non-authorized users to confirm they cannot access the calculation folder  
                                                                                                                         | No Issue    | None          |
Teacher Retirement System of Texas – Internal Audit

Talent Management and Culture Audit

Brian Guthrie, Nick Ballard, Rebecca Merrill, and Janet Bray
April 25, 2019
**BACKGROUND**

**TRS GROWTH**

Fiscal Year 2018: 704.4

~15% Increase

Budgeted FTEs

Fiscal Year 2019: 809.8

- Improve Customer Service
- Enhance Internal Investment Capabilities
**AUDIT OBJECTIVE** Determine if internal controls support TRS talent management goals

**METHODOLOGY**
- Focus Groups with 65 staff across TRS
- Review processes and initiatives at TRS (as of December 31, 2018)
TALENT MANAGEMENT GOALS

1. Shared Services
   Alignment of shared services to TRS’ three mission-critical functions

2. Culture
   TRS Core Values & Ethics Policies support TRS’ culture

3. Talent Management
   Recruit, hire, & develop staff
OVERALL AUDIT CONCLUSION

TRS has sufficient processes in place to provide reasonable assurance that its talent management goals are achieved.

Improvement opportunities were identified.
1. SHARED SERVICES ALIGNMENT

Observations
Strategic alignment between shared services and mission-critical functions

Opportunities for Improvement
Operational alignment could be improved in certain cases
1. SHARED SERVICES ALIGNMENT

**Recommendations**

1.1. Explore opportunities to strengthen shared services alignment

**Management Response**

Management agrees and will explore the following to strengthen alignment:

- Develop or review department-specific strategic plans by 12/31/2020
- Document or review roles and responsibilities by 12/31/2020
- Develop or review performance metrics and customer surveys by 12/31/2020
- Review job responsibilities to ensure assignment and potential embedding of staff is appropriate and communicated by 8/31/2019
- Assess whether to engage a consultant to review organizational structure by 12/31/2020
2. CULTURE

Observations

TRS Core Values

• Customer Satisfaction, Collaboration/Teamwork, Accountability, Respect, Ethics, Excellence, and Employee Fulfillment

TRS Ethics Policies

• Board of Trustee Ethics Policy, Employee Ethics Policy, TRS Personal Trading Policy, and Fraud, Waste and Abuse Policy
2. CULTURE

Observations
- Core Values development process was thorough
- Core Values and ethics expectations regularly communicated
- Understanding monitored
  - 94% agreed - “I understand what is expected of me related to the Core Values”
  - 97% agreed - “I am generally familiar with the TRS Ethics Policy”

---

3 Based on 2018 Survey of Employee Engagement
2. CULTURE

Observations
• Top Workplaces award 2012-2017\(^4\)
• Implementing Diversity and Inclusion Program
• Subcultures exist within TRS

Opportunities for Improvement
• No formal process in place to review, communicate, or measure Core Values

\(^4\) Based on Annual Austin American-Statesman Top Workplaces Award
RESULTS

2. CULTURE

Recommendations

2.1. Establish review process for Core Values
2.2. Develop Core Values communication plan
2.3. Develop performance measures to monitor Core Values communication and understanding

Management Response

Management agrees and will develop a review process and communication plan for the Core Values, and will develop performance measures for Core Values communication and understanding by 4/30/2020
3. TALENT MANAGEMENT

Observations

Recruiting and Hiring
  • Liaison approach to facilitate hiring
  • Resources available to hiring managers

Staff Development
  • Documented performance appraisal process

TRS Compensation Plan
  • Management analyzing TRS Compensation Plan
3. TALENT MANAGEMENT

Opportunities for Improvement

Recruiting and Hiring
• New talent acquisition software being implemented
• No formal training provided to hiring managers
• Employee value proposition being developed

Staff Development
• Career paths being developed
3. TALENT MANAGEMENT

Recommendations
3.1. Ensure talent acquisition software meets business needs
3.2. Provide formal hiring manager training
3.3. Complete and communicate employee value proposition
3.4. Continue to document career paths

Management Response
Organizational Excellence management agrees with the results and will work to implement the recommendations as follows:
3.1. Implement talent acquisition software by 12/31/2020
3.2. Provide formal hiring manager training and materials by 6/30/2020
3.3. Complete employee value proposition by 12/31/2020
3.4. Complete documentation of career paths by 12/31/2020
DEFINITIONS

1. **TRS Shared Services** - Communications, Executive, Financial Services, Governmental Relations, Information Technology, Internal Audit, Legal and Compliance, Organizational Excellence, Project Management Office, and Strategy Office

2. **Mission-Critical Functions** - Administration of Benefit Services and Health Insurance Benefits, and Investment Management

3. **TRS Strategic Goals**
   1. Sustain a financially sound pension system.
   2. Continuously improve our benefit delivery.
   3. Facilitate access to competitive, reliable health care benefits for our members.
   4. Ensure that people, processes, and technology align to achieve excellence in the delivery of TRS goals.
   5. Promote purchasing selection practices that foster meaningful and substantive inclusion of historically underutilized businesses (HUBs).
DEFINITIONS

4. **TRS Core Values**
   - **Customer Satisfaction** - We focus on our customers, both external and internal, by ensuring that their needs are met and their expectations are exceeded.
   - **Collaboration and Teamwork** - We work together to achieve common goals through a diverse, yet unified team.
   - **Accountability** - We hold ourselves accountable and take responsibility for our actions, behavior, and outcomes.
   - **Respect** - We treat each other with respect, fairness and kindness in constant pursuit of a trusting environment.
   - **Ethics** - We will be truthful and act with honesty and integrity in everything we do.
   - **Excellence** - We commit to demonstrating excellence in our work and look for ways to continuously improve.
   - **Employee Fulfillment** - We have a workplace where each employee has a strong sense of purpose, feels good about coming to work and is highly engaged.
**TALENT MANAGEMENT AND CULTURE AUDIT**  
March 8 2019

TRS Internal Audit Department

### Business Objectives
To ensure that shared services are aligned to support TRS’ talent management goals.
- Shared services are not aligned to support TRS' talent management goals
- There is no consistent accountability between shared services and the departments they support

To ensure that TRS has the right culture to support its strategic goals.
- Defined culture values do not align with current TRS culture
- Culture is not consistently defined or communicated
- TRS does not obtain feedback from employees to identify opportunities to strengthen alignment with cultural values

To ensure that processes are effective to support TRS’ talent management goals.
- Recruiting not effective
- Hiring process not efficient
- Value proposition not defined
- Career paths not defined
- Talent management information systems are not effective
- Compensation is not competitive

### Business Risks

<table>
<thead>
<tr>
<th>To ensure that shared services are aligned to support TRS’ talent management goals.</th>
<th>To ensure that TRS has the right culture to support its strategic goals.</th>
<th>To ensure that processes are effective to support TRS’ talent management goals.</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Shared services processes and organizational structures</td>
<td>• Process for developing and communicating TRS Core Values (Core Values)</td>
<td>• Recruiting not effective</td>
</tr>
<tr>
<td>• Shared services management reports</td>
<td>• Ethics-related policies and training</td>
<td>• Hiring process not efficient</td>
</tr>
<tr>
<td></td>
<td>• Biennial survey, including Core Values and ethics questions</td>
<td>• Value proposition not defined</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Career paths not defined</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Talent management information systems are not effective</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Compensation is not competitive</td>
</tr>
</tbody>
</table>

### Management Controls

<table>
<thead>
<tr>
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<td>• Shared services management reports</td>
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<td>• Core Values and ethics expectations regularly communicated</td>
</tr>
<tr>
<td></td>
<td>• Biennial survey, including Core Values and ethics questions</td>
<td>• Core Values and ethics understanding monitored</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• No formal process in place to review, communicate, or measure Core Values</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• New talent acquisition software being implemented</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• No formal hiring process training provided to hiring managers</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Employee value proposition being developed</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Career paths being developed</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Documented performance appraisal process</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Management analyzing TRS Compensation Plan</td>
</tr>
</tbody>
</table>

### Controls Tested

<table>
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<td>• Shared services processes and organizational structures</td>
<td>• Process for developing and communicating Core Values</td>
<td>• Core Values development process was thorough</td>
</tr>
<tr>
<td>• Shared services management reports</td>
<td>• Ethics-related policies and training</td>
<td>• Core Values and ethics expectations regularly communicated</td>
</tr>
<tr>
<td></td>
<td>• Biennial survey, including Core Values and ethics questions</td>
<td>• Core Values and ethics understanding monitored</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• No formal process in place to review, communicate, or measure Core Values</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• New talent acquisition software being implemented</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• No formal hiring process training provided to hiring managers</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Employee value proposition being developed</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Career paths being developed</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Documented performance appraisal process</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Management analyzing TRS Compensation Plan</td>
</tr>
</tbody>
</table>

### Results

<table>
<thead>
<tr>
<th>To ensure that shared services are aligned to support TRS’ talent management goals.</th>
<th>To ensure that TRS has the right culture to support its strategic goals.</th>
<th>To ensure that processes are effective to support TRS’ talent management goals.</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Explore opportunities to strengthen shared services alignment with the departments they support</td>
<td>• Establish review process for Core Values</td>
<td>• Ensure talent acquisition software meets business needs</td>
</tr>
<tr>
<td></td>
<td>• Develop Core Values communication plan</td>
<td>• Provide formal hiring manager training</td>
</tr>
<tr>
<td></td>
<td>• Develop performance measures to monitor Core Values communication and understanding</td>
<td>• Complete and communicate employee value proposition</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Continue to document career paths</td>
</tr>
</tbody>
</table>

### Recommended Actions

<table>
<thead>
<tr>
<th>To ensure that shared services are aligned to support TRS’ talent management goals.</th>
<th>To ensure that TRS has the right culture to support its strategic goals.</th>
<th>To ensure that processes are effective to support TRS’ talent management goals.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management agrees and will:</td>
<td>Management agrees and will:</td>
<td>Management agrees and will:</td>
</tr>
<tr>
<td>• Review department strategic plans, documented roles and responsibilities, and performance metrics by 12/31/2020</td>
<td>• Implement talent acquisition software by 12/31/2020</td>
<td>• Review department strategic plans, documented roles and responsibilities, and performance metrics by 12/31/2020</td>
</tr>
<tr>
<td>• Review job responsibilities and assignments by 8/31/2019</td>
<td>• Provide formal hiring manager training/materials by 6/30/2020</td>
<td>• Review job responsibilities and assignments by 8/31/2019</td>
</tr>
<tr>
<td>• Assess using consultant to review organizational structure by 12/31/2020</td>
<td>• Complete documentation of career paths by 12/31/2020</td>
<td>• Assess using consultant to review organizational structure by 12/31/2020</td>
</tr>
</tbody>
</table>

### Management Responses

<table>
<thead>
<tr>
<th>To ensure that shared services are aligned to support TRS’ talent management goals.</th>
<th>To ensure that TRS has the right culture to support its strategic goals.</th>
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<td>• Assess using consultant to review organizational structure by 12/31/2020</td>
</tr>
</tbody>
</table>
EXECUTIVE SUMMARY

Overview

The audit of Talent Management and Culture\(^1\) found that the Teacher Retirement System (TRS) has sufficient processes in place to provide reasonable assurance that TRS’ talent management goals are achieved. As summarized below, the audit identified positive results and opportunities to strengthen TRS’ shared services\(^2\) alignment, Core Values\(^3\) communication, and talent management processes.

Shared Services Alignment

TRS shared services are expected to strategically align with the departments they support through their annual budget development process. The process requires shared services departments to develop their departmental budgets based on the needs of TRS’ mission-critical functions\(^4\). Additionally, certain shared services departments have strengthened their alignment by developing department-specific strategic plans that identify customers and value propositions, and by dedicating their staff to the departments they support.

The audit team conducted focus groups with TRS staff to identify opportunities to improve processes for shared services, culture, and talent management. Feedback from focus groups indicates that operational alignment between shared services and the departments they support could be improved in certain cases. To address this feedback, Executive management should explore opportunities to coordinate improvement of alignment between shared services and the departments they support.

TRS Culture

The TRS Core Values, which identify expected behaviors for TRS staff, are designed to create a culture at TRS that supports the agency’s Strategic Goals\(^5\). TRS Strategic Initiatives coordinated establishment of the Core Values via a comprehensive process in 2013. The Core Values are communicated and reinforced through new employee orientation, performance appraisals, ethics-related policies, regular training, and publication of the TRS Strategic Plan. Feedback regarding staff understanding of the Core Values is obtained from a biennial Survey of Employee Engagement. TRS management is also enhancing the culture by initiating a Diversity and Inclusion Program.

---

\(^1\) **Culture** – Shared beliefs, common values, ethics, expectations, assumptions, goals, work environment, behaviors, and prohibitions that organizations develop over time.

\(^2\) **TRS Shared Services** – Communications, Executive, Financial Services, Governmental Relations, Information Technology, Internal Audit, Legal and Compliance, Organizational Excellence, Project Management Office, and Strategy Office.

\(^3\) **TRS Core Values** – Customer Satisfaction; Collaboration and Teamwork; Accountability; Respect; Ethics; Excellence; and Employee Fulfillment

\(^4\) **Mission-Critical Functions** – Administration of Benefit Services and Health Insurance Benefits, and Investment Management.

\(^5\) **TRS Strategic Goals** – 1. Sustain a financially sound pension system. 2. Continuously improve our benefit delivery. 3. Facilitate access to competitive, reliable health care benefits for our members. 4. Ensure that people, processes, and technology align to achieve excellence in the delivery of TRS goals. 5. Promote purchasing selection practices that foster meaningful and substantive inclusion of historically underutilized businesses (HUBs)
While the Core Values are communicated regularly, there are no formal processes to periodically review the Core Values, or track their communication and employees understanding of expectations related to the values. To strengthen the TRS culture, Strategic Initiatives, in coordination with other relevant departments, should establish a formal Core Values review process, and develop a Core Values communication plan and performance measures for Core Values communication and understanding.

Talent Management Processes

TRS’ talent management processes related to recruiting, hiring, and developing staff support the organization’s talent management goals.

Opportunities exist to enhance TRS’ current talent management processes. Organizational Excellence (OE) should enhance current processes by completing implementation of a new applicant tracking system, providing formal hiring manager training, developing and communicating a TRS employee value proposition, and documenting job-specific career paths, as applicable.

Background

TRS has ten shared services departments that support the TRS Mission\(^6\). TRS’ mission-critical functions include the administration of pension and health insurance benefits, and the management of investments. On September 1, 2017, TRS had 704.40 budgeted full-time equivalent (FTE) employees. To improve TRS’ member service and enhance internal investment capabilities, the TRS Board of Trustees (Board) approved a 15% increase to 809.75 budgeted FTEs as of February 28, 2019.

As TRS continues to grow, ensuring that it has the right talent management processes and culture in place to support its strategic goals is important. To gain an understanding of opportunities to strengthen TRS’ talent management processes and potential risks to the TRS culture, the Internal Audit team conducted focus groups with 65 management and staff across the organization. Feedback from these focus groups was used to identify key areas for testing and to support recommendations (Appendix C - TRS Focus Group Summary).

In developing recommendations, the audit team considered Texas laws to which TRS is required to adhere as a state entity. Additionally, this audit focused on TRS talent management processes related to FTEs. Audit work did not include processes related to non-TRS workers.

Management has been responsive to the audit, and is already implementing identified recommendations. Results of the audit procedures are presented in more detail in the Results, Recommendations, and Management Responses section. The audit objective, scope, methodology, and conclusion are described in Appendix A. The summary of business objectives, risks, and controls are described in Appendix B.

\(^6\) TRS Mission — Improving the retirement security of our members by prudently investing and managing the Trust assets and delivering benefits that make a positive difference in their lives.
Summary of Management Response

Management appreciates the information collection, analysis, recommendations and effort contributed by the Internal Audit team on the Talent Management and Culture Audit. The Internal Audit team was professional, proactive and thoughtful in their approach. Management is receptive to the recommendations and has implementation underway on many of the recommendations. Management appreciates the collaborative partnership with Internal Audit and the feedback of all stakeholders involved.
RESULTS, RECOMMENDATIONS, AND MANAGEMENT RESPONSES

1. Effective alignment of shared services to support TRS’ talent management goals

TRS shared services are expected to strategically align with the departments they support through their annual budget development process. The process requires shared services to develop their departmental annual budgets and biennial Legislative Appropriations Requests7 (LARs) based on the needs of TRS’ mission-critical functions. Additionally, certain shared services departments have strengthened their alignment by developing departmental strategic plans that identify customer needs, and by dedicating their staff to supported departments.

1.1. Identify opportunities to further align shared services with the needs of the departments they support

While TRS’ budget development processes facilitate strategic alignment between shared services and the departments they support, feedback from focus groups conducted with TRS staff indicates that operational alignment could be improved in certain cases.

Recommendations

Executive management should explore opportunities to coordinate with shared services departments to strengthen alignment with the needs of the departments they support. This could be accomplished by any of the following:

a. Developing department-specific strategic plans in collaboration with the departments they support. Strategic plans could identify shared services customers, department offerings, and value propositions.
b. Documenting and communicating roles and responsibilities for shared services.
c. Establishing and reporting metrics for success, where appropriate. Metrics may include tasks executed or response time. The metrics may be reported and reviewed regularly, on a basis agreed to by shared services and supported department management.
d. Assigning team members to the departments they support and communicating their job responsibilities.
e. Implementing reporting structures for dedicated staff that ensure greater accountability with supported departments, where applicable. Reporting structures could require dedicated staff to report to their functional manager and also be accountable to supported department management.

---

7 Legislative Appropriations Request – Texas state agency appropriations request submitted to the Texas Legislative Budget Board.
Management Response

a. Management agrees. While management strongly encourages each department to develop their own strategic plan that cascades off the enterprise plan, the highest priority is ensuring that each department has identified and can articulate their mission statement, internal and external customers, and distinctive service offerings. Therefore, management commits to addressing these three key issues with each department by **December 31, 2020**.

Many departments already have mission statements and some even have full-scale strategic plans. Management does not expect shared services to re-visit mission statements, strategic plans, or the like that are already in place. Those departments who have already developed these concepts need only share them with executive management as soon as possible but no later than **December 31, 2020**.

Management also believes it is important to note that accomplishing the mission of the agency takes partnership across the enterprise. This means that there are responsibilities and expectations of both sides of the working relationship. Therefore, management commits to providing training to enterprise-wide leadership by **December 31, 2020** on how to develop and strengthen organizational partnerships.

b. See response to a. above.

c. Management agrees and believes that a mix of quantitative and qualitative measures is the most effective way for shared services to gauge internal customer satisfaction.

Management will direct each shared service to develop metrics for major business processes, where metrics do not currently exist, by **December 31, 2020**. Departments that already have performance metrics for their major processes need only provide those to executive management as soon as possible but no later than **December 31, 2020**.

Some, but not all, shared services departments offer customer satisfaction surveys when services are provided. These are transactional satisfaction surveys. Management believes an effective practice would be to establish an enterprise-wide process and tool for measuring internal customer satisfaction and relationships. Executive Council members who lead the shared services departments meet regularly to discuss how to improve internal customer service and enhance partnerships across the organization. Management believes that this shared services group is an effective starting point to gauge internal customer satisfaction on an enterprise level. Management has directed Strategic Initiatives to develop a tool and process, with input from the three lines of business and the shared services group, for assessing internal customer satisfaction and relationships by **December 31, 2020**.
d. Management agrees and will direct each shared services department to review job responsibilities and alignment to lines of business. The purpose of this review is to ensure team members have been assigned or embedded as appropriate and that job responsibilities have been appropriately communicated to all parties. Management will direct shared services to have this internal review completed by **August 31, 2019**. If a department has conducted an internal review of assignments and embedding in the last six months, then the department need only provide executive management with the assurance as soon as possible but no later than **August 31, 2019** that the review has occurred in a timely fashion.

e. Management agrees that accountability for shared services is crucial to ensure that supported departments are able to meet their business objectives. Management believes this accountability comes in a variety of methods, including departmental strategic plans, job descriptions, assigned and embedded staff, and performance evaluations for both shared services leaders and staff. Therefore, management thinks the best course of action is to execute on the management commitments of this audit. Then, if internal customer satisfaction reviews show that additional measures are needed, management will engage an outside consultant to examine questions of organizational structure, including the appropriateness of multiple reporting lines. Management will make the decision whether to move forward with engaging a consultant on organizational structure by **December 31, 2020**.
2. **The right culture to support TRS’ Strategic Goals**

The TRS Core Values, which identify expected behaviors for TRS staff, are designed to create a culture at TRS that supports the agency’s Strategic Goals. TRS Strategic Initiatives coordinated establishment of the Core Values via a comprehensive process in 2013. The TRS Core Values include Customer Satisfaction, Collaboration and Teamwork, Accountability, Respect, Ethics, Excellence, and Employee Fulfillment (*Appendix D - TRS Core Values*).

The Core Values are communicated to new TRS employees during orientation and via the agency’s biennial Strategic Plan submitted to the Texas Legislative Budget Board. Feedback regarding staff understanding of the Core Values is obtained from the TRS biennial Survey of Employee Engagement. For the 2018 engagement survey 94% of respondents agreed with the statement, “I understand what is expected of me related to the TRS Core Values.” The survey results are reviewed with the Executive Director and the executive-level staff for each department.

Core Values adherence is also measured through inclusion of the values in staff performance appraisal evaluation criteria. The TRS Performance Management Policy requires that at least two Core Values be included in staff performance appraisals. Review of 14 TRS performance appraisal templates found that each included at least two Core Values in the evaluation criteria.

To ensure an ethical culture, TRS has ethics-related policies, which include, but are not limited to, the Board of Trustee Ethics Policy, Employee Ethics Policy, the TRS Personal Trading Policy, and the Fraud, Waste, and Abuse Policy. TRS requires annual training related to the ethics policies, which educates employees on expectations regarding ethical conduct as well as annual certifications of compliance with those expectations. For the 2018 Survey of Employee Engagement, 97% of respondents agreed with the statement, “I am generally familiar with the TRS Ethics Policy.”

As a noteworthy reflection of TRS’ positive culture, the agency has won the Austin American-Statesman’s Top Workplaces award from 2012 through 2017. To build on the TRS culture, TRS management initiated the TRS Diversity and Inclusion (D&I) Program in 2018. The goal of this program is to “execute a multi-faceted approach to improve diversity representation at all levels of the organization and to create an inclusive work environment that fosters creativity and innovation.”

Subcultures exist within the broader TRS culture. This is expected and mostly evident in the differences between the departments located at TRS Red River, which focus on meeting internal standards for providing services, and the separately-located Investment Management Division (IMD), which focuses on competing for investment returns. The IMD, as a business unit of TRS, also has a separate Culture Statement that emphasizes Creative Construction, Personal Fulfillment, Passion Energy and Motivation to Outperform, and Collaboration and Teamwork (*Appendix E – TRS IMD Culture Statement*).
2.1. **Formally review TRS Core Values, develop TRS Core Values Communication Plan, and develop TRS Core Values Performance Measures**

While the Core Values are communicated regularly to TRS staff and external oversight entities, there is no formal process to periodically review or track Core Values communication and understanding.

**Recommendations**

To further strengthen the TRS culture, Strategic Initiatives should coordinate with relevant departments to:

a. Establish a process to review the TRS Core Values on a periodic basis. This process should include obtaining input from TRS Executive Council and staff, and assessing whether the Core Values are consistent with TRS’ current culture.

b. Develop a communication plan to remind staff about the TRS Core Values. The communication plan should identify responsible parties, content, mediums, and frequency.

c. Coordinate efforts to develop performance measures to assess TRS Core Values communication and understanding. Performance measures could include: the number of times the Core Values are communicated and the percentage of positive responses to Core Values understanding in the Survey of Employee Engagement.

**Management Response**

Management agrees and will develop:

a. A process to review the core values on a periodic basis with input from the agency;

b. A process to communicate the plan more frequently than is currently being done across multiple mediums; and

c. Performance measures to assess core values communication and understanding.

Management commits to implementing the recommendations by **April 30, 2020**.
3. Effective processes to support TRS’ talent management goals

TRS’ talent management processes related to recruiting, hiring, and developing staff support the organization’s talent management goals.

3.1. Enhance recruitment processes by completing implementation of proposed Applicant Tracking System

The OE Talent Acquisition team includes four team members. From September 2017 through December 2018, OE supported hiring for 234 positions.\(^8\) On average, TRS filled positions within 68 days\(^9\) of the posting date for the time period tested. Average time-to-hire days includes time necessary for coordination between OE and hiring managers. Currently, OE does not track time-to-hire. While time-to-hire should be weighed against the time necessary to hire the right talent, monitoring the significant process dates can help identify process bottlenecks and opportunities for improvement.

<table>
<thead>
<tr>
<th>Department</th>
<th>Total Positions Filled</th>
<th>Time-to-Hire (Average Days)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benefit Services</td>
<td>99</td>
<td>65</td>
</tr>
<tr>
<td>Communications</td>
<td>3</td>
<td>75</td>
</tr>
<tr>
<td>Financial Services</td>
<td>14</td>
<td>64</td>
</tr>
<tr>
<td>Health Insurance Benefits</td>
<td>37</td>
<td>69</td>
</tr>
<tr>
<td>Investment Management Division</td>
<td>28</td>
<td>75</td>
</tr>
<tr>
<td>Internal Audit</td>
<td>3</td>
<td>90</td>
</tr>
<tr>
<td>Information Technology</td>
<td>23</td>
<td>57</td>
</tr>
<tr>
<td>Legal and Compliance</td>
<td>10</td>
<td>70</td>
</tr>
<tr>
<td>Organizational Excellence</td>
<td>12</td>
<td>65</td>
</tr>
<tr>
<td>Project Management Office</td>
<td>5</td>
<td>53</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>234</strong></td>
<td><strong>Average 68</strong></td>
</tr>
</tbody>
</table>

To enhance TRS’ talent acquisition processes, OE is implementing a new applicant tracking system (ATS) application. Eventually, the new system will replace TRS’ current talent management software (Appendix F – Talent Management Software Implementation Schedule).

---

\(^8\) **Total Positions** – Excludes interns, directors, chiefs, and postings that were cancelled.

\(^9\) Measured as the number of days from the posting date to the offer accepted date.
Recommendations

OE management should work with TRS management to ensure that the new ATS reports are designed to meet business unit needs. The new ATS should capture:

a. Significant process dates to track and trend the time spent at each phase of the hiring process; and to identify opportunities for process improvement
b. Unique identifiers applied to posted positions throughout the hiring process
c. Job requisitions\textsuperscript{10} per Talent Acquisition team member

Management Response

OE management agrees with the recommendations related to ATS reporting designed to meet business unit needs. In implementing the new ATS, OE will develop reporting that tracks each posted position (by unique identifier and Talent Acquisition staff assigned) in the hiring process through each stage of the process (i.e., from requisition to hire). Implementation date: \textbf{December 31, 2020}.

3.2. Provide formal training to all hiring managers

The OE hiring process includes a liaison approach for OE resources to assist hiring managers; a formally documented pre-requisition process; and a pre-requisition template for use by the talent acquisition team, the compensation team, and the hiring manager. TRS has not established a formal training process for hiring.

Focus groups stated that OE should provide formal hiring manager training to ensure a common understanding of the hiring process and key process deliverables (e.g. updated job descriptions and compensation ranges).

Recommendations

OE management should develop formal training for all hiring managers that communicates hiring procedures. This training should outline key process steps and deliverables to help managers efficiently and effectively navigate the process.

Management Response

OE management agrees with the recommendation to expand its current training to include a formal training for hiring managers that communicates hiring procedures and provides information about key process steps and deliverables. The formal training and materials will reflect the hiring process that exists after the go-live of the new ATS system. Implementation date: \textbf{June 30, 2020}.

\textsuperscript{10} Job Requisition – Request to hire for an identified position.
3.3. Develop and communicate Employee Value Proposition (EVP) \(^{11}\)

In addition to required governmental sites, the OE recruitment process includes posting positions on non-government recruiting sites; outreach to business, technology, science, and liberal arts student groups at local universities; and recruitment from diversity-focused organizations.

To improve the recruiting process by providing better communication on the benefits of working at TRS, OE has identified the following elements of an EVP: benefits, training, career development, and culture. The elements also include compensation and work/life balance, which vary depending on department-specific factors. The identified EVP elements have not been formalized or communicated throughout the organization.

**Recommendations**

OE management should coordinate completion of a formal EVP for TRS. The EVP should consider department-specific factors relating to compensation and work/life balance. OE management should communicate the final EVP to all current and prospective TRS employees.

**Management Response**

OE management agrees with the recommendation to coordinate the completion of a formal EVP for TRS employees. The EVP will be developed in a collaborative process with all business units. A supportive communication plan will be developed and implemented to disseminate the EVP to current and prospective TRS employees. The upcoming Total Compensation Review (TCR) scheduled for later in 2019 will most likely impact this project. Implementation date: **December 31, 2020.**

3.4. Complete TRS Department Career Paths

To enhance TRS’ talent management processes, OE management is working with certain department management to establish and document career paths. Focus group feedback found that career paths ranked as the highest impact and lowest maturity for assessed TRS talent management processes (**Appendix C**). Defined career paths help identify the behaviors and tasks team members should exhibit to progress within their departments.

**Recommendations**

OE management should continue to work with TRS departments, as needed, to document job-specific career paths that tie to department business objectives.

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\(^{11}\) **Employee Value Proposition** – A unique set of benefits which an employee receives in return for the skills, capabilities, and experience they bring to a company.
Management Response

OE management agrees with the recommendation to document career paths that tie to business department objectives. OE has started the process of creating comprehensive career paths and will continue building this framework. OE recognizes that its current methodology for career pathing may change with the outcome of the TCR. Implementation date: **December 31, 2020.**

3.5. Performance Appraisal Process

The current TRS performance management process is documented in the 2018 TRS Performance Appraisal Process Guide. The Guide includes the deadlines for performance appraisals and considerations for TRS employees and managers. Online performance appraisal process training is also made available to all TRS staff.

3.6. Turnover and TRS Compensation Plan

TRS retention data for the three fiscal years ending August 31, 2018 shows that TRS’ turnover is less than the average for Texas state classified employees.12

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>TRS</th>
<th>Statewide</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>14.0%</td>
<td>19.3%</td>
</tr>
<tr>
<td>2017</td>
<td>11.3%</td>
<td>18.6%</td>
</tr>
<tr>
<td>2016</td>
<td>11.5%</td>
<td>17.6%</td>
</tr>
</tbody>
</table>

However, between 2017 and 2018, TRS’ turnover increased from 11% to 14%. In TRS Board presentations, management has indicated this increase is partly due to noncompetitive compensation for benefit counselors. Additionally, feedback from focus groups conducted during the audit found that a comprehensive review of TRS compensation would help ensure compensation competitiveness across the organization.

To address this issue, Executive management, in coordination with OE, is in the process of procuring consultant services to analyze and recommend updates to the current TRS compensation plan.13

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13 Position Classification Plan – TRS is excluded from Texas Government Code 654, Subchapter B, 654.011(8).
Fiduciary Exemption – Government Code 825.208 (b) exempts TRS from Chapter 659, Subchapter K (Promotions, Reclassifications, and Other Adjustments to Salary) “… to the extent the board of trustees determines an exemption is necessary for the performance of fiduciary duties.”
We appreciate Organizational Excellence management and staff for their cooperation, courtesy, and professionalism extended to us during this audit. We also appreciate support provided by management and staff in Benefit Services, Executive, Financial Services, Health Insurance Benefits, Information Technology, Investment Management Division, Legal and Compliance, Project Management Office, and Strategic Initiatives.

Amanda Jenami, CIA, CISA, CPA, CFE  Nick Ballard, CIA, CPA, CFA
Chief Audit Executive  Director of Investment Audit

Anandhi Mani, CIA, CPA, FCCA (UK)  Simin Pang, CIA, CISA, MBA
Senior Investment Auditor  Senior IT Auditor
APPENDIX A

AUDIT OBJECTIVE, SCOPE, METHODOLOGY, AND CONCLUSION

We conducted this performance audit in accordance with generally accepted government auditing standards contained in the Government Auditing Standards issued by the Comptroller General of the United States and the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors, Inc.

These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the audit findings and conclusions based on the audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

AUDIT OBJECTIVE

The audit objective was to determine whether internal controls are in place and are working effectively to achieve the business objectives stated below and mitigate significant risks to meeting those objectives.

- To ensure that there is effective alignment of Shared services to support TRS’ talent management goals
- To ensure that TRS has the right culture to support its strategic goals
- To ensure that there is effective processes to support TRS’ talent management goals

SCOPE

The scope of the audit included processes in place as of December 31, 2018 and current talent management initiatives related to TRS FTEs. The scope did not include non-TRS workers.

METHODOLOGY

Our methodology included obtaining information on management’s business objectives and risks, and focused on key processes and monitoring controls that management has established to address significant risks. To meet the audit objectives, we specifically performed the following procedures:

- Reviewed documentation related to TRS talent management and culture
- Met with department management and conducted focus groups with management and staff from Benefit Services, Executive, Financial Services, Health Insurance Benefits, Information Technology, Investment Management Division, Legal and Compliance, Organizational Excellence, Project Management Office, and Strategic Initiatives
## APPENDIX B

### BUSINESS OBJECTIVES, RISKS, AND CONTROLS

For the audit of Talent Management and Culture, we obtained information about the following three business objectives, as well as the related risks and the controls management established to mitigate these risks:

<table>
<thead>
<tr>
<th>Business Objectives</th>
<th>To ensure that Shared services are aligned to support TRS’ talent management goals.</th>
<th>To ensure that TRS has the right culture to support its strategic goals.</th>
<th>To ensure that processes are effective to support TRS’ talent management goals.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Business Risks</strong></td>
<td>• Shared services are not aligned to support TRS’ talent management goals</td>
<td>• Defined culture values do not align with current TRS culture</td>
<td>• Recruiting not effective</td>
</tr>
<tr>
<td></td>
<td>• There is not consistent accountability between shared services and the departments they support</td>
<td>• Culture is not consistently defined or communicated across TRS</td>
<td>• Hiring process not efficient</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• TRS does not obtain feedback from employees to identify opportunities to strengthen alignment with cultural values</td>
<td>• Value proposition not defined</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Career paths not defined</td>
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<td></td>
<td></td>
<td></td>
<td>• Talent management information systems are not effective</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Compensation is not competitive</td>
</tr>
<tr>
<td><strong>Management Controls</strong></td>
<td>• Shared services processes and organizational structures</td>
<td>• Process for developing TRS Core Values</td>
<td>• Documented policies and procedures</td>
</tr>
<tr>
<td></td>
<td>• Shared services management reports</td>
<td>• Methodology for communicating TRS Core Values and ethics expectations across TRS</td>
<td>• Human resource information systems</td>
</tr>
<tr>
<td></td>
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<td>• TRS ethics-related policies and training</td>
<td>• Talent management process initiatives</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• TRS employee engagement survey, including questions related to TRS Core Values and ethics</td>
<td></td>
</tr>
<tr>
<td><strong>Controls Tested</strong></td>
<td>• Shared services processes and organizational structures</td>
<td>• Process for developing TRS Core Values</td>
<td>• Documented policies and procedures</td>
</tr>
<tr>
<td></td>
<td>• Shared services management reports</td>
<td>• Methodology for communicating TRS Core Values and ethics expectations across TRS</td>
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</tr>
<tr>
<td></td>
<td></td>
<td>• TRS employee engagement survey, including questions related to TRS Core Values and ethics</td>
<td></td>
</tr>
</tbody>
</table>
APPENDIX C

TRS FOCUS GROUP SUMMARY

Talent Management Functions Maturity and Impact Rankings

*Maturity* – The extent to which processes are explicitly defined, managed, measured, controlled, and effective.

*Impact* – The importance of a process to ensuring TRS meets its talent management goals.

*Focus Groups* – Include staff from Benefit Services, Health Insurance Benefits, Financial Services, Information Technology, Investment Management, Legal and Compliance, Organizational Excellence.
APPENDIX D

TRS CORE VALUES

*Customer Satisfaction* - We focus on our customers, both external and internal, by ensuring that their needs are met and their expectations are exceeded.

*Collaboration/Teamwork* - We work together to achieve common goals through a diverse, yet unified team.

*Accountability* - We hold ourselves accountable and take responsibility for our actions, behavior, and outcomes.

*Respect* - We treat each other with respect, fairness and kindness in constant pursuit of a trusting environment.

*Ethics* - We will be truthful and act with honesty and integrity in everything we do.

*Excellence* - We commit to demonstrating excellence in our work and look for ways to continuously improve.

*Employee Fulfillment* - We have a workplace where each employee has a strong sense of purpose, feels good about coming to work and is highly engaged.
APPENDIX E

TRS INVESTMENT MANAGEMENT DIVISION
CULTURE STATEMENT

*Creative Construction* - We drive forward with openness, candor, a meritocracy of ideas, the continual reexamination and constant striving for improvement, innovation, and the ruthless elimination of bureaucracy.

*Personal Fulfillment* - We develop our “personal genius” and recognize the success gained for an organization when individuals balance their work and life pursuits. This belief comes with the understanding that respect is something that is earned as much as it is given, and that our senior leadership must provide role models of both professional and personal success for all TRS employees.

*Passion, Energy, and Motivation to Outperform* - We believe that great outcomes are the result of doing something that we believe in, truly enjoy, and are willing to make sacrifices for. These outcomes require a supportive and positive environment that is also a challenge to work in, a passionate belief in our cause, as well as, the respect and admiration for those with whom we work. Working in one of the most competitive industries, we are motivated by our duty as fiduciaries, being entrusted with protecting the financial futures of teachers of Texas and other members of the TRS organization. We are making a difference in the lives of over one million people.

*Collaboration and Teamwork* - We encourage and accept individual accountability, but also understand that everything we do resides in a larger context and is done for a greater collective cause. Through a partnership of trust, we have established a relationship where all of us are on the same team, in the same boat and rowing in the same direction. Our lives and our outcomes are intertwined for the good of all.
# APPENDIX F

## TALENT MANAGEMENT SOFTWARE IMPLEMENTATION TIMELINE

<table>
<thead>
<tr>
<th>Module</th>
<th>Description</th>
<th>Planned Implementation Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Applicant Tracking</td>
<td>Track hiring process from managing interview to final offer.</td>
<td>March 6, 2019</td>
</tr>
<tr>
<td>Performance Management</td>
<td>Facilitate performance reviews, tracking skills and competencies to map career paths.</td>
<td>July 5, 2019</td>
</tr>
<tr>
<td>Succession Planning</td>
<td>Identify talent for a role, as needed. Expected to provide a personalized development path for talent and prepare the pipeline to ensure leadership continuity.</td>
<td>September 19, 2019</td>
</tr>
<tr>
<td>Compensation</td>
<td>Enable viewing of enterprise-wide performance and talent information.</td>
<td>October 24, 2019</td>
</tr>
</tbody>
</table>
Teacher Retirement System of Texas – Internal Audit

**Employer Testing**

**Agreed-Upon Procedures**

Art Mata, Carol Casey, Barbie Pearson, Mark Chi

April 25, 2019
SCOPE OF TESTING

11
Test areas

May 2018
Test month

4
Reporting Entity Partners

Related to:
- Census Data
- Compensation
- Contributions
- Surcharges
- Eligibility

- Rio Grande City Consolidated ISD
- Midland ISD
- Region One Education Service Center
- Region 18 Education Service Center
EXCEPTIONS IDENTIFIED

0% Census Data (n=80)

4% Creditable compensation (n=80)

6% Contributions (n=346)

$689 over (net)
Employees reported as eligible (n=80)

Employees reported as ineligible (n=40)

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Employees reported as ineligible (n=40)
Reporting Entity coaches will research the test results and contact the reporting entity partners with instructions to make any necessary corrections. Benefit Accounting will communicate the instructions to REPs no later than June 30, 2019.
Receive the complete and accurate reports from the Reporting Entity Partners (REPs) related to eligibility, compensation, employee demographics, contributions and surcharges.

- Improper determination of TRS membership eligibility
- Inaccurate census data provided to TRS results in erroneous actuarial data
- Inaccurate compensation reported to TRS
- Incorrect calculations of contributions and surcharges

- REPs are knowledgeable of TRS Laws and Rules
- REPs provide accurate census data and compensation to TRS
- Validation rules are built into TRUST and calculations for contributions and surcharges are correct

Reconcile total gross compensation
Recalculate creditable compensation
Recalculate contributions and surcharges:
  - Pension contributions
  - TRS-Care contributions
  - Federal Fund/Private Grants contributions
  - Statutory Minimum contributions
  - Non-OASDI contributions
  - Pension and TRS-Care surcharges

Validate Census Data:
  - Name
  - Date of Birth
  - Salary
  - Years of Service
  - SSN
  - Gender
  - Year of Entry

Determine eligibility for TRS membership, per TRS Laws and Rules for test sample, retirees working as substitutes, independent contractors, or employees who work for third-party entities providing services to the REPs.

Four REPs in the test month of May 2018

Total gross compensation – underreported by between 0.06% and 2.7% of the total payroll

Creditable compensation – 4% (3 out of 80) of overstated eligible compensation

Contributions – 6% (21 out of 346) exception rate, resulting in net overpayments of $689

Surcharges – 13% (7 out of 56) exception rate resulting in potential pension surcharges of $2,705 and TRS-Care surcharges of $1,605

Census Data – no exceptions

Eligibility – 48% (19 out of 40) of ineligible employees were determined to be eligible for TRS membership, resulting in potential underpayment of contributions of $4,100

Independent Contractors – 8% (3 out of 37) exception rate, resulting in potential underpayment of surcharges of $4,166. Nine other instances are awaiting determination from Legal and Compliance.

Reporting Entity coaches will research the test results and contact the reporting entity partners with instructions to make any necessary corrections. Benefit Accounting will communicate the instructions to REPs no later than June 30, 2019.
March 13, 2019

Barbie Pearson, Chief Benefit Officer

**Subject:** Independent Auditor’s Report on Employer Testing Agreed-Upon Procedures

We have completed the second phase of the **Employer Testing** Agreed-Upon Procedures, as included in the *Fiscal Year 2019 Audit Plan*.

We performed the procedures agreed to by you. These procedures include testing of data submitted to TRS for the test month of May 2018 by four Reporting Entity Partners (REPs): Rio Grande City Consolidated Independent School District, Midland Independent School District, Region One Education Service Center, and Region 18 Education Service Center. Tests performed related to the following areas:

1. Census Data
2. Compensation
3. Federal Funds/Private Grant contribution
4. Federal TRS-Care contribution
5. Statutory Minimum contribution
6. Non-OASDI contribution
7. Pension and TRS-Care contributions
8. Substitutes
9. Pension and TRS-Care surcharges
10. Third-Party Entities and Independent Contractors
11. Eligibility for TRS membership

The detailed procedures and results are described in **Appendix A**.

This agreed-upon procedures engagement was performed in accordance with generally accepted government auditing standards contained in the *Government Auditing Standards* issued by the Comptroller General of the United States.

The sufficiency of the agreed-upon procedures performed is solely the responsibility of those parties specified in this report. Consequently, we make no representations regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

---

1 “Reporting Entity Partner” is the “Employer” for the purposes of this test
2 The Old Age, Survivors, and Disability Insurance program (Social Security)
We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion. Accordingly, we do not express an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. This report is intended solely for information and use by TRS management, the Board of Trustees, and oversight agencies, and is not intended to be and should not be used by anyone other than those specified parties. However, this report is a matter of public record and its distribution is not limited, except as protected by statute.

* * * * *

We express our appreciation to management and key personnel of Benefit Services and Legal and Compliance, as well as to the reporting officials and staff at Rio Grande City Consolidated Independent School District, Midland Independent School District, Region One Education Service Center, and Region 18 Education Service Center for their cooperation and professionalism shown to us during the testing.

Amanda Jenami, CIA, CISA, CPA, CFE  Kate Rhoden, CIA, CPA  
Chief Audit Executive  Director of Benefit Audit Services

Art Mata, CEBS, CPM  Carol Casey, CPM  
Senior Benefit Audit Consultant  Benefit Audit Consultant
# APPENDIX A
## AGREED-UPON PROCEDURES AND RESULTS

Note: Management response is presented at the end of the table.

<table>
<thead>
<tr>
<th>TEST #</th>
<th>TEST PURPOSE</th>
<th>TEST DESCRIPTION</th>
<th>TEST RESULT</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Census data - obtain evidence that census data for TRS eligible employees working at REPs is correct</td>
<td>Agree census data (name, social security number, date of birth, gender, date of hire, years of service, job classification) provided by the REPs</td>
<td>No exceptions</td>
</tr>
<tr>
<td>2</td>
<td>Compensation - obtain evidence that REPs are reporting the correct compensation amounts to TRS</td>
<td>Obtain REPs payroll registers and compare to what was reported as compensation (total) and creditable compensation (sampled) to TRS</td>
<td>Four percent (3 out of 80) of employees tested had overstated creditable compensation as a result of including ineligible allowances. Total gross compensation was underreported to TRS by between 0.06% and 2.7% of the entire population for the four REPs tested.</td>
</tr>
<tr>
<td>3</td>
<td>Federal Funds/Private Grant contribution – obtain evidence that REPs are reporting the correct amounts of compensation paid from federal funds and private grants to TRS-eligible employees</td>
<td>Identify employees paid with federal funds or private grant money. Recalculate the compensation and contributions.</td>
<td>No exceptions</td>
</tr>
<tr>
<td>4</td>
<td>Federal TRS-Care contribution – Obtain evidence that the amount of REP TRS-Care contributions (due from Federal funds or private grants) are properly calculated and paid</td>
<td>Calculate the amount of TRS-Care contribution due from Federal funds or private grants for TRS-eligible employees</td>
<td>No exceptions</td>
</tr>
<tr>
<td>5</td>
<td>Statutory Minimum contribution – obtain evidence that REPs are reporting the correct amount for the state contribution for employees subject to the statutory minimum</td>
<td>Identify employees subject to the statutory minimum and calculate the contribution based on the state formula</td>
<td>Twenty-three percent (6 out of 26) exception rate resulted in net overpayment of $101</td>
</tr>
<tr>
<td>TEST #</td>
<td>TEST PURPOSE</td>
<td>TEST DESCRIPTION</td>
<td>TEST RESULT</td>
</tr>
<tr>
<td>-------</td>
<td>--------------</td>
<td>------------------</td>
<td>-------------</td>
</tr>
<tr>
<td>6</td>
<td><em>Non-OASDI contribution</em> – obtain evidence that REPs are reporting the correct amount for employees that do not contribute to Social Security</td>
<td>Identify employees subject to Non-OASDI and calculate the contribution</td>
<td>Eight percent (6 out of 80) exception rate resulted in net overpayment of $82</td>
</tr>
<tr>
<td>7</td>
<td><em>Pension and TRS-Care contributions</em> – obtain evidence that the amount of (1) member and employer contributions, (2) member TRS-Care contributions, and (3) REP TRS-Care contributions are properly calculated and paid</td>
<td>Calculate the amount of member pension, member TRS-Care, and REP TRS-Care contribution for each TRS eligible employee</td>
<td>Four percent (9 out of 240) of member pension, member TRS-Care, and REP TRS-Care contributions, totaling $506, as a result of including ineligible allowances in creditable compensation.</td>
</tr>
<tr>
<td>8</td>
<td><em>Substitutes</em> - obtain evidence that TRS retirees working as substitutes are reported correctly to TRS</td>
<td>Verify that TRS retirees, retired after September 1, 2005, reported as substitutes, worked in the place of an absent employee. If the position was vacant, verify that total days worked in the same vacant position do not exceed 20 days in the year.</td>
<td>Ten percent (2 out of 21) exception rate and three instances of inability to conclude</td>
</tr>
<tr>
<td>9</td>
<td><em>Pension and TRS-Care surcharges</em> – obtain evidence that TRS retirees performing services for the REPs were correctly reported and if applicable pension and TRS-Care surcharges were remitted</td>
<td>Identify TRS retirees, retired after September 1, 2005, and working more than one-half time in the calendar month. Calculate the pension and TRS-Care surcharges due for the identified retirees.</td>
<td>Thirteen percent (7 out of 56) exception rate and six instances of inability to conclude. The exceptions resulted in potential pension surcharges of $2,705 and TRS-Care surcharges of $1,605.</td>
</tr>
<tr>
<td>10</td>
<td><em>Third-Party Entities and Independent Contractors</em> – obtain evidence that TRS retirees employed by a third-party entity providing services to the REP or as independent contractors are reported correctly to TRS</td>
<td>Search REP check register for third-party entities. For independent contractors, match Social Security Numbers from REP 1099-MISC file to TRS retirement records.</td>
<td>Third-Party Entities – no exceptions Independent Contractors – eight percent (3 out of 37) exception rate, resulted in potential underpayments of pension surcharges of $4,166. Nine additional contractors are pending determination from Legal and Compliance.</td>
</tr>
<tr>
<td>TEST #</td>
<td>TEST PURPOSE</td>
<td>TEST DESCRIPTION</td>
<td>TEST RESULT</td>
</tr>
<tr>
<td>--------</td>
<td>--------------</td>
<td>------------------</td>
<td>-------------</td>
</tr>
</tbody>
</table>
| 11     | Eligibility for TRS membership - obtain evidence that eligible employees are correctly reported to TRS, and employees not eligible for TRS membership are not reported | Obtain TRS eligibility evidence for a sample of (i) employees reported as eligible by the REPs and (ii) employees reported as ineligible by the REPs | (i) Employees reported as eligible: no exceptions  
(ii) Non-member employees reported as ineligible by the REPs: forty-eight percent (19 out of 40) exception rate resulted in potential underpayments of contributions of approximately $4,100 |

Management response: Reporting Entity coaches will research the test results and contact the reporting entity partners with instructions to make any necessary corrections. Benefit Accounting will communicate the instructions to REPs no later than June 30, 2019.
Summary of Audit Recommendations

Teacher Retirement System of Texas – Internal Audit

Amanda Jenami
April 25, 2019
# TRS Internal Audit

## Summary of Audit Recommendations Status

### As of March 2019

<table>
<thead>
<tr>
<th>Project</th>
<th>Recommendation</th>
<th>Status</th>
<th>Issue Type</th>
<th>Estimated Date</th>
<th>Revised / Actual Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>18-201 Vendor Procurement Audit</td>
<td>1.1 Procurement Guidance should be used throughout the contracting process - Training</td>
<td>In Progress</td>
<td>Significant</td>
<td>3/2019</td>
<td>9/2019</td>
</tr>
<tr>
<td></td>
<td>1.2 Procurement Guidance should be used throughout the contracting process - Job aides, guides, manuals</td>
<td>In Progress</td>
<td>Significant</td>
<td>12/2018</td>
<td>9/2019</td>
</tr>
<tr>
<td></td>
<td>2.1 Obtain Business Associate Agreements for the contracts with the employers with access to Protected Health Information</td>
<td>Implemented</td>
<td>Significant</td>
<td>7/2018</td>
<td>7/2018</td>
</tr>
<tr>
<td></td>
<td>2.2 Process for contracts associated with Protected Health Information have an associated Business Associate Agreement - risk assessment questionnaire</td>
<td>In Progress</td>
<td>Significant</td>
<td>12/2018</td>
<td>9/2019</td>
</tr>
<tr>
<td></td>
<td>2.3 Process for contracts associated with Protected Health Information have an associated Business Associate Agreement - guidance and procedure</td>
<td>In Progress</td>
<td>Significant</td>
<td>9/2019</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3. Include in TRS Contract Administration Policy referenced procedural guidance where needed</td>
<td>In Progress</td>
<td>Other Reportable</td>
<td>9/2019</td>
<td></td>
</tr>
<tr>
<td></td>
<td>4. Follow internal procedures throughout contracting process</td>
<td>In Progress</td>
<td>Other Reportable</td>
<td>12/2018</td>
<td>9/2019</td>
</tr>
<tr>
<td></td>
<td>5.2 Work with management to overcome the following shortcomings of the current legacy system – Request For Offer</td>
<td>In Progress</td>
<td>Other Reportable</td>
<td>12/2018</td>
<td>9/2019</td>
</tr>
</tbody>
</table>

### Significant to Business Objectives

- Past original estimated completion date, and
- No management action plan or No progress on management action plan
- Past original estimated completion date
- Progress on management action plan
- Original estimated completion date has not changed
- Progress on management action plan
- Satisfactory implementation of management action plan or Acceptance of risk by management
- Implementation of management action plan pending Internal Audit validation

### Other Reportable

- Past first revised estimated completion date
- No management action plan or No progress on management action plan
- Past first revised estimated completion date
- Progress on management action plan
- Within original or first revised estimated completion date
- Progress on management action plan
- Satisfactory implementation of management action plan or Acceptance of risk by management
# TRS Internal Audit
## Summary of Audit Recommendations Status
### As of March 2019

<table>
<thead>
<tr>
<th>Project</th>
<th>Recommendation</th>
<th>Status</th>
<th>Issue Type</th>
<th>Estimated Date</th>
<th>Revised / Actual Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>18-304</td>
<td>Private Equity Management Fees and Carried Interest Desk Audit</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Complete evaluation of private equity fund fees monitoring</td>
<td>In Progress</td>
<td>Other Reportable</td>
<td>8/2019</td>
<td></td>
</tr>
<tr>
<td>18-602</td>
<td>Internal Audit Quality Assurance Review</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1. Implement a formal process to update automated project templates when needed and provide staff with training</td>
<td>Implemented</td>
<td>Other Reportable</td>
<td>12/2018</td>
<td>1/2019</td>
</tr>
<tr>
<td></td>
<td>2. Enhance current performance measurement by adding routine trend analysis</td>
<td>Implemented</td>
<td>Other Reportable</td>
<td>12/2018</td>
<td>12/2018</td>
</tr>
<tr>
<td></td>
<td>3. Formalize and expand collaboration with internal risk oversight groups by interpreting and sharing risk information received</td>
<td>Implemented</td>
<td>Other Reportable</td>
<td>12/2018</td>
<td>1/2019</td>
</tr>
<tr>
<td></td>
<td>4. Administer business unit training opportunities on the audit project and audit follow-up processes</td>
<td>In Progress</td>
<td>Other Reportable</td>
<td>8/2019</td>
<td></td>
</tr>
<tr>
<td>19-104</td>
<td>Disability Retirement and Medical Review Board Audit</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1. Secondary review of Medical Board opinions should be strengthened</td>
<td>Implemented</td>
<td>Other Reportable</td>
<td>1/2019</td>
<td>12/2018</td>
</tr>
<tr>
<td></td>
<td>2. Documentation needed for calculation of creditable months of service</td>
<td>Implemented</td>
<td>Other Reportable</td>
<td>3/2019</td>
<td>12/2018</td>
</tr>
<tr>
<td></td>
<td>3. Implement monitoring activities for all key control reports related to disability retirement so that management is alerted if reports are not being worked</td>
<td>In Progress</td>
<td>Significant</td>
<td>10/2019</td>
<td></td>
</tr>
<tr>
<td></td>
<td>4. Train additional resources to perform key control activities and create overarching process flow documentation</td>
<td>In Progress</td>
<td>Other Reportable</td>
<td>8/2019</td>
<td></td>
</tr>
</tbody>
</table>
**Summary of Audit Recommendations Status**

**As of March 2019**

<table>
<thead>
<tr>
<th>Project</th>
<th>Recommendation</th>
<th>Status</th>
<th>Issue Type</th>
<th>Estimated Date</th>
<th>Revised / Actual Date</th>
</tr>
</thead>
</table>

*The Employer Reporting functionality, which was implemented with Phase 1 of TRUST, included functionality to strengthen controls over census data. TRUST Maintenance and enhancement cycles are executed to address remaining issues.

In FY 2018 CAFR Audit Report, management indicated the following pending actions:

1. TRS will implement additional review processes to identify likely reporting entity errors and take further steps to contend with the additional reporting requirements imposed by GASB 67/68. Estimated completion date August 2020.
2. TRS will complete an analysis of employer opening balances and book any necessary correcting entries. Estimated completion date August 2019.
3. TRS will institute detective controls to identify unauthorized modifications to member records. Estimated completion date August 2019.
## Status of Reporting Entity Recommendations

<table>
<thead>
<tr>
<th>Project #</th>
<th>Report Date</th>
<th>Reporting Entity (RE)</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>17-401b</td>
<td>8/31/2017 Dallas ISD</td>
<td>In Progress - TRS Benefits team is working with RE on corrections/adjustments¹</td>
</tr>
<tr>
<td>2</td>
<td>18-102</td>
<td>8/28/2018 Alvin ISD, Sharyland ISD</td>
<td>Closed - TRS Benefits team has reviewed and communication has been provided to RE(s) on what corrections need to be made²</td>
</tr>
</tbody>
</table>

¹ The Benefit Reporting Team has resolved the issue with the school. Fixes to system defects have been implemented on 6/28/2018. Inputs into the TRUST system are being made. This is taking longer than expected due to the large number of manual entries required. So far 217 retirees have been corrected which equated to a total of 1,551 adjustment records. An additional 125 retirees still need to be corrected and DISD is currently working on those adjustments.

² Benefit Reporting Team has reviewed and communication has been provided to both districts on what corrections need to be made as of 12/13/2018. Alvin ISD is scheduled to make the corrections on the March report, due in April. Sharyland ISD requested an extension and is scheduled to make the corrections on the April report, due in May.
TAB 7
Goal 1: Sustain a Financially Sound Pension System
- Coordinate CAFR and TRICOT financial audits (Q1)
- Test compliance with investment policies (Q1 - Q2)
- Provide assurance on TRS readiness for building the fleet (Q2)
- Provide assurance on derivatives (Q3)
- Provide assurance on TRS communications (Q4)

Goal 2: Continuously Improve Our Benefit Delivery
- Consult on benefit disbursements (Q1)
- Coordinate TEAM program assessment vendor activities (Q1 - Q4)
- Analyze full payroll data and provide assurance on employer reports (Q1 - Q4)
- Test TEAM phase 2 annuity payments prior to go live (Q3 - Q4)
- Test actual benefit annuity and manual payments in legacy system (Q4)

Goal 3: Facilitate Access to Competitive, Reliable, Health Care Benefits
- Consult on health administration business process improvements (Q2 - Q3)
- Follow-up on outstanding HIPAA audit recommendations (Q1 - Q4)
- HILOB Pre-Cutover Reconciliation Process (Q2 - Q4)
- Participate in pharmacy rebate audit led by vendor selected by HIB (Q4)

April 2019 Board Audit, Compliance and Ethics Committee Meeting
CAE Goals mapped to TRS Goals (FY 2019)

**Goal 4**
Align People to Achieve the TRS Mission

- Participate in the leadership development program (Q1)
- Test investment incentive compensation (Q2)
- Test executive incentive compensation (Q4)

**Goal 4**
Align Processes to Achieve the TRS Mission

- Consult on Trustee Travel Project (Q1)
- Participate in hotline triage team (Q1-Q4)
- Undergo an external quality assessment review (Q3)

**Goal 4**
Align Technology to Achieve the TRS Mission

- Consult on cloud computing (Q3)
- Provide assurance on Active Directory (tool for provisioning access) (Q4)
- Observe disaster recovery and business continuity tests (Q4)
- Provide assurance on IT controls for CAPPs financial application (Q3)
<table>
<thead>
<tr>
<th>Target Performance</th>
<th>2019 Cumulative Score</th>
<th>2019 Annual Target</th>
<th>2018 Cumulative Score</th>
<th>Activity / Comment</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Goal 1: Facilitate Audit Committee Governance</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. 80% or more of audit and agreed-upon procedures projects are completed in the fiscal year (80% allows for flexibility due to changes in TRS business practices and special requests)</td>
<td>64%</td>
<td>80%</td>
<td>100%</td>
<td></td>
<td>On Task</td>
</tr>
<tr>
<td>2. 75% or more of total available department hours (excluding uncontrollable leave) are spent for internal audit staff on direct assurance, consulting, and advisory services</td>
<td>77%</td>
<td>75%</td>
<td>78%</td>
<td></td>
<td>On Task</td>
</tr>
<tr>
<td>3. 100% of internal audit processes are in accordance with internal auditing standards as reported in the annual quality assurance and improvement (QAIP) report</td>
<td>100%</td>
<td>100%</td>
<td>N/A</td>
<td>QAIP completed in September 2018</td>
<td>Achieved</td>
</tr>
<tr>
<td>4. 75% (3.0/4.0) or higher score received for audit project client surveys in overall satisfaction</td>
<td>94%</td>
<td>75%</td>
<td>92%</td>
<td>Score based on client surveys for FY19 projects completed through February 2019, status is On Task until year end</td>
<td>On Task</td>
</tr>
<tr>
<td>5. 80% (4.0/5.0) or higher score on staff 360 evaluations in accountability, critical thinking, and initiative</td>
<td>84%</td>
<td>80%</td>
<td>79%</td>
<td>Score based on staff 360 evaluations completed in October 2018</td>
<td>Achieved</td>
</tr>
<tr>
<td>6. 75% (3.0/4.0) or higher score received for audit project client surveys regarding communication of the audit purpose, results, and reports</td>
<td>93%</td>
<td>75%</td>
<td>90%</td>
<td>Score based on client surveys for FY19 projects completed through February 2019, status is On Task until year end</td>
<td>On Task</td>
</tr>
<tr>
<td>7. 80% (4.0/5.0) or higher score on staff 360 evaluations in the area of verbal and written communication and collaborative audit perspective</td>
<td>80%</td>
<td>80%</td>
<td>81%</td>
<td>Score based on staff 360 evaluations completed in October 2018</td>
<td>Achieved</td>
</tr>
<tr>
<td>8. 90% of relevant current “Tone at the Top” articles uploaded to Diligent</td>
<td>50%</td>
<td>90%</td>
<td>100%</td>
<td>Score based on 25% per quarter</td>
<td>On Task</td>
</tr>
<tr>
<td>Target Performance</td>
<td>2019 Cumulative Score</td>
<td>2019 Annual Target</td>
<td>2018 Annual Score</td>
<td>Activity / Comment</td>
<td>Status</td>
</tr>
<tr>
<td>-----------------------------------------------------------------------------------</td>
<td>-----------------------</td>
<td>--------------------</td>
<td>-------------------</td>
<td>-------------------------------------------------------------------------------------</td>
<td>--------------</td>
</tr>
<tr>
<td><strong>Goal 2: Support TRS Initiatives</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. 75% (3.0/4.0) or higher score received for audit project client surveys in TEAM-related projects</td>
<td>N/A</td>
<td>75%</td>
<td>N/A</td>
<td>No related client surveys through the FY19 second quarter</td>
<td>N/A</td>
</tr>
<tr>
<td>2. 80% (4.0/5.0) or higher score on staff 360 evaluations in the area of organizational awareness</td>
<td>81%</td>
<td>80%</td>
<td>81%</td>
<td>Score based on staff 360 evaluations completed in October 2018</td>
<td>Achieved</td>
</tr>
<tr>
<td>3. 80% (4.0/5.0) or higher score for departmental organizational health on the annual Energage Survey</td>
<td>92%</td>
<td>80%</td>
<td>N/A</td>
<td>Survey results reported in September 2018</td>
<td>Achieved</td>
</tr>
<tr>
<td><strong>Goal 3: Enhance Internal Audit Staff Competence and Expertise</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. 75% (3.0/4.0) or higher score received for audit project client surveys regarding the usefulness of audit recommendations in improving business processes and controls</td>
<td>92%</td>
<td>75%</td>
<td>94%</td>
<td>Score based on Client Surveys for FY19 projects completed through February 2019</td>
<td>On Task</td>
</tr>
<tr>
<td>2. 80% (4.0/5.0) or higher score on staff 360 evaluations in the area of audit acumen</td>
<td>78%</td>
<td>80%</td>
<td>79%</td>
<td>Score based on staff 360 evaluations completed in October 2018</td>
<td>Not Achieved</td>
</tr>
<tr>
<td>3. 90% of audit staff complete annual training plans and obtain a minimum of 40 hours of continuing education credits</td>
<td>7%</td>
<td>90%</td>
<td>100%</td>
<td>Staff expected to complete 40 hours/each towards year end</td>
<td>On Task</td>
</tr>
<tr>
<td>4. 90% of audit staff maintain professional certifications or actively pursue certifications and related eligibility requirements</td>
<td>100%</td>
<td>90%</td>
<td>100%</td>
<td>Staff survey conducted in March 2019</td>
<td>Achieved</td>
</tr>
<tr>
<td>5. 90% of audit staff participate in professional organizations</td>
<td>100%</td>
<td>90%</td>
<td>100%</td>
<td>Staff survey conducted in March 2019</td>
<td>Achieved</td>
</tr>
</tbody>
</table>
## Internal Audit Goals and Performance Measures
### Fiscal Year 2019 – 2nd Quarter Ending February 2019

<table>
<thead>
<tr>
<th>Target Performance</th>
<th>2019 Cumulative Score</th>
<th>2019 Annual Target</th>
<th>2018 Annual Score</th>
<th>Activity / Comment</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>6. 90% of audit staff acknowledge an understanding of their career path</td>
<td>100%</td>
<td>90%</td>
<td>100%</td>
<td>Staff survey conducted in March 2019</td>
<td>Achieved</td>
</tr>
<tr>
<td>7. 80% or more of audit staff remain in internal audit or TRS (excluding retirements and transfers)</td>
<td>86%</td>
<td>80%</td>
<td>93%</td>
<td>Two openings through the FY19 second quarter</td>
<td>On Task</td>
</tr>
</tbody>
</table>

**Legend: Target Status**
- Red: Target not achieved
- Orange: Below target but expect to achieve
- Light yellow: On task to achieve
- Green: Achieved target

April 2019 Board Audit, Compliance and Ethics Committee Meeting
# Fiscal Year 2019 Audit Plan Status
## As of March 2019

<table>
<thead>
<tr>
<th>Title and Project #</th>
<th>Type</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Executive and Finance</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Communications Audit</td>
<td>Audit</td>
<td></td>
</tr>
<tr>
<td>Talent Management and Culture Audit (formerly Building the Fleet Readiness Audit)</td>
<td>Audit</td>
<td>Complete</td>
</tr>
<tr>
<td>Teacher Retirement Investment Company of Texas (TRICOT) Financial Audit Coordination (Grant Thornton)</td>
<td>Advisory</td>
<td>Complete</td>
</tr>
<tr>
<td>Executive Incentive Pay Testing</td>
<td>Agreed-Upon Procedures</td>
<td></td>
</tr>
<tr>
<td>Committee and Workgroup Meetings Participation</td>
<td>Advisory</td>
<td>Ongoing</td>
</tr>
<tr>
<td>Special Requests and Emerging Issues</td>
<td>TBD</td>
<td></td>
</tr>
<tr>
<td><strong>TEAM Program</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TEAM Independent Program Assessment (IPA) Vendor Support</td>
<td>Advisory</td>
<td>Ongoing</td>
</tr>
<tr>
<td>TEAM Phase II Annuity Payroll Testing</td>
<td>Advisory</td>
<td>In Progress</td>
</tr>
<tr>
<td>HILOB Pre-Cutover Reconciliation Process</td>
<td>Advisory</td>
<td>In Progress</td>
</tr>
<tr>
<td>TEAM Committees, Projects and Controls Assessment Participation</td>
<td>Advisory</td>
<td>Ongoing</td>
</tr>
<tr>
<td><strong>Pension Benefits</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annuity Payment Testing for SAO CAFR Audit of FY 2018</td>
<td>Audit</td>
<td>Complete</td>
</tr>
<tr>
<td>Benefit Disbursement</td>
<td>Consulting</td>
<td>Complete</td>
</tr>
<tr>
<td>Disability Retirement and Medical Board Audit</td>
<td>Audit</td>
<td>Complete</td>
</tr>
<tr>
<td>Annual Benefits Testing</td>
<td>Agreed-Upon Procedures</td>
<td>In Progress</td>
</tr>
<tr>
<td>Employers Testing (10 ISDs)</td>
<td>Agreed-Upon Procedures</td>
<td>Completed 6 ISDs</td>
</tr>
<tr>
<td>Employer Data Analysis and Census Testing</td>
<td>Agreed-Upon Procedures</td>
<td>In Progress</td>
</tr>
<tr>
<td>TRS Reporting Entity Website Audit Information and Communication Activities</td>
<td>Advisory</td>
<td>Complete</td>
</tr>
</tbody>
</table>
### Fiscal Year 2019 Audit Plan Status
#### As of March 2019

#### Health Care

<table>
<thead>
<tr>
<th>Task</th>
<th>Type</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pharmacy Rebate Advisory</td>
<td>Advisory</td>
<td>Complete</td>
</tr>
<tr>
<td>Business Process Improvement and Rework</td>
<td>Advisory</td>
<td>Complete</td>
</tr>
<tr>
<td>Health Care Vendor Update Meetings Attendance</td>
<td>Advisory</td>
<td>Ongoing</td>
</tr>
</tbody>
</table>

#### Information Technology

<table>
<thead>
<tr>
<th>Task</th>
<th>Type</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>IT Governance (outsourced)</td>
<td>Consulting</td>
<td>Complete</td>
</tr>
<tr>
<td>Cloud Computing (outsourced)</td>
<td>Consulting</td>
<td>In Progress</td>
</tr>
<tr>
<td>Active Directory Audit</td>
<td>Audit</td>
<td></td>
</tr>
<tr>
<td>CAPPS IT Controls Audit</td>
<td>Audit</td>
<td></td>
</tr>
<tr>
<td>IT Risk Assessment</td>
<td>Advisory</td>
<td>In Progress</td>
</tr>
<tr>
<td>Disaster Recovery, Network Penetration Tests, Security Risk Assessment Review</td>
<td>Advisory</td>
<td>Ongoing</td>
</tr>
</tbody>
</table>

#### Investment Management

<table>
<thead>
<tr>
<th>Task</th>
<th>Type</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Derivatives Accounting Audit</td>
<td>Audit</td>
<td>In Progress</td>
</tr>
<tr>
<td>Trustee Travel Project</td>
<td>Consulting</td>
<td>Complete</td>
</tr>
<tr>
<td>Valuations Audit</td>
<td>Audit</td>
<td></td>
</tr>
<tr>
<td>Quarterly Investment and Ethics Policies Compliance Testing</td>
<td>Agreed-Upon Procedures</td>
<td>2nd Qtr complete</td>
</tr>
<tr>
<td>Annual Testing of Investment Incentive Pay Plan</td>
<td>Agreed-Upon Procedures</td>
<td>Complete</td>
</tr>
<tr>
<td>Investment Committees Attendance</td>
<td>Advisory</td>
<td>Ongoing</td>
</tr>
</tbody>
</table>

#### Internal Audit Department

<table>
<thead>
<tr>
<th>Task</th>
<th>Type</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Internal Audit Report – FY18</td>
<td>Administrative</td>
<td>Complete</td>
</tr>
<tr>
<td>Data Analysis Process Buildout</td>
<td>Administrative</td>
<td>Ongoing</td>
</tr>
<tr>
<td>Quarterly Audit Recommendations Follow-up</td>
<td>Administrative</td>
<td>Ongoing</td>
</tr>
<tr>
<td>External Quality Assurance Review</td>
<td>Administrative</td>
<td>In Progress</td>
</tr>
<tr>
<td>Fiscal Year 2020 Audit Plan</td>
<td>Administrative</td>
<td></td>
</tr>
<tr>
<td>Audit Committee Meetings Preparation</td>
<td>Administrative</td>
<td>Ongoing</td>
</tr>
</tbody>
</table>
### BENEFIT SERVICES

- Participated in the TEAM Program
  - Enterprise Projects Oversight Committee (EPOC)
  - Organizational Change Management Advisory Group (OCM)
  - Monthly meetings with TEAM Program Manager and vendor personnel
  - Independent Program Assessment (IPA) Vendor Coordination
  - Pension Administration and Health Care Data Governance Team
  - TRUST Phase II payroll data reconciliation meetings and status updates

### HEALTH INSURANCE BENEFITS (HIB)

- Participated in discussions related to HILOB pre-implementation reconciliation process
- Provided TRUST healthcare data training to HIB personnel
- Assisted in extracting healthcare data in TRUST and provided Active-Care premium reports to HIB personnel

### INVESTMENT MANAGEMENT DIVISION (IMD)

- Attended Internal Investment Committee (IIC) meetings
- Participated in quarterly Proxy Voting Committee meeting
- Participated in monthly Securities Lending monitoring calls
- Participated in quarterly collaboration meetings with Investment Compliance and Investment Risk

### FINANCIAL SERVICES

- Participated in a workgroup discussions relating to review of current agency-wide procurement guidance documents
- Assisted in TRUST actuarial data extraction logic process mapping

### EXECUTIVE

- Facilitated SAO’s Quarterly Update Meetings
- Participated in the Risk Oversight Committee
- Participated in monthly collaboration meetings with Enterprise Risk Management (ERM) management

### INFORMATION TECHNOLOGY (IT)

- Tracking outstanding audit recommendations from HIPAA Gap Assessment Project and Audit of On/Off Boarding Processes of Non-TRS Workers
- Liaison for an outsourced consulting project on Cloud Computing
- Participated as core team members in TRS Pension Administration and Healthcare Data Governance Council

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1 Advisory Services (non-audit services) - The scope of work performed does not constitute an audit under Generally Accepted Government Auditing Standards (GAGAS).
New Hires
Andrea Morales joined TRS in February 2019 as a Benefit Audit Manager. Andrea worked as an Audit Project Manager with Health and Human Services Commission (HHSC) prior to joining TRS. She is a Certified Internal Auditor (CIA) and a Certified Fraud Examiner (CFE). Prior to working with HHSC, Andrea worked as an Auditor and a Financial Policy Analyst with the Office of the Attorney General of Texas (OAG). Andrea and her husband are involved with non-profit organizations in their community of Georgetown. They have one son, who is in college, and enjoy cycling and other outdoor activities.

Promotions, Certifications and Recognition

- Karen Marino received Bushel of Fun award for her dedication to the Internal Audit team, helping with a multitude of administrative functions and allowing the Audit team to focus on their primary duties
- Lih-Jen Lan and Carol Casey each celebrated 15 years with TRS; Nick Ballard celebrated 5 years with TRS and Kate Rhoden celebrated 1 year with TRS

Professional Organization Activities and Conferences

- Art Mata presented on Employer Audits at Region One Education Service Center. Attendees included school districts served by Region One Education Service Center.
- Kate Rhoden was elected to serve on the Executive Board of the Texas Society of Certified Public Accountants

Transfers, Departures, and Retirements

None