

# **Audit Committee Meeting**

**July 2013**



Teacher Retirement System of Texas  
1000 Red River Street, Austin, Texas 78701-2698

**TEACHER RETIREMENT SYSTEM OF TEXAS  
BOARD OF TRUSTEES  
AUDIT COMMITTEE**

**MEETING AGENDA**

**July 26, 2013 – 1:00 p.m.  
TRS East Building, 5<sup>th</sup> Floor, Boardroom**

- 1. Approve Minutes of June 14, 2013 Audit Committee Meeting**  
– Mr. Christopher Moss, Chair
- 2. Evaluate the Performance of the Chief Audit Executive and Consider a Recommendation to the Board of Trustees Regarding the Performance Appraisal and Compensation of the Chief Audit Executive** – Mr. Brian Guthrie and Mr. Keith Robinson, Focus Consulting



**TEACHER RETIREMENT SYSTEM OF TEXAS  
AUDIT COMMITTEE MEETING  
June 14, 2013**

The Audit Committee of the Teacher Retirement System of Texas met on Friday, June 14, 2013 in the 5<sup>th</sup> floor Board room. The following persons were present:

**TRS Board Members**

Christopher Moss, Audit Committee Chair  
Nanette Sissney, Audit Committee Member  
Eric C. McDonald, Audit Committee Member  
Anita Smith Palmer, Audit Committee Member  
T. Karen Charleston, Audit Committee Member  
R. David Kelly, Board Chair  
Charlotte Clifton, Board Vice Chair  
Todd Barth, Board Member

**TRS Staff**

Brian Guthrie, Executive Director  
Ken Welch, Deputy Director  
Amy Barrett, Chief Audit Executive  
Hugh Ohn, Director, Investment Audit & Compliance  
Karen Morris, Senior Manager, Internal Audit  
Jan Engler, Manager, Internal Audit  
Dinah Arce, Senior Auditor, Internal Audit  
Lih-Jen Lan, Information Technology Audit Manager, Internal Audit  
Terry Harris, Senior Investment Compliance Specialist, Internal Audit  
Brian Gomolski, Senior Investment Auditor, Internal Audit  
Toma Miller, Auditor, Internal Audit  
Amy Morgan, Chief Information Officer  
Jerry Albright, Deputy Chief Investment Officer  
Sylvia Bell, Director, Administrative Center, Investment Division  
Stuart Bernstein, Senior Investment Manager, Investment Division  
Carolina de Onís, General Counsel  
Dennis Gold, Assistant General Counsel  
Beckie Smith, Assistant General Counsel  
Mary Chang, Assistant General Counsel  
Angela Vogeli, Assistant General Counsel  
Cindy Haley, Team Leader, Financial Reporting, General Accounting  
Scot Leith, Manager, Investment Accounting, General Accounting  
Jamie Michels, Manager, General Accounting  
Betsey Jones, Director, Health Care Policy and Administration  
Bob Jordan, Director, TRS Health & Insurance Benefits

### **TRS Staff (cont'd)**

Edward Esquivel, Assistant Director, TRS Health & Insurance Benefits  
Chase Dierschke, Health & Insurance Benefits  
Jay LeBlanc, Director, Risk Management & Strategic Planning  
Michelle Pagán, ERM Specialist, Risk Management & Strategic Planning  
Dan Herron, Communications Specialist, Communications

### **Other Attendees**

Ted Melina Raab, Texas American Federation of Teachers  
Angelica Ramirez, State Auditor's Office  
Michael Clayton, State Auditor's Office  
Karin Hill, Chief Audit Executive, Texas Department of Assistive and Rehabilitative Services  
Jason Lamin, Lenox Park LLC  
Steven Huff, Reinhart Boerner Van Deuren s.c.  
Craig teDuits, State Street Bank

Audit Committee Chair Christopher Moss called the meeting to order at 8:00 a.m. with a quorum of committee members present.

## **1. APPROVE MINUTES OF April 19, 2013 AUDIT COMMITTEE MEETING**

On a motion by Ms. Anita Palmer, seconded by Mr. McDonald, the proposed minutes of the April 19, 2013 Audit Committee meetings were approved as presented.

## **2. RECEIVE STATE AUDITOR'S OFFICE REPORT ON AUDIT OF INCENTIVE COMPENSATION**

Mr. Michael Clayton, State Auditor's Office, presented the results of the Audit of Incentive Compensation at the Teacher Retirement System, the Permanent School Fund, and the Employees Retirement System as it related to TRS. He stated that, based on the results of the audit, TRS awarded the incentive compensation for plan year ended September 30, 2012 in accordance with its policies and procedures. Management agreed to implement a recommendation to include a requirement within the incentive compensation plan for the board of trustees to confirm the continuation of the plan each year.

## **3. RECEIVE REPORT ON INTERNAL AUDIT'S EXTERNAL QUALITY ASSURANCE REVIEW**

Ms. Karin Hill, Chief Audit Executive of the Texas Department of Assistive and Rehabilitative Services, presented the results of the External Quality Assurance Review of the TRS Internal Audit Department. She stated that the purpose of the review is to verify that the internal audit function is complying with professional audit standards as required by the Texas Internal Auditing Act.

Ms. Hill reported that the Internal Audit Department received an overall opinion of “Pass” rating on the quality assurance review. Four opportunities for improvement were identified and the internal audit team has begun implementing those recommendations.

#### **4. RECEIVE STATUS REPORT ON EMPLOYER AUDITS AND CONSIDER RECOMMENDATION TO THE BOARD OF TRUSTEES REGARDING REVISIONS TO THE AUDIT PLAN FOR FISCAL YEAR 2013**

##### **A. Status of the Employer Audit Project**

Ms. Karen Morris provided an update on the Employer Audit Project. She stated that Internal Audit staff is working with Benefit Accounting and Legal Services staff to develop employer self-audit tools that will allow employers to evaluate their own compliance with TRS laws and rules in the areas of TRS pension surcharge, TRS-Care surcharge, and employment after retirement. The employer self-audit tools are expected to be launched on the TRS Website in fiscal year 2014 as a voluntary program for employers. Prior to the launch, training will take place internally with the Benefit Accounting team and employer outreach will begin to inform employers of the new self-auditing tools.

##### **B. Proposed Revisions to Fiscal Year 2013 Audit Plan**

Ms. Amy Barrett reviewed three proposed changes to the Fiscal Year 2013 Audit Plan. The first change would shift the focus of the Employer Audit Project from selecting a sample of employers and beginning field testing to developing the self-audit tools described by Karen Morris during her earlier presentation. The other two proposed changes were regarding areas on the audit plan that have already been or are currently being audited by outside groups. She requested that the planned ethics audit be removed in light of the extensive ethics follow-up audit conducted by the State Auditor’s Office. In addition, she proposed that the procurement audit be removed since the Comptroller’s Office was in the process of conducting a thorough post-payment audit of the procurement area. In place of the work that would have been conducted in these areas, she proposed adding an investment compliance self-assessment to assist in meeting a recommendation from the external quality assurance review discussed earlier. She also proposed that the Internal Audit staff spend time assisting the organization in documenting investigative procedures to ensure consistency. Additionally, she stated that more time was required on the Health Care Administration audit due to its complexity.

On a motion by Mr. Moss, seconded by Mr. McDonald, the Committee recommended that the Board of Trustees approve the revisions to the Fiscal Year 2013 Audit Plan as presented by staff.

#### **5. RECEIVE INTERNAL AUDIT REPORTS**

##### **A. Audit of Health Care Administration**

Ms. Jan Engler presented the results of the Health Care Administration audit. She stated that the audit scope was limited to TRS-Care for the period calendar year 2012. She stated that

management controls were found to be working effectively and that management accepted the four recommendations that were made.

Mr. Bob Jordan addressed each of the four recommendations and presented management's plans for implementation.

In response to a question from Ms. Anita Palmer regarding hold time within the call center for Health and Insurance Benefits, Mr. Jordan stated that the department has been approved to hire additional employees and should have them on board soon. In the meantime, he stated that staff members who do not normally take calls are helping out in times of heavy call volume to minimize wait time as much as possible.

## **B. Audit of Emerging Manager Program**

Mr. Jason Lamin, Lenox Park LLC, discussed the review process and testing used during the Emerging Manager Program audit. He stated that testing found that TRS exercised prudence in selecting the fund of funds manager and evaluators used for the emerging manager program. Additionally, he stated that the results indicated that due diligence procedures, documentation, reporting and monitoring processes for the fund of funds and evaluators were adequate.

Mr. Hugh Ohn presented the audit results. He stated that no significant issues were identified but three recommendations were made to enhance controls.

Mr. Stuart Bernstein presented management responses to the three recommendations and stated that the recommendations are either already being implemented or will be implemented in the near future.

## **C. Quarterly Investment Testing**

Ms. Barrett stated that no exceptions were found during the quarterly investment testing.

## **6. RECEIVE STATUS OF PRIOR AUDIT AND CONSULTING RECOMMENDATIONS**

Ms. Barrett gave a brief overview of the outstanding audit recommendations. She stated that all outstanding recommendations, including those with an implementation date of August 2013, are on track to be implemented. She also informed the Committee that a formal audit is underway to follow-up on the implementation of prior information security recommendations.

## **7. RECEIVE INTERNAL AUDIT ADMINISTRATIVE REPORTS**

Ms. Barrett reviewed several standard administrative reports. She indicated that Internal Audit is on track to meet performance standards.

Ms. Barrett also stated that individual Committee members may separately provide input for the Fiscal Year 2014 Audit Plan.

The meeting adjourned at 9:35 a.m.

Approved by:

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Christopher Moss  
Chair, Audit Committee  
Board of Trustees  
Teacher Retirement System of Texas