

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

(Mr. Moss, Chairman; Ms. Charleston; Mr. Corpus; Ms. Palmer; & Ms. Sissney, Committee Members)

AGENDA

**July 10, 2014 – 3:15 p.m.
TRS East Building, 5th Floor, Boardroom**

1. Approve Minutes of June 6, 2014 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.

NOTE: The Board of Trustees (Board) of the Teacher Retirement System of Texas will not consider or act upon any item before the Audit Committee (Committee) at this meeting of the Committee. This meeting is not a regular meeting of the Board. However, because the full Audit 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.



**TEACHER RETIREMENT SYSTEM OF TEXAS
AUDIT COMMITTEE MEETING
June 6, 2014**

The Audit Committee of the Teacher Retirement System of Texas met on Friday, June 6, 2014 in the 5th floor Board room. The following persons were present:

TRS Board Members

Christopher Moss, Audit Committee Chair
Nanette Sissney, Board Vice Chair, Audit Committee Member
Anita Smith Palmer, Audit Committee Member
T. Karen Charleston, Audit Committee Member
David Corpus, Audit Committee Member
R. David Kelly, Board Chair
Joe Colonna, Board Member
Dolores Ramirez, Board Member

TRS Staff

Brian Guthrie, Executive Director
Ken Welch, Deputy Director
Amy Barrett, Chief Audit Executive
Hugh Ohn, Director, Investment Audit Services
Karen Morris, Director, Pension Audit Services
Jan Engler, Audit Manager, Internal Audit
Dinah Arce, Senior Auditor, Internal Audit
Lih-Jen Lan, Information Technology Audit Manager, Internal Audit
Toma Miller, Senior Auditor, Internal Audit
Dorvin Handrick, Senior Information Technology Auditor, Internal Audit
Nick Ballard, Senior Investment Auditor, Internal Audit
Michael Allen, Intern, Internal Audit
Amy Morgan, Chief Information Officer
Jerry Albright, Deputy Chief Investment Officer
Sylvia Bell, Director of Investment Operations, Investment Division
Carolina de Onís, General Counsel
Dan Junell, Assistant General Counsel
Clarke Howard, Assistant General Counsel
Beckie Smith, Assistant General Counsel
Lynn Lau, Assistant Secretary to the Board and Program Specialist, Legal Department
Don Green, Chief Financial Officer
Jamie Michels, Manager, General Accounting
Cindy Haley, Team Leader, Financial Reporting, General Accounting
Scot Leith, Director, Investment and Benefit Accounting
Gloria Nichols, Senior Financial Accountant, General Accounting

TRS Staff (cont'd)

Ann Zigmond, Senior Financial Accountant, General Accounting
Marianne Woods Wiley, Chief Benefit Officer
Mike Rehling, Manager, Benefit Processing
Adam Fambrough, Assistant Manager, Benefit Processing
Betsey Jones, Chief Health Care Officer
Bob Jordan, Director, TRS Health & Insurance Benefits
Edward Esquivel, Assistant Director, TRS Health & Insurance Benefits
Yimei Zhao, Assistant Director of Finance, TRS Health & Insurance Benefits
Janet Bray, Director, Human Resources
Rhonda Price, Senior Communications Specialist, Communications Department
Michelle Bertram, Administrative Assistant, Communications Department
Jay LeBlanc, Director, Risk Management & Strategic Planning
Michelle Pagán, ERM Program Manager, Risk Management & Strategic Planning

Other Attendees

Philip Mullins, Texas State Employees Union
Letha Grace McCoy, Texas State Teachers Association, Retired
Geraldine Palmer, Texas State Teachers Association, Retired
Bill Barnes, Texas Retired Teachers Association
Ann Heuberger, Del Valle ISD Board Member
Barbara Franklin, Texas State Teachers Association, Retired
Becca Slezak, Community Health Choice
Steven Huff, Reinhart Boerner Van Deuren s.c.
Gail Kinkead, Protiviti Inc.
Susan Haseley, Protiviti Inc.
Angelica Ramirez, State Auditor's Office
Michael Clayton, State Auditor's Office
Ishani Baxi, State Auditor's Office

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 MARCH 27, 2014 AUDIT COMMITTEE MEETING

On a motion by Mr. David Corpus, and seconded by Ms. Nanette Sissney, the proposed minutes of the March 27, 2014 Audit Committee meeting were approved as presented.

2. RECEIVE REPORT ON INDEPENDENT FINANCIAL AUDITOR REQUIREMENTS TO TEST CENSUS DATA OF REPORTING ENTITIES

Mr. Michael Clayton, State Auditor's Office (SAO), discussed audit considerations related to implementation of Governmental Accounting Standards Board (GASB) statement number 67 and statement number 68.

Mr. Clayton stated that the American Institute of Certified Public Accountants (AICPA) has issued guidance related to the implementation of GASB 67 and GASB 68. The guidance

emphasizes the consideration of plan controls over active member census data specifically focused on the accuracy and completeness of the data being provided by reporting entities. Mr. Clayton indicated that inadequate controls could result in a control finding in the plan's financial statement audit. He stated that one of the changes this year in the audit approach for the financial statement audit is that SAO will perform testing of employer census data and the controls around census data reporting processes for active members.

Additionally, cost-sharing defined benefit pension plans, such as TRS, will be required to issue two new supplemental schedules to employers, the Schedule of Employer Allocations and the Schedule of Pension Amounts by Employer, in order to assist employers in recording their share of the net pension liability on their financial statements. AICPA suggests that plan management obtain auditor opinions on the two schedules so that the plan employers can rely upon them when reporting their financial statements. As a result, Mr. Clayton stated that another change in the audit approach is that the SAO will issue a separate opinion on the new required schedules after they issue the Comprehensive Annual Financial Report (CAFR) opinion each year going forward.

3. RECEIVE REPORT ON HEALTH CARE AUDIT RISK ASSESSMENT AND MODEL THREE-YEAR AUDIT PLAN PROJECT

Susan Haseley and Gail Kinkead, Protiviti Inc., provided the results of the health care risk assessment and model three-year audit plan.

Ms. Haseley stated that the objective of the risk assessment was to identify and prioritize risks related to the processes used in administering health care benefits under TRS-Care and TRS-ActiveCare and to use that information to propose a model three-year audit plan to be used by the TRS Internal Audit department.

Ms. Kinkead presented the overall results of the risk assessment. She stated that six key potential risk areas, consistent with those found across the health care industry, were identified during the project. She then reviewed the proposed model three-year audit plan and gave a brief explanation of how each potential audit could help determine if effective controls are in place, who manages the controls, and how that information is communicated back to TRS.

Ms. Amy Barrett advised the Committee that the results of the risk assessment will be taken into consideration when developing the annual Internal Audit Plan over the next few years.

4. RECEIVE INTERNAL AUDIT REPORTS

A. Audit of Refunds of Inactive and Dormant Accounts

Discussion of this item was postponed until the end of the meeting at which point it was discussed in executive session.

B. Audit of Contractor Onboarding and System Access

Ms. Barrett reviewed the results of the Contractor Onboarding and System Access Audit. She stated that the audit found that all contractors are going through the background check process

that TRS previously adopted. Likewise, all testing indicated that appropriate system access was being given to contract employees. An opportunity to enhance controls in the development, modification and maintenance of automated scripts used in system user account creation and deactivation processes was identified and is being addressed by management.

C. Third Quarter Test Results of Investment Controls (External Public Markets, Cash Securities Operation, Investment Performance)

Ms. Barrett gave an overview of the results for the third quarter investment controls testing. She stated that no issues were identified in the three areas that were tested: external public markets, cash securities operation, and investment performance.

Ms. Barrett informed the Committee that an overall opinion on investment controls will be presented at the Audit Committee meeting in September.

D. Quarterly Investment Compliance Testing (Agreed-Upon Procedures)

Ms. Barrett informed the Committee that no issues were identified during the quarterly investment compliance testing.

5. RECEIVE REPORT ON THE STATUS OF PRIOR AUDIT AND CONSULTING RECOMMENDATIONS

Ms. Amy Barrett informed the Committee that there were no past due outstanding audit recommendations. Some recommendations were fully implemented or awaiting final validation by Internal Audit before being considered fully implemented.

6. CONSIDER RECOMMENDATION TO THE BOARD OF TRUSTEES REGARDING REVISIONS TO THE AUDIT PLAN FOR FISCAL YEAR 2014 AND RECEIVE STATUS REPORT ON REPORTING ENTITY REVEIWS

A. Proposed Revisions to Fiscal Year 2014 Audit Plan

Ms. Barrett reviewed three proposed changes to the Fiscal Year 2014 Internal Audit Plan. The changes included:

- adding a TEAM internal controls project
- deferring the electronic records audit to fiscal year 2015 in order to allow for more focus on the TEAM project
- deferring the health care governance audit to a future time to be determined

Further discussion on this item was postponed until the Committee reconvened in open meeting after the executive session.

B. Status of Reporting entity Reviews

Discussion of this item was postponed in order to be discussed in executive session.

7. DISCUSS OR CONSIDER INTERNAL AUDIT ADMINISTRATIVE REPORTS AND MATTERS RELATED TO GOVERNANCE, RISK MANAGEMENT, INTERNAL CONTROL, COMPLIANCE VIOLATIONS, FRAUD, REGULATORY REVIEWS OR INVESTIGATIONS, HOTLINE USAGE REPORT, FRAUD RISK AREAS, AUDITS FOR THE ANNUAL INTERNAL AUDIT PLAN, OR AUDITORS' ABILITY TO PERFORM DUTIES

Pursuant to sections 551.076 and 825.115 (d) of the Texas Government Code, the Audit Committee adjourned into executive session to discuss agenda items 4A, 6B, and 7. The time was 8:51 a.m.

The Audit Committee reconvened in open meeting at 10:20 a.m.

On a motion by Mr. Moss, seconded by Ms. Sissney, the Committee recommended that the Board of Trustees approve the revisions to the Fiscal Year 2014 Audit Plan as presented by staff.

The meeting adjourned at 10:22 a.m.

Approved by:

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