

Audit Committee Meeting

July 2017



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

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

(Mr. Moss, Chairman; Ms. Charleston; Mr. Corpus; Dr. Gibson, Committee Members)

AGENDA

**July 13, 2017 – 9:30 a.m.
TRS East Building, 5th Floor, Boardroom**

*All or part of the July 13, 2017 meeting of the TRS Board of Trustees and Audit Committee may be held by telephone conference call as authorized under Section 551.130 of Texas Government Code. The committee and board intend to have a quorum and the presiding officer physically present at the following location: **1000 Red River, Austin, Texas 78701 in the TRS East Building, 5th Floor, Boardroom.***

1. Call roll of Committee members
2. Approve minutes of June 2, 2017 Audit Committee meeting – Christopher Moss
3. Evaluate the performance of the Chief Audit Executive and consider a recommendation to the Board regarding the performance appraisal and compensation of the Chief Audit Executive – Brian Guthrie; 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.

TAB 2

**TEACHER RETIREMENT SYSTEM OF TEXAS
AUDIT COMMITTEE MEETING MINUTES
June 2, 2017**

The Audit Committee of the Board of Trustees of the Teacher Retirement System of Texas met on June 2, 2017, 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
Ms. Karen Charleston
Mr. David Corpus
Dr. Greg Gibson

Other Board Members present:

Mr. Joe Colonna
Mr. John Elliott
Mr. David Kelly

Others present:

Brian Guthrie, TRS	Toma Miller, TRS
Ken Welch, TRS	Rodrigo Dominguez, TRS
Don Green, TRS	Nick Ballard, TRS
Carolina de Onis, TRS	Anandhi Mani, TRS
Amy Barrett, TRS	Art Mata, TRS
Janet Bray, TRS	Frank Williams, TRS
Chris Cutler, TRS	Clarke Howard, TRS
Heather Traeger, TRS	Katherine Farrell, TRS
Katrina Daniel, TRS	Ron Franke, Myers & Stauffer
Jan Engler, TRS	Tiffany Garcia, Myers & Stauffer
Hugh Ohn, TRS	Kevin Dunnahoo, Protiviti
Dinah Arce, TRS	Neill Masterson, EY
Lih-Jen Lan, TRS	Nancy Regester, Aetna
Simin Pang, TRS	

Audit Committee Chair Mr. Moss called the meeting to order at 8:04 a.m.

1. Call roll of Committee members.

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

2. Consider the approval of the proposed minutes of the April 7, 2017 committee meeting – Committee Chair Mr. Chris Moss.

On a motion by Ms. Charleston, seconded by Mr. Corpus, the proposed minutes for the April 7, 2017 Audit Committee meeting were approved as presented.

3. Receive compliance reports

A. TRS Compliance Program reports – Heather Traeger.

Ms. Traeger reported on pending and resolved ethics and compliance matters. She stated there's been one new hotline complaint that has been resolved, and the State Auditor's Office received one complaint regarding ORP election which was also resolved. She said two conflicts of interest forms were filed by contractors and in both cases it was determined those were not conflicts of interest. Ms. Traeger reported the annual ethics certification for employees and contractors is completed.

B. Quarterly investment compliance testing (agreed-upon procedures) – Hugh Ohn and Heather Traeger

Ms. Amy Barrett reported there were no violations noted in the report.

4. Receive Non-TRS Workers Onboarding and Offboarding audit report – Janet Bray, Chris Cutler, and Don Green; Ron Franke, Myers & Stauffer, LC

Ms. Barrett provided an overview of this project and stated that the audit was outsourced to Myers & Stauffer, led by Ron Franke and Tiffany Garcia.

Ms. Tiffany Garcia stated that the audit reviewed current policies, procedures, and processes in place for the onboarding and offboarding of non-TRS workers. She noted the increase in TRS contractors onboarded due to TEAM and the risk and complexity due to the number of areas and departments that are involved. She said overall, the results from the audit were very positive. TRS is on track and no major issues were identified. She reviewed a few opportunities for improvement where she recommended that TRS develop, implement and document policies and procedures...

Ms. Janet Bray commented on the growth of contractors since the TEAM program started in approximately January 2012 when there were 20 contractors on staff. She stated that currently there are 184 contractors employed and that during that same time period, 381 contractors have been offboarded. Ms. Bray noted that the onboarding and offboarding process involves a number of departments, including the department bringing on the contractor, the Budget Division, Procurement, HR, IT and Security and that they are continuously working to streamline the processes.

Mr. Don Green responded that a security consultant was hired to review policies and procedures from the facilities, security side. He said the consultant will also look at other things outside of the scope of this audit such as lobby security and parking lot access.

Mr. Frank Williams stated that from an IT perspective, changes have been made in response to the audit including a proactive review of inactive accounts as well as ensuring that when the logical access is terminated for an individual, the physical access is also automatically terminated.

In response to Mr. Moss' question, Mr. Ken Welch stated the number of contractors after TEAM is completed will be a couple of dozen at any given time.

5. Receive Health Insurance Portability and Accountability Act (HIPAA) Compliance audit report – Lih-Jen Lan, Clarke Howard, and Frank Williams; Kevin Dunnahoo, Protiviti

Ms. Amy Barrett provided an overview of the audit of TRS' compliance with the Health Insurance Portability and Accountability Act (HIPAA). She said TRS is a covered entity under HIPAA because it administers two health plans. Ms. Barrett explained this was a co-sourced audit between TRS Internal Audit and Protiviti.

Ms. Lih-Jen Lan stated there were five different divisions involved in the audit, with a heavy focus area on IT security related to computer access.

Mr. Kevin Dunnahoo stated that the key risks to TRS related to HIPAA include the protection of individual's information, regulatory fines, and the reputational damage that TRS may face should a breach occur. He also noted that the Federal Office of Civil Rights (OCR) has increased HIPAA enforcement resulting in multimillion dollar settlement agreements.

Mr. Dunnahoo indicated that a HIPAA gap assessment focuses on three main areas and the associated rules: privacy, security and breach notification. He stated that the audit assessed the entirety of each of the three rules as they applied at TRS.

He stated that the audit report includes two categories for each of the rules. The first area focuses on compliance gaps, areas where TRS may not fully align with the requirements set forth by HIPAA, and the second area includes improvement opportunities where they felt that TRS minimally met the expectations of the rules but has opportunities for improvement.

He said overall for the privacy rule, opportunities for improving policies and procedures are the main focus. For the security risk analysis, TRS has a number of different ways that risk is analyzed, however when compared to OCR's official guidance, some elements were determined to be missing from documentation. He also listed some areas of improvement for processes regarding overall information access management. Regarding breach notification findings, Mr. Dunnahoo said that one gap was identified related to inconsistent documentation around determining if a breach actually occurred.

Mr. Clarke Howard reported that prior to the enactment of HIPAA, TRS had in place a substantial array of policies and procedures addressing retention of confidential information. He said upon the enactment of HIPAA additional policies, procedures and training were implemented. However, he said many of the HIPAA-oriented procedures in place at TRS had not been placed in writing. Mr. Howard said they are already working on addressing many of the findings such as drafting policies and procedures that are very specifically oriented towards HIPAA compliance, and tightening the training, tracking and enforcement.

Mr. Frank Williams reported that IT is already working on bolstering policies with specific language towards HIPAA. Regarding risk analyses, he said they are breaking out specific controls for the HIPAA items and putting specific ratings for them. He said they are also

working with HR on developing tailored training materials for groups with differing levels of required HIPAA awareness training.

6. Receive reports on prior audits

A. Follow-Up Audit of Outstanding Recommendations (TRS-ActiveCare Enrollment and Billing) – Toma Miller and Katrina Daniel; Neill Masterson, EY

Ms. Barrett provided an overview of the follow-up audit regarding the open enrollment process for TRS-ActiveCare indicating that the audit followed up on recommendations made during the previous year. She stated that this was a co-sourced audit led by TRS Internal Audit with assistance from EY.

Ms. Toma Miller said in performing the audit, they visited WellSystems offices, reached out to 12 school districts and to three of the third-party administrators. She stated the districts were very appreciative of the enhancements that were made to the MESA portal and the enhanced service model Aetna has set up. Ms. Miller reported seven of the 11 items they followed up on have been implemented and three items were partially implemented. She said there was one recommendation not implemented, but Aetna was in the process of implementing it soon. She stated that five new recommendations were made during the audit and indicated that they were not necessarily new issues, but opportunities for strengthening processes that have been put in place. She noted that four of the recommendations were addressed to Aetna and the fifth was addressed to TRS management within Health and Insurance Benefits.

Mr. Neill Masterson provided information related to the recommendation addressed to TRS and said that given the number of parties involved in managing TRS-ActiveCare, there was an opportunity to more clearly define roles and ownership between TRS, Aetna and WellSystems. He said that a draft RACI chart had been developed to help define all parties' roles as it relates to the activities of managing TRS-ActiveCare as well as another enabler tool related to vendor monitoring activities.

Ms. Nancy Register, on behalf of Aetna, reported that the remaining recommendations from last year, will be corrected and implemented by August 1. She also stated that the new recommendations are being addressed and that implementation dates have been provided.

Ms. Katrina Daniel stated this is the second year of the audit, there is still ongoing work and refinement. She appreciated the work of the Internal Audit team.

Mr. Moss stated he was optimistic about the improvements that have taken place since the initial enrollment. He said this is something the Board is keeping a close eye on.

B. Prior audit and consulting recommendations – Amy Barrett

Ms. Amy Barrett referenced the materials and stated that progress was being made on the outstanding audit issues.

7. Receive Internal Audit Strategic Plan for 2017 – 2021 – Amy Barrett

Ms. Barrett provided a high level overview of the Internal Audit strategic plan.

8. Discuss or consider Internal Audit 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, Amy Barrett and Jan Engler

Ms. Barrett noted that Internal Audit is meeting all of the performance measures for the current year. She also announced the following staff accomplishments: Rodrigo Dominguez has now passed Part 2 of the certified internal auditor exam; Toma Miller is helping to plan the Institute of Internal Auditors Southern Regional Conference. She also noted the retirements of Dinah Arce and Dorvin Handrick.

The Audit Committee adjourned at 9:28 a.m.

Approved by the Audit Committee of the Board of Trustees of the Teacher Retirement System of Texas on July 13, 2017.

Attested by:

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

Date