

Audit Committee Meeting

June 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)

*All or part of the June 2, 2017, meeting of the TRS Audit Committee and Board of Trustees may be held by telephone or video conference call as authorized under Sections 551.130 and 551.127 of the Texas Government Code. The Board intends to have a quorum and the presiding officer physically present at the following location, which will be open to the public during the open portions of the meeting: **1000 Red River, Austin, Texas 78701 in the TRS East Building, 5th Floor, Boardroom.***

AGENDA

**June 2, 2017 – 8:00 a.m.
TRS East Building, 5th Floor, Boardroom**

1. Call roll of Committee members
2. Approve minutes of April 7, 2017 Audit Committee meeting – Christopher Moss
3. Receive compliance reports
 - A. TRS Compliance Program reports – Heather Traeger
 - B. Quarterly investment compliance testing (Agreed-Upon Procedures) – Hugh Ohn and Heather Traeger
4. Receive Non-TRS Workers Onboarding and Offboarding audit report – Janet Bray, Chris Cutler, and Don Green; Ron Franke, Myers & Stauffer, LC
5. Receive Health Insurance Portability and Accountability Act (HIPAA) Compliance audit report – Lih-Jen Lan, Clarke Howard, and Frank Williams; Kevin Dunnahoo, Protiviti
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
 - B. Prior audit and consulting recommendations – Amy Barrett
7. Receive Internal Audit Strategic Plan for 2017 – 2021 – Amy Barrett
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 and Amy Barrett

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
April 7, 2017

The Audit Committee of the Board of Trustees of the Teacher Retirement System of Texas met on April 7, 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
Ms. Dolores Ramirez

Others present:

Brian Guthrie, TRS	Lih-Jen Lan, TRS
Ken Welch, TRS	Simin Pang, TRS
Carolina de Onis, TRS	Nick Ballard, TRS
Amy Barrett, TRS	Anandhi Mani, TRS
Heather Traeger, TRS	Rodrigo Dominguez, TRS
Jan Engler, TRS	
Hugh Ohn, TRS	
Dinah Arce, TRS	
Cari Casey, TRS	
Art Mata, TRS	
Katherine Farrell, TRS	

Audit Committee Chair Mr. Moss called the meeting to order at 8:32 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 February 23, 2017 committee meeting – Committee Chair Mr. Chris Moss.

On a motion by Mr. Corpus, seconded by Dr. Gibson, the proposed minutes for the February 23, 2017 Audit Committee meeting were approved as presented.

3. Receive compliance reports – Heather Traeger

Ms. Traeger reported on pending and resolved ethics and compliance matters. She stated that during last quarter there were no findings of violations or conflicts of interest and one matter remains open. Ms. Traeger said the annual certification process for the code of ethics for contractors is nearing a close with a due date of April 15. Additionally, she reported that the agency is in the process of obtaining annual certifications for the employee ethics policy with a due date of April 30th.

4. Receive Internal Audit reports

A. Quarterly Investment Compliance Testing (Agreed-Upon Procedures) – Hugh Ohn and Heather Traeger

Mr. Hugh Ohn reported on the results of the quarterly investment compliance testing. Mr. Ohn noted testing results did not identify any compliance violations during this time period. However, he stated that one compliance violation related to the Securities Lending Policy did come to Internal Audit's attention during the testing period.

Ms. Traeger further explained the violation by stating that one borrower was allowed to exceed the loan limit amounts outlined in the Securities Lending Policy. She said this was due to a processing error that failed to properly aggregate two separate loans. She said State Street has revised its process to ensure that this does not happen again. Ms. Traeger reported this violation resulted in no harm to TRS and noted that TRS did get its revenue attribution for the particular amount of the loan that exceeded the limit.

B. Follow-Up Audit on Outstanding Audit Recommendations (Employer Audits) – Jan Engler, Dinah Arce and Cari Casey

Ms. Dinah Arce gave an overview of the results of the follow-up audit for the 11 employer audits conducted in the past two years. Ms. Arce reported that at the time the follow-up audit started, there were eight employers that had completed corrections and three were still working on corrections. She said the audit reviewed the process used by the TRS Benefit Reporting department to ensure that the needed corrections are made by employers.

Ms. Arce stated that it was identified that Benefits Reporting has a process in place to send out memorandums to each employer identifying the corrections that are needed. The employers are then required to provide a certification that the corrections have been made. The audit found that the certifications that came back from the employer's varied in content, form, and at times made it hard to identify if all of the corrections were being certified. She stated that in order to address this issue, Benefit Reporting is incorporating an addendum to the current memorandum that they send to the employers. The addendum includes a standard certification that is to be used by the reporting official when certifying that all corrections have been made.

C. Prior audit and consulting recommendations – Jan Engler and Amy Barrett

Ms. Amy Barrett reported all of the outstanding audit recommendations are making progress in terms of implementation. She noted there are a few that are past due. One is related to TEAM implementation which is to go live the beginning of October. She said there are some outstanding audit recommendations related to the WellSystems audit that was performed last year. She reported a team is in the field in Tampa, FL, and will bring more in June regarding the preparedness for open enrollment for ActiveCare.

5. 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 reported the audit plan is on track. She said besides the regular employer audits, they are doing 30 employment-after-retirement audits, two higher education pilots, and the follow-up audits. She said depending on how many issues are identified, more time may be needed. She stated they are proceeding with the private equity audit, with the field work planned to begin in May.

Ms. Barrett reported that her Employer Audit team presented to the Texas Association of School Business Officials (TASBO) conferences.

The Audit Committee adjourned at 8:51 a.m.

Approved by the Audit Committee of the Board of Trustees of the Teacher Retirement System of Texas on June 2, 2017.

Attested by:

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

Date

TAB 3

TAB 3A

The information for this agenda item is confidential.

TAB 3B

QUARTERLY INVESTMENT COMPLIANCE TESTING
INVESTMENT POLICY STATEMENT (IPS), SECURITIES LENDING POLICY (SLP), PERFORMANCE INCENTIVE PAY (PIP) PLAN, WIRE
TRANSFER PROCEDURES, AND BOARD OF TRUSTEES ETHICS POLICY
CALENDAR QUARTER ENDED MARCH 31, 2017, EXCEPT AS NOTED

Business Objectives	1. <u>Board Reports</u> All required information is reported to the TRS Board of Trustees	2. <u>Investment Selection and Approval</u> Investments made are within delegated limits and established selection criteria	3. <u>Other (IPS, SLP, Wire Transfers, Other Reporting)</u> Risk limits are followed for other investment programs and activities	4. <u>Ethics Policies</u> Ethics policy requirements are met
Business Risks	Board is not informed of key investment decisions and critical information	Approvals and fundings exceed delegated limits	Risks exceed Board-established tolerances or management policies and procedures	Ethics policy requirements are not completed
Management Assertions	All required information is reported to the Board	Approvals and fundings are within delegated limits and made for qualified managers	Programs are within risk limits and activities follow established policies and procedures	Ethics policies and requirements are being followed
Agreed-Upon Procedures	<ul style="list-style-type: none"> Compare Board reports to IPS requirements Trace sample information included in Board reports to supporting documentation 	<ul style="list-style-type: none"> Trace investments approved by the Internal Investment Committee (IIC) to supporting documentation Compare approval amounts of new investments with IPS limits Obtain evidence that Placement Agent Questionnaires (PAQs) were received prior to funding investments approved 	<ul style="list-style-type: none"> Obtain evidence of IMD's reporting of managers/funds added or removed Check securities lending portfolio for compliance with lending guidelines Verify wire transfers are authorized and supported Recalculate Internal Public Markets staff's PIP alpha for the quarter ended 12/31/2016. Confirm senior managers' awareness of any compliance violations 	Obtain evidence that Trustees completed annual ethics training requirement
Test Results	<ul style="list-style-type: none"> All reporting requirements were met Documentation provided support for the information tested 	<ul style="list-style-type: none"> All investments tested were in compliance with approval limits PAQs were obtained for all investments tested 	All requirements of the IPS, SLP, PIP, and wire transfer procedures were met	All ethics training requirements tested were met
Management Responses	N/A	N/A	N/A	N/A

Legend: **Red** - Significant to TRS **Orange** - Significant to Business Objectives **Yellow** - Other Reportable Exception **Green** - Positive Test Result/ No Exception



Brian K. Guthrie
Executive Director

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Amy L. Barrett,
CIA, CISA, CPA
Chief Audit Executive

May 16, 2017

Carolina de Onis, TRS General Counsel

Subject: Report on Independent Testing of Investment Compliance

We have completed the **Quarterly Investment Compliance Testing** for the quarter ended March 31, 2017, as included in the *Fiscal Year 2017 Audit Plan*. The scope of this engagement included the requirements of the Investment Policy Statement (IPS), Securities Lending Policy, Board of Trustees Ethics Policy, Wire Transfer Procedures, and Performance Incentive Pay (PIP) Plan.

We performed the procedures that were agreed to by the TRS Legal & Compliance division. These procedures include tests that supplement the current compliance monitoring procedures performed by State Street 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 the specified users of the 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**.

Internal Control Structure

We were not engaged to and did not perform an examination of the internal controls nor the operating effectiveness pertaining to the subject areas tested. Accordingly, we do not express an opinion on the suitability of the design of internal controls nor the operating effectiveness of the subject areas tested.

Had we performed additional procedures, or had we made an examination of the system of internal control, other matters might have come to our attention that would have been reported to you. This report relates only to the procedures specified below and does not extend to the internal control structure.

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 & Compliance for their cooperation and professionalism shown to us during this quarterly testing.

Amy Barrett, CIA, CPA, CISA
Chief Audit Executive

Hugh Ohn, CIA, CPA, CFA, FRM
Director of Investment Audit Services

Anandhi Mani, CIA, CPA
Senior Investment Auditor

Rodrigo Dominguez
Internal Auditor

APPENDIX A
AGREED-UPON PROCEDURES AND RESULTS

STEP #	BUS. OBJ. #	TEST PURPOSE	TEST DESCRIPTION	TEST RESULT	MANAGEMENT RESPONSE
1	1	IPS Article 1.7a - 1.7p – Obtain evidence that all requirements were reported to Board of Trustees. Quarterly reporting requirements include investment performance, asset class exposures, and external investments under consideration. Semi-annual reports include outstanding derivatives, leverage and liquidity positions, and risk limits	Obtain all information required to be reported to Board of Trustees and compare to reporting requirements per Investment Policy Statement (IPS)	Information required to be reported to Board of Trustees complied with IPS requirements.	No response required
2	2	IPS Article 2.5 – Obtain evidence that the Investment Management Division (IMD) evaluated hedge fund classification	<ul style="list-style-type: none"> • 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 	Each of approved investments in hedge funds and external managers tested had analysis indicating whether investment was a hedge fund or not. No Board approval was required.	No response required
3	2	IPS Article 2.6a and IPS Appendix B – Obtain evidence that all private and relevant public markets fund investments were approved by the	<ul style="list-style-type: none"> • For the private and public markets funds approved during the quarter, obtain existence of IIC approval 	IIC approval existed for all funds approved during the quarter.	No response required

STEP #	BUS. OBJ. #	TEST PURPOSE	TEST DESCRIPTION	TEST RESULT	MANAGEMENT RESPONSE
		Internal Investment Committee (IIC)			
4	2	IPS Article 2.6 d – 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	<ul style="list-style-type: none"> • Inquire with Investment Operations team whether portfolios were adjusted for the purposes of rebalancing or adjusting risks • 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 	Additional funds added to previously approved investments for purposes of rebalancing or adjusting risks did not exceed 2% of associated portfolios.	No response required
5	2	IPS Article 7 – Obtain evidence that new investments in emerging managers meet size and track record requirements	<p>For a sample of approved investments obtain evidence that :</p> <ul style="list-style-type: none"> • Each is an independent private investment management firm that has less than \$2 billion asset base. • Each has a performance track record as a firm of less than 5 years, or both 	New investments in emerging managers met the policy requirements.	No response required
6	2	IPS Article 12 - Obtain evidence of existence of placement agent questionnaire (PAQ) for each new investment selected for testing and test for inclusion in summary report to the Board	<ul style="list-style-type: none"> • For each investment selected for testing, obtain copies of the placement agent questionnaire (PAQ) to ensure that IMD obtained responses to the questionnaire • Obtain evidence that responses to the questionnaires were compiled and all results reported to the Board at least semi-annually 	Each investment tested had a completed questionnaire and was included in the summary report to the Board.	No response required
7	2	IPS Appendix B – Obtain evidence that investments approved are within policy limits	<ul style="list-style-type: none"> • Select sample of approved investments and obtain and review Tear Sheet for each, to ensure the approved amounts are within authorized limits 	For the sample investments tested, no manager or partner organization exceeded the authorized limits and documentation existed for IMD staff	No response required

STEP #	BUS. OBJ. #	TEST PURPOSE	TEST DESCRIPTION	TEST RESULT	MANAGEMENT RESPONSE
			a) Initial allocation – .50% b) Additional or follow-on – 1% c) Total Manager Limits – 3% d) Total limit each manager organization – 6% <ul style="list-style-type: none"> 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 	calculations of authorized limits. There were no Special Investment Opportunities.	
8	3	Quarterly Compliance Certification – Obtain evidence that all known compliance violations have been reported by IMD managers and Investment Legal staff	<ul style="list-style-type: none"> Confirm with the Chief Compliance Officer that she has received compliance certification from IMD profit center managers, Legal Investment staff, and CIO regarding any known compliance violations occurred during the testing period 	Obtained confirmation from the Chief Compliance Officer. No compliance exceptions were identified as a result of the quarterly compliance certification.	No response required
9	3	Wire Transfers – Obtain evidence that wire transfers are authorized and properly supported	<ul style="list-style-type: none"> Obtain wire transfer reports for testing period, select a sample of wire transfers, and trace each to supporting documentation to check amount and appropriate manager authorizations 	All wire transfers tested were properly authorized and amounts were supported.	No response required
10	3	Securities Lending Policy – Obtain evidence that IMD staff monitored the progress of the securities lending program and performance of lender	Obtain evidence for the following securities lending policy requirements: <ul style="list-style-type: none"> Sec 4.2.3. For each month end of the testing quarter, obtain the State Street daily cash collateral data to calculate the percentage change in FMV of the portfolio and confirm that the decline was not more than .0035 percent for 1 basis point change in interest rates Sec 4.3. From the State Street Securities lending report for the three months of the testing quarter, obtain the average value of securities on loan, and calculate the utilization 	<ul style="list-style-type: none"> Testing of the interest rate sensitivity of the cash collateral investment pool indicated that the portfolio fair market value would not decline by more than .0035 percent per a 1 basis point change in interest rates. During the quarter, the market value of TRS securities on loan did not exceed 30% of the market value of the total TRS portfolio 	No response required

STEP #	BUS. OBJ. #	TEST PURPOSE	TEST DESCRIPTION	TEST RESULT	MANAGEMENT RESPONSE
			rate to determine whether the utilization rate exceeded 30% of the market value of the total TRS portfolio.		
11	3	Performance Incentive Pay Plan (PIP) – Verify that investment performance results used in quarterly Internal Public Markets (IPM) portfolio matches data from TRS financial applications and custodian bank and that the excess return calculations for individual portfolio managers and sector managers are correct	<ul style="list-style-type: none"> Trace quarterly IPM individual component calculation spreadsheet to TRS financial performance application data and TRS custodian bank data. Test whether employee assignments were approved by Senior Director in TRS IPM prior to quarter; start by obtaining approval email from Senior Director in TRS IPM to Investment Operations Performance Analyst. If any assignment changes are included in the approval, compare the approved changes to the assignments in the quarterly IPM individual component calculation spreadsheet. Test whether formulas in the quarterly IPM individual component calculation spreadsheet are correct by recalculating investment return totals by portfolio manager and sector manager, and comparing total investment returns to returns provided by the TRS Custodian Bank. 	There were no data, employee assignment, or formula errors included in the quarterly IPM individual component calculation spreadsheet. Thus, excess return calculations for individual portfolio managers and sector managers for the IPM portfolio were correct for the quarter ended December 31, 2016.	No response required
12	4	Board of Trustees Ethics Policy – Obtain evidence that annually, every Trustee completes ethics training	<ul style="list-style-type: none"> Obtain evidence that every Trustee submitted a Trustee Ethics Policy Certification 	All Trustees submitted Trustee Ethics Certifications, which indicates completion of annual ethics training requirements.	No response required

Note: Testing procedures for the Investment Policy Statement (IPS), Securities Lending Policy (SLP), Board of Trustees Ethics Policy, and Wire Transfer Procedures are for the activities for the quarter ending March 31, 2017. Testing procedures for the Performance Incentive Pay Plan are for the quarter ended December 31, 2016.

TAB 4

The information for this agenda item is confidential.

TAB 5



TRS HIPAA Gap Evaluation

June 2, 2017

HIPAA Landscape

US National Data

- 173,518,601
 - Protected health information (PHI) records have been breached (since tracking started in 2009)
- 1,928
 - Different breaches affecting 500 or more individuals
- Enforcement trend
 - \$2.5 million 4/24/2017
 - \$5.5 million 2/16/2017
 - \$3.2 million 2/1/2017
- Impact on individuals
 - Identity theft
 - Medical record – false info
 - Credit impact
 - False tax return
 - Children targeted
 - Data remains the same

HIPAA Background

The Health Insurance Portability and Accountability Act (HIPAA) was enacted in 1996 with the intent of improving the privacy, security, efficiency, and effectiveness of the national health system.

HIPAA was the first Federal standard governing the Privacy of Protected Health Information (PHI) by:

- Establishing strict regulations for controlling the use and disclosure of PHI
- Establishing appropriate safeguards for protecting the privacy of PHI

The Health Information Technology for Economic and Clinical Health Act (HITECH) was enacted in 2009

- Promote the widespread adoption and standardization of healthcare information technology,
- Strengthened privacy and security protection mechanisms through enforcement
- Increased the penalties that could be assessed.

The Final HIPAA Omnibus Rule was issued in 2013 to further increase protection of PHI by:

- Extending liability for business associates and subcontractors
- Enhancing the severity of the breach rule for unsecured PHI breaches
- Required a Breach Risk Assessment to determine if there is a low probability that a breach has occurred

Administrative Safeguards of Protected Health Information (PHI)

Privacy Rule

Ensuring that PHI is properly protected while allowing the flow of information needed to provide high quality healthcare

Security Rule

Protecting the privacy of ePHI through physical, technical, and administrative safeguards

Breach Rule

Requirements for covered entities and business associates to provide notification following a breach of unsecured PHI

HIPAA Applicability

- Covered Entity
 - Health care providers
 - Health care clearinghouses
 - **Health plans**
 - **TRS-Care**
 - **TRS-ActiveCare**
- Business Associate (BA)
 - A “business associate” is a person or entity, other than a member of the workforce of a covered entity, who performs functions or activities on behalf of, or provides certain services to, a covered entity that involve access by the business associate to protected health information

HIPAA Breach Penalties

The Department of Health and Human Services (HHS) Office for Civil Rights (OCR) is responsible for enforcing HIPAA. The following Civil and Criminal Penalties may be imposed for failure to comply with HIPAA.

Civil Penalties			Criminal Penalties		
Category	Fine/Violation	Max Fine/ Violation	Category	Fine	Imprisonment Duration
Did not Know	\$100-\$50,000	\$1,500,000	"Knowingly" Obtain or Disclose PHI	<\$50,000	Up to 1 Year
Reasonable Cause	\$1,000 - \$50,000	\$1,500,000	Offenses committed under false pretenses	\$100,000	Up to 5 years
Willful Neglect – Corrected	\$10,000 - \$50,000	\$1,500,000	Intent to Sell, Transfer, or "Use" PHI	\$250,000	Up to 10 years
Willful Neglect – Not Corrected	\$50,000	\$1,500,000			

OCR HIPAA [Random] Audits

- Two phases of “random” audits performed to date, with future phases planned
- Phase II wrapping up mostly consisted of “desk audits,” but some will be selected for an onsite more comprehensive audit in 2017
- All entities are eligible for selection for the on-site audits

Phase II - Desk Audits Scope

- Privacy – Notice of Privacy Practices
- Breach Notification – Timing and Content of Breach Notifications or Breach Risk Assessments
- Security – Risk Analysis and Risk Management

Audit Protocols – Updated and available now

- <http://www.hhs.gov/hipaa/for-professionals/compliance-enforcement/audit/protocol-current/index.html>

Enforcement is here – HIPAA Penalties

- HIPAA compliance reviews and complaint investigations are even more thorough than the “random” audits
- Complaint Investigation – complaint driven
- Compliance Review – breach driven

HIPAA Penalties vs. Settlements

- OCR most often “settles” and creates “corrective action plans”
- These amounts are vastly reduced compared to what they could enforce through actual civil monetary penalties under the HIPAA HITECH Act

Trending Issues

- Incomplete or inaccurate Risk Analysis
- Lack of Business Associate Agreements (BAA)
- BAA not updated after HITECH
- Lack of transmission security
- Patching of software
- Audit logs
- Insider threat
- Improper disposal
- Insufficient backup & contingency planning

HIPAA Gap Evaluation - Project Objectives

Oversight programs are in place for promoting, monitoring, enforcing compliance with the HIPAA:

1. Final Privacy Rule
2. Final Security Rule
3. Final Breach Notification Rule

HIPAA Gap Evaluation - Risks

1. PHI/ePHI may not be appropriately safeguarded
2. Potential for regulatory financial penalties
3. Reputational damage

HIPAA Gap Evaluation - Controls

1. Policies and procedures
2. Training and guidance materials
3. Notice of Privacy Practices (NPP)
4. Business Associate Agreements (BAA) and Management
5. User access management
6. Technical safeguards, encryption, logging, etc.
7. Physical safeguards
8. Contingency planning
9. Breach notification plans
10. Compliance hotline

TAB 6

TAB 6A

The information for this agenda item is confidential.

TAB 6B

**TRS Internal Audit
Summary of Audit Recommendations Status
As of May 2017**

Project	Recommendation	Status	Issue Type	Estimated Date	Revised / Actual Date
17-601 403(b) Provider Compliance Audit					
	Require Records of Provider's Verification of License and Qualification As Part of Annual Demonstration	In Progress	Other Reportable	8/2017	
	Start Tracking the Cost of Program Administration For Fee-Setting Purpose	In Progress	Other Reportable	9/2017	
17-306 Funston Evaluation of TRS Real Assets Investment Program					
	<p>TRS Board should consider enhancing the monitoring and oversight of annual commitments through two actions:</p> <p>A. The TRS staff should provide the Board the annual capital plan for the Real Assets portfolio as soon as it is final each year and include an update on the capital plan with each quarterly Transparency Report; and</p> <p>B. TRS should include in Appendix B of the IPS a limit on the total Real Assets commitments that can be made in a single year.</p>	Implemented	Other Reportable	A - 6/2017 B - 9/2018	A – 5/2017 B – No Further Action Planned
	Board should consider adopting a stand-alone Compliance Policy in order to place Board emphasis on the importance of compliance and greater clarity to the respective roles and responsibilities throughout TRS respecting this area.	In Progress	Other Reportable	12/2017	12/2017

Significant to Business Objectives

	<ul style="list-style-type: none"> Past <i>original</i> estimated completion date No management action plan <u>or</u> No progress on management action plan
	<ul style="list-style-type: none"> Past <i>original</i> estimated completion date Progress on management action plan
	<ul style="list-style-type: none"> <i>Original</i> estimated completion date has not changed Progress on management action plan
	Satisfactory implementation of management action plan <u>or</u> Acceptance of risk by management
	Implementation of management action plan pending Internal Audit validation

Other Reportable

	<ul style="list-style-type: none"> Past first <i>revised</i> estimated completion date No management action plan <u>or</u> No progress on management action plan
	<ul style="list-style-type: none"> Past first <i>revised</i> estimated completion date Progress on management action plan
	<ul style="list-style-type: none"> Within <i>original</i> <u>or</u> first <i>revised</i> estimated completion date Progress on management action plan
	Satisfactory implementation of management action plan <u>or</u> Acceptance of risk by management

**TRS Internal Audit
Summary of Audit Recommendations Status
As of May 2017**

Project	Recommendation	Status	Issue Type	Estimated Date	Revised / Actual Date
17-306 Funston Evaluation of TRS Real Assets Investment Program (Continue..)					
	<p>TRS Board should consider several options to improve reporting and coordination of compliance and other oversight activities:</p> <ul style="list-style-type: none"> A. Consider whether the ability to use and comprehend the various investment information from all sources provided to trustees would be enhanced by developing a map, or guide, to the various sources and their purpose as a part of trustee training or in a manual. B. Although overall reporting is robust, TRS may benefit by shifting more regular reporting responsibilities to the Chief Compliance Officer and moving the Chief Audit Executive towards the role of assessing the effectiveness of the compliance function. C. Specific to investment compliance, map the responsibilities and functions of the responsible areas to provide a system-wide view of investment compliance activities and enhance TRS' already strong investment compliance efforts. 	In Progress	Other Reportable	A - 5/2017 B - 5/2017 C - 5/2017	A - 9/2017 B - 9/2018 C - Implemented
	TRS Board should consider adopting a stated limit to the use of leverage rather than rely on the set of guidelines developed by the Real Assets team.	No Further Action Planned	Other Reportable	NA	
	TRS Board should consider, for clarity and completeness, a reference to inflation protection or hedging in the Investment Policy Statement.	No Further Action Planned	Other Reportable	NA	
	<p>TRS should consider implementing improvements to the Real Assets benchmark to better match the current portfolio construction with regard to risk through one of two options:</p> <ul style="list-style-type: none"> A. Formally adopt the NCREIF ODCE plus premium percentage approach that would reflect TRS Real Assets strategy and portfolio construction. B. Adopt a blended real assets benchmark given the global nature of the program, exposure to non-core real estate, and the allocation beyond traditional property types. 	No Further Action Planned	Other Reportable	NA	
	TRS should continue to explore the potential benefits of foreign currency hedging and consider hedging its foreign currency exposure in Real Assets.	Implemented	Other Reportable	6/2017	5/2017
	TRS should consider whether additional mechanisms are necessary to support graduating Emerging Manager funds from that program to the Real Assets Premier List.	Implemented	Other Reportable	NA	4/2017

**TRS Internal Audit
Summary of Audit Recommendations Status
As of May 2017**

Project	Recommendation	Status	Issue Type	Estimated Date	Revised / Actual Date
	In consideration of the higher returns achieved, the Principal Investing (PI) program should be expanded, as already contemplated by staff.	Implemented	Other Reportable	3/2017	4/2017
	The PI program, or other approach, should be used as needed to “wrap” managers with multiple investments to replicate aspects of the Strategic Partner Network (SPN) and secure the best possible terms and deal flow (i.e., to gain benefits similar to strategic partners with those managers).	In Progress	Other Reportable	12/2017	12/2017
	Real Assets should undertake a cost/benefit analysis of the potential for active direct real estate investing.	In Progress	Other Reportable	12/2017	12/2017
	TRS should consider greater standardization of data collection and templates to improve efficiency.	Implemented	Other Reportable	NA	4/2017
	A plan to selectively conduct targeted fee audits should be developed and implemented on a partial-portfolio rolling basis.	In Progress	Other Reportable	9/2017	12/2017
	Valuation audits could be performed on rolling basis, and/or independent valuations could be required/requested for selected investments.	In Progress	Other Reportable	9/2017	9/2017
	Expanding written guidelines to address selected portfolio review and diligence activities should be considered.	Implemented	Other Reportable	NA	5/2017
SAO Audit of Fiscal Year 2014 Comprehensive Annual Financial Report (15-305)					
	Strengthen controls over census data	In Progress	Significant	8/2016	9/2017

TAB 7

2017 - 2021 TRS Internal Audit Strategic Plan



*Trusted Assurance,
Valued Advice*

Mission, Vision, and Stakeholders

- ▶ Our mission: to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight
- ▶ Our vision: to provide trusted assurance and valued advice through our services to primary stakeholders:
 - ▶ Assurance that TRS' risk management, governance, and control processes support achievement of TRS mission and business objectives
 - ▶ Advice and consultation for improving processes through business partnerships and collaboration
- ▶ Our primary stakeholders:
 - ▶ TRS Board of Trustees and the Audit Committee of the Board of Trustees
 - ▶ Executive Director and Executive Management

Strategic Goals

- ▶ Our strategic goals were developed to align with the TRS Strategic Plan and Core Values and ensure that we support the changing needs of TRS' stakeholders in fulfilling fiduciary duties and achieving business goals:
 - ▶ Internal Audit Goal 1: Facilitate Audit Committee governance
 - ▶ TRS Goal 1: Sustain a financially sound pension trust fund
 - ▶ TRS Goal 2: Continue to improve benefit delivery
 - ▶ TRS Goal 3: Facilitate access to competitive, reliable healthcare benefits for our members
 - ▶ Internal Audit Goal 2: Support TRS initiatives
 - ▶ TRS Goal 2: Continue to improve benefit delivery
 - ▶ TRS Core Values
 - ▶ Internal Audit Goal 3: Enhance Internal Audit staff competence and expertise
 - ▶ TRS Goal 4: Attract, retain, and develop highly competent staff

Goal 1: Facilitate Audit Committee Governance

Objective 1: Provide assurance and advice to the Audit Committee and executive management on risk mitigation activities related to the pension and healthcare trusts

Strategy 1	Conduct assurance activities relating to the completeness and accuracy of Reporting Entity information submitted to TRS
Strategy 2	Provide assurance on investment risk mitigation activities
Strategy 3	Provide assurance on health care risk mitigation activities
Strategy 4	Coordinate with Enterprise Risk Management (ERM) on risk assessment activities
Strategy 5	Collaborate with Compliance Team and Risk Group on risk and compliance monitoring of investment-related activities

- ▶ Quantitative measurements:
 - ▶ Audit project surveys (TRS and Reporting Entities)
 - ▶ TASBO presentation surveys
 - ▶ Chief Audit Executive (CAE) and staff 360 evaluations
 - ▶ Audit plan completion rate
 - ▶ Staff utilization rates

Goal 1: Facilitate Audit Committee Governance

Objective 2: Improve Internal Audit communication

Strategy 1	Refine report format of Internal Audit reports and Audit Committee materials
Strategy 2	Improve delivery of information
Strategy 3	Identify and promote resources within Internal Audit that could be beneficial to TRS

- ▶ Quantitative measurements:
 - ▶ CAE and staff 360 evaluations

Goal 1: Facilitate Audit Committee Governance

Objective 3: Provide information on effective Audit Committee practices

Strategy 1	Obtain and provide information to the Audit Committee on best practices of audit committees
Strategy 2	Consider using Audit Committee self-evaluation tool
Strategy 3	Share governance resources through Diligent

- ▶ Quantitative measurements:
 - ▶ CAE and staff 360 evaluations

Goal 2: Support TRS Initiatives

Objective 1: Support the success of the TEAM Program and Financial Software Implementations

Strategy 1	Facilitate independent oversight for board and external oversight agencies
Strategy 2	Provide input and assistance during development and implementation of TRUST (new Benefits system) and new financial system
Strategy 3	Use TRUST and financial system in future audits

- ▶ Quantitative measurements:
 - ▶ CAE and staff 360 evaluations

Goal 2: Support TRS Initiatives

Objective 2: Integrate TRS Core Values into Internal Audit activities

Strategy 1	Explore opportunities and methods to tie audit findings into TRS Core Values of Customer Satisfaction, Accountability, Ethics, and Excellence
Strategy 2	Integrate TRS Core Values of Collaboration/ Teamwork, Respect, and Employee Fulfillment into IA documents
Strategy 3	Establish staff recognition programs

- ▶ Quantitative measurements:
 - ▶ CAE and staff 360 evaluations
 - ▶ TRS Workplace Survey

Goal 3: Enhance Internal Audit Staff Competence and Expertise

Objective 1: Cultivate in-house Subject Matter Experts

Strategy 1	Deepen knowledge of TRS laws (federal and state), rules, and internal policies
Strategy 2	Broaden foundational skills in data analytics
Strategy 3	Define and broaden auditing skills

- ▶ Quantitative measurements:
 - ▶ TRS project surveys
 - ▶ CAE and staff 360 evaluations

Goal 3: Enhance Internal Audit Staff Competence and Expertise

Objective 2: Ensure continued competence and expertise of Internal Audit

Strategy 1

Develop workforce continuity plans

- ▶ Quantitative measurements:
 - ▶ CAE and staff 360 evaluations
 - ▶ TRS Workplace Survey
 - ▶ HR turnover rates

TAB 8

Teacher Retirement System of Texas
June 2017 Audit Committee Agenda Items Mapped to TRS Stoplight Report

403(b)	Accounting & Reporting	Budget	Business Continuity	Communications & External Relations
Credit	Customer Service	Employer Reporting	Ethics & Fraud Prevention	Facilities Management & Planning
Governmental / Association Relations & Legislation	Health Care Plans Administration <i>Agenda Item 5, 6A</i>	Information Security & Confidentiality <i>Agenda Item 4, 5</i>	Investment Accounting <i>Agenda Item 3B</i>	Investment Operations <i>Agenda Item 3A, 3B</i>
Legacy Information Systems	Liquidity / Leverage	Market	Open Government <i>Agenda Items 6B, 7, 8</i>	Pension Benefit Administration
Pension Funding	Purchasing & Contracts	Records Management	Regulatory, Compliance & Litigation <i>Agenda Items 3A, 3B</i>	Talent Continuity
TEAM Program	TRS-ActiveCare Affordability <i>Agenda Item 6A</i>	TRS-Care Funding		

Fiscal Year 2017 Audit Plan Status As of May 2017

Title and Project #	Type	Status
Executive and Finance		
Records Management Audit Follow-Up (17-410)	Audit	Complete
403(b) Provider Compliance (17-601)	Audit	Complete
Federal Labor Standards Act (FLSA) Compliance	Consulting	Complete
State Auditor's Office (SAO) Financial (CAFR) Audit Coordination for Fiscal Year 2016	Advisory	Complete
Teacher Retirement Investment Company of Texas (TRICOT) Financial Audit Coordination (Grant Thornton)	Advisory	Complete
Testing of Executive Performance Incentive Pay Calculations	Agreed-Upon Procedures	
The University Of Texas at Austin Student Project	Consulting	Complete
Enterprise Risk Management (ERM) Fraud Risk Assessment	Advisory	In Progress
Meetings Participation	Advisory	Ongoing
Special Requests and Emerging Issues	Advisory	Ongoing
TEAM Program		
TEAM Independent Program Assessment (IPA) Vendor Support	Advisory	Ongoing
TEAM Committees, Projects and Controls Assessment Participation	Advisory	Ongoing
Pension Benefits		
Annuity Payment Testing for State Auditor's Office (SAO) Audit of Comprehensive Annual Financial Report (CAFR) (17-100)	Audit	Complete
Annual Benefits Testing (17-101)	Agreed-Upon Procedures	In Progress
Reporting Entity Audits (6 to 10 ISDs) (17-401)	Audit	In Progress; however, will complete 2 in FY17
Employer Audit Follow-up	Audit	Complete
Employer Audit of Pension and TRS-Care Surcharges	Audit	In Progress
Higher Education Pilot and Audit Program Development	Advisory	In Progress
TRS Reporting Entity Website Audit Information and Communication	Advisory	Ongoing

Fiscal Year 2017 Audit Plan Status As of May 2017

Health Care		
Health Insurance Portability and Accountability Act (HIPAA) Gap assessment and Validation (17-501)	Audit	Complete
Trust Expense Allocation Audit	Audit	
TRS-ActiveCare Open Enrollment Readiness Assessment Follow-Up (17-201)	Audit	Complete
TRS-ActiveCare Eligibility Pilot and Audit Program Development	Advisory	Deferred to FY18
Health Care Vendor Selection Observation	Advisory	Complete
Health Care Vendor Update Meetings	Advisory	Ongoing
Information Technology		
Contractor onboarding and off boarding (17-502)	Audit	Complete
Disaster Recovery, Network Penetration Tests; Security Risk Assessment Review	Advisory	Ongoing
Investment Management		
Private Equity Fees (17-304)	Audit	In Progress
Soft dollars and Commission Sharing Arrangements (17-305)	Audit	In Progress
Quarterly Investment and Ethics Policies Compliance Testing (17-302)	Agreed-Upon Procedures	3rd Qtr Complete
Annual Testing of Investment Incentive Pay Plan (17-303)	Agreed-Upon Procedures	Complete
Investment Fiduciary Audit Coordination	Advisory	Complete
Investment Committees Attendance	Advisory	Ongoing
Internal Audit Department		
Annual Internal Audit Report (17-603)	Audit	Complete
Data Analysis Processes	Advisory	In Progress
Quarterly Audit Recommendations Follow-up	Audit	Ongoing
ERS Audit Quality Assurance Review	Audit	Complete
Internal Quality Assurance Review (17-602)	Advisory	Ongoing
Fiscal Year 2018 Audit Plan	Advisory	
Internal Audit Strategic Plan Update	Advisory	Complete
Audit Committee Meetings Preparation	Advisory	Ongoing

Internal Audit Advisory Services¹ Fiscal Year 2017 – 3rd Quarter

BENEFIT SERVICES
<ul style="list-style-type: none"> • Participated in the TEAM Program <ul style="list-style-type: none"> ○ Enterprise Projects Oversight Committee (EPOC) ○ Organizational Change Management Advisory Group (OCM) ○ Business Procedures and Training ○ Monthly meetings with TEAM Program Manager and vendor personnel ○ Reporting Entity Outreach (REO) Core Team ○ TEAM Access Security - User Roles Mapping ○ Independent Program Assessment (IPA) Vendor Coordination
HEALTH INSURANCE BENEFITS (HIB)
<ul style="list-style-type: none"> • Attended the Health Plan Administrator (HPA) and Pharmacy Benefit Manager (PBM) Vendor Quarterly Update Meetings • Brainstorm meeting with HIB personnel on TRS processes for healthcare legislation changes
INVESTMENT MANAGEMENT DIVISION (IMD)
<ul style="list-style-type: none"> • Attended Internal Investment Committee (IIC) meetings • Participated in Proxy Voting Committee meetings • Participated in Securities Lending monitoring calls
FINANCIAL SERVICES
<ul style="list-style-type: none"> • Liaison for the State Auditor’s Office (SAO) Fiscal Year 2016 Employer Pension Liability Allocation Schedules and Census Data Audits
EXECUTIVE
<ul style="list-style-type: none"> • Facilitated SAO’s Quarterly Update Meetings • Participated in the Risk Oversight Committee • Participated in Health and Safety Committee Quarterly Meetings • Collaboration with Enterprise Risk Management on the upcoming enterprise-wide fraud risk assessment • Participated in the Records Management Cross-functional Workgroup • Participated in the <i>TRS Confidentiality Policies and Procedures</i> revision review • Provided feedback on Human Resource’s addition of investment performance component to Executive Director’s incentive pay plan • Participated in the <i>Open Government Risk Assessment</i> led by Enterprise Risk Management
INFORMATION TECHNOLOGY (IT)
<ul style="list-style-type: none"> • Disaster Recovery Exercise Observation – Recovery Exercise of TRUST system • Incidents Response Plan revision review • Participated in e-Signature authentication requirements discussion • Participated in IT projects signoff/decision log documentation discussion

¹ Advisory Services (non-audit services) - The scope of work performed does not constitute an audit under Generally Accepted Government Auditing Standards (GAGAS).

Internal Audit Goals and Performance Measures - Fiscal Year 2017
3rd Quarter Ending May 2017

Target Performance	Activity	Status
Goal 1: Enhance Effectiveness of Internal Audit Organization		
1. Spend a minimum of 75% of total available department hours (excludes uncontrollable leave) for professional staff on direct assurance, consulting, and advisory services	Achieved 81% for 3rd quarter of fiscal year 2017	On Task
2. Complete an internal assessment and report the results of the Quality Assurance and Improvement Program	The assessment is scheduled for completion in the 4 th quarter	On Task
Goal 2: Develop and Implement Internal Audit Annual Audit Plan based on Formal Risk Assessment		
3. Prepare an annual audit plan based on a documented risk assessment and obtain input from trustees and staff	The audit planning and risk assessment is scheduled for the 4 th quarter	On Task
4. Execute 80% of audit and agreed-upon procedures projects (80% allows for flexibility due to changes in TRS business practices and special requests)	Planned audit and agreed-upon procedures projects are on schedule and assigned to staff	On Task
5. Update the formal reporting entity risk assessment to identify reporting entities for audit	The formal reporting entity risk assessment has been updated and completed	Achieved
Goal 3: Enhance Internal Audit Staff Skills and Knowledge in Assurance Practices		
6. Update data analytics roadmap identified by external advisor and complete year two activities	The data analytics roadmap and implementation plan is on schedule	On Task
7. Collaborate with an institution of higher education to pilot a reporting entity audit program; develop and distribute the audit program to other high education auditors and request that they conduct these audits	Pilot projects are currently underway in two institutions of higher education	On Task
Goal 4: Deliver Value-Added Consulting and Advisory Activities		
8. Facilitate coordination of TEAM Independent Program Assessment (IPA) vendor by coordinating meetings with Executive Director, Executive Steering Committee (ESC) and Core Management Team (CMT), quarterly presentations to the TRS Board of Trustees, and other contractual activities	Coordination and support of IPA vendor is ongoing as planned	On Task

Internal Audit Goals and Performance Measures - Fiscal Year 2017
3rd Quarter Ending May 2017

Target Performance	Activity	Status
9. Facilitate timely completion and success of State Auditor's Office (SAO) audits in fiscal year 2017 by effectively providing audit support, coordinating meetings, reserving facilities and gathering schedule and documentation requests	Internal Audit staff has provided support and coordination for the following SAO audits: <ul style="list-style-type: none"> • Audit of FY 2016 Comprehensive Annual Financial Report (CAFR) • Fiduciary Review of TRS' Investment Practices and Performance • Audit of FY 2016 Employer Pension Liability Allocation Schedules and Census Data Audits 	On Task
Goal 5: Enhance Participation in Professional and Peer Organizations		
10. Participate in professional organizations (APPFA, IIA, ISACA, ACFE, SAIAF, CFA Institute) through monthly chapter meetings and participation in leadership roles in at least one professional organization.	Participation in professional organizations is ongoing: <ul style="list-style-type: none"> • CAE is secretary for APPFA • One IT Audit Manager is the web administrator for APPFA • One senior auditor is involved with the planning of the upcoming IIA Southern Regional Conference and participates with an IIA Chapter group to develop test questions for the IIA CIA exam 	On Task
11. Support staff in obtaining additional certifications such as the CFA, CPA, and CIA certifications and have all staff obtain a minimum of 24 continuing professional education hours in a fiscal year and a minimum of 80 hours for a two year period.	<ul style="list-style-type: none"> • One staff made a progress in obtaining the CIA certification by passing Part 2 of the CIA examination. • Staff planned and attended professional development training this quarter 	On Task

Legend: Target Status

	Target not achieved
	Behind in achieving target or partially complete
	On task to achieve target
	Achieved target



Update on CAE Performance Goals

	TRS Strategic Plan	CAE Goals	Key Performance Indicators	Status
1	TRS Goal 1: Sustain a financially sound pension trust fund (investments).	Support an effective investment governance structure. Perform regular investment audit and consulting activities.	Facilitate and coordinate the external audits of the TRS Investment Company of Texas (TRICOT – London Office), Investment Fiduciary Review of Real Assets, and Comprehensive Annual Financial Audit.	Complete. The TRICOT and investment fiduciary audits were reported in February 2017 and the CAFR audit was reported in December 2016.
			Pilot one to two audits of private equity funds to assess accuracy of fees, compliance with contractual provisions, and support for investment valuations.	In progress. Two funds were identified and will be audited in May with a report to the audit committee in September.
			Provide assurance on compliance with commission credit policy, Investment Policy Statement, TRS ethics policies, and incentive pay plan.	In progress. The commission credit audit is in progress and will be reported in September. Incentive pay was reported in February. IPS and ethics policies testing results are reported quarterly.
			Continue buildout of internal investment audit dashboard for soft dollar expenditures, private market fees, and other areas as resources permit.	In progress. Audit is working with EY on building the dashboard. External public markets and commission credits are in progress and analytics for commission credits will be presented in September. Private markets analysis has been deferred to next year due to budget constraints.



Update on CAE Performance Goals

	TRS Strategic Plan	CAE Goals	Key Performance Indicators	Status
2	<p>TRS Goal 2: Continue to improve benefit delivery (pension).</p>	<p>Facilitate TEAM oversight function. Identify cost recovery opportunities at employers. Obtain greater audit coverage at higher education employers. Perform regular pension audit and consulting activities.</p>	<p>Enable full access of TEAM independent program assessment vendor to people and documents</p> <p>Participate in TEAM and TEAM committees as an advisor on internal controls.</p> <p>Identify opportunities for recovery of underpayments for employment after retirement (EAR) surcharges by conducting targeted audit of EAR for multiple entities.</p> <p>Pilot two university audits to develop an audit program to disseminate to higher education internal auditors.</p> <p>Provide assurance to TRS members and retirees by validating the accuracy of annuity payments and manual payments.</p> <p>Assist TRS management in its oversight of 403(b) providers by providing assurance on internal controls and compliance with statutes.</p>	<p>In progress. Internal Audit continues to coordinate Bridgepoint oversight activities and worked with management to add an additional Bridgepoint resource.</p> <p>In progress. Audit completed informal testing of controls for Phase 1A. Phase 1B testing is in progress.</p> <p>In progress. Audit is working on testing EAR surcharges for 30 entities and will report results in September.</p> <p>In progress. Two university audits are under way with results to be reported in September.</p> <p>In progress. Benefits testing is in progress with results to be reported in September.</p> <p>Complete. Results of the 403(b) audit were reported at the December audit committee.</p>



Update on CAE Performance Goals

	TRS Strategic Plan	CAE Goals	Key Performance Indicators	Status
3	TRS Goal 3: Facilitate access to competitive, reliable health care benefits for our members (health care).	Perform regular healthcare audit and consulting activities.	<p>Assist TRS in assessing its preparedness for undergoing a federal HIPAA audit by conducting a gap assessment of HIPAA compliance (IT Security Rule, Privacy Rule, and Breach Notification Rule).</p> <p>Obtain evidence that Aetna and WellSystems have implemented requested controls related to open enrollment.</p> <p>Provide feedback on the reasonableness of expense allocations to healthcare trusts.</p>	<p>Complete. The results of the HIPAA audit are being reported at the June Audit Committee.</p> <p>Complete. The results of the open enrollment audit are being reported at the June Audit Committee.</p> <p>Not started. Audit fieldwork will begin in June with results reported to at the September Audit Committee.</p>



Update on CAE Performance Goals

	TR Strategic Plan	CAE Goals	Key Performance Indicators	Status
4	<p>TRS Goal 4: Attract, retain, and develop highly competent staff.</p>	<p>Update the audit strategy and activities. Develop managers and staff. Implement an auditor recognition program. Enhance leadership skills.</p>	<p><u>Update departmental goals and activities:</u></p> <ul style="list-style-type: none"> a. Update the internal audit strategic plan using the internal audit capability maturity model with significant input from audit staff. b. Update the annual audit plan using risk assessment techniques and feedback from key stakeholders. <p><u>Implement staff development goals:</u></p> <ul style="list-style-type: none"> a. Develop an auditor staffing plan that links the auditor competency framework, skills inventory, and training plans. b. Identify areas of expertise where internal audit can serve as a resource for TRS stakeholders and professional organizations. Continue to develop competencies in areas identified such as data analysis skills. c. Form an audit management team to steer the direction of the audit department and provide for optimal decision-making and communication among teams. 	<p>Complete. The strategic plan has been updated and will be presented at the June Audit Committee.</p> <p>Not started. The annual audit planning process will occur in June and be presented to the Audit Committee in September.</p> <p>In progress. A competency framework and training expectations have been created and discussed with staff. Individual training plans will be created as part of the annual evaluation process.</p> <p>In progress. An inventory of expertise has been developed. Training plans for data analysis skills are being formalized.</p> <p>Complete. The audit management team consists of three director-level staff and the CAE. We meet twice per month.</p>

Continue on next slide.



Update on CAE Performance Goals

	TR Strategic Plan	CAE Goals	Key Performance Indicators	Status
4	<p>TRS Goal 4: Attract, retain, and develop highly competent staff.</p>	<p>Update the audit strategy and activities. Develop managers and staff. Implement an auditor recognition program. Enhance leadership skills.</p>	<p><u>Implement staff development goals, continued:</u></p> <p>d. Simplify auditor evaluations and provide more feedback after each project. Link annual evaluations to merit pay.</p> <p>e. Develop and communicate career paths for staff within the department and link to the departmental succession plan</p> <p>f. Implement a staff recognition program that recognizes excellent work of others and encourages high achievement</p> <p><u>Implement personal development goals:</u></p> <p>a. Serve on the Association of Public Pension Fund Auditors (APPFA) board, lead the ERS audit quality assessment review, participate in the advisory committee for the State Agency Internal Audit Forum’s (SAIAF) Internal Audit Leadership Development Program (IALDP), and encourage staff to take leadership positions in professional organizations.</p>	<p>Complete. Staff evaluations were revised and project evaluations developed. Evaluations have a numerical score used for determining merit pay recommendations.</p> <p>Complete. A succession plan including career paths for each staff was developed and communicated to audit staff.</p> <p>In progress. Staff identified three areas where they desire additional recognition. These areas should be addressed/implemented by August 31.</p> <p>Complete. ERS quality review presented to ERS audit committee in December. SAIAF IALDP participation occurred from January – April. Requirement for leadership positions by staff implemented in December.</p>

Continue on next slide.



Update on CAE Performance Goals

	TRS Strategic Plan	CAE Goals	Key Performance Indicators	Status
4	<p>TRS Goal 4: Attract, retain, and develop highly competent staff.</p>	<p>Update the audit strategy and activities. Develop managers and staff. Implement an auditor recognition program. Enhance leadership skills.</p>	<p><u>Implement personal development goals, continued:</u></p> <ul style="list-style-type: none"> b. Study frameworks for organization performance excellence through online resources, training participation, and discussion with other organizations who have implemented them. Consider adopting a framework for the Internal Audit Department and gathering information in conjunction with TRS Strategic Planning staff to identify elements which might be beneficial for TRS to incorporate. c. Learn more about staff, peers, and audit clients through asking open-ended “power” questions and applying emotional intelligence techniques. d. Practice active listening and summarizing meeting discussions to ensure input of participants is understood and incorporated. e. Continue personal recovery through regular physical therapy, exercise, and mindfulness techniques. 	<p>In progress. Read Maximize Performance by the StuderGroup and attended a two day training on Evidenced-Based Leadership (EBL) in February. Obtained overview from SCUC ISD on their implementation of EBL. Met with Director of Strategic Planning on takeaways from the training and what could be implemented at TRS.</p> <p>In progress. Practicing informally. Will utilize “power” questions as part of audit planning process.</p> <p>In progress. Practicing informally. Will utilize summarizing as part of audit planning process.</p> <p>In progress. Undergoing weekly physical therapy. Exercising and meditating daily.</p>

Internal Audit Staff Accomplishments

- Rodrigo Dominguez passed Part 2 of the Certified Internal Auditor (CIA) examination. Part 3 is the last step remaining to meet the testing requirements of the CIA certification
- Toma Miller assisted in planning the 2017 Institute of Internal Auditors (IIA) Southern Regional Conference to be held in Austin in September
- Amy Barrett participated in a mock audit committee on behalf of the State Agency Internal Audit Forum (SAIAF) Internal Audit Leadership Development Program (IALDP)
- Amy Barrett participated in a panel on conducting internal audit peer reviews at the Association of Public Pension Fund Auditors (APPFA) semi-annual conference
- Art Mata, Nick Ballard, and Amy Barrett attended the spring conference of the Association of Public Pension Fund Auditors (APPFA)
- Dorvin Handrick, Simin Pang and Lih-Jen Lan attended the Information Security Forum 2017 held by Department of Information Resources
- Simin Pang attended the IT Audit Boot Camp held by the State Auditor's Office
- Jan Engler and Simin Pang attended the ISACA (previously known as the Information Systems Audit and Control Association) Austin Chapter full day training covering the following topics:
 - Auditor's Role in System Development Life Cycle
 - Bring your Own Device Risk and Controls
 - Wireless Assessment
 - Payment Card Industry Review, and
 - Social Network Risk and Controls