

Audit Committee Meeting

November 2014



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; Ms. Palmer; & Ms. Sissney, Committee Members)

AGENDA

**November 21, 2014 – 8:00 a.m.
TRS East Building, 5th Floor, Boardroom**

1. Approve minutes of September 19, 2014 Audit Committee meeting
– Mr. Christopher Moss, Chair
2. Receive State Auditor’s Office report on audit of TRS’ Comprehensive Annual Financial Report for Fiscal Year 2014 – Ms. Angelica Ramirez and Mr. Michael Clayton, State Auditor’s Office
3. Receive status report on activities regarding TRS employers (State Auditor’s Office and TRS Internal Audit activities) – Ms. Amy Barrett, Mr. Art Mata, Ms. Dinah Arce, Ms. Karen Morris, and Mr. Scot Leith
4. Receive Internal Audit report on the results of the Quarterly Investment Testing (Agreed-Upon Procedures) – Ms. Amy Barrett and Mr. Hugh Ohn
5. Receive information on technology risks and status updates on related TRS initiatives
 - A. Technology risks, what every trustee should know – Mr. Ron Franke, Myers and Stauffer LC
 - B. Co-location, mobile device, and cloud computing projects at TRS – Mr. Chris Cutler; Mr. Ron Franke, Myers and Stauffer LC
6. Receive report on TRS Information Security Follow-Up Audit and Information Security Program initiatives
 - A. TRS Information Security Follow-Up Audit – Ms. Amy Barrett, Mr. Ken Welch, Mr. T.A. Miller; Mr. Ron Franke, Myers and Stauffer LC
 - B. Information Security Program initiatives – Mr. Jay LeBlanc, Ms. Michelle Pagan, Mr. T.A. Miller, and Ms. Lih-Jen Lan
7. Receive reports on the Fiscal Year 2014 Internal Audit Annual Report and status of prior audit and consulting recommendations
 - A. Fiscal Year 2014 Internal Audit Annual Report – Ms. Amy Barrett and Ms. Dinah Arce
 - B. Status of prior audit and consulting recommendations – Ms. 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, new and outstanding complaints, fraud risk areas, audits for the annual internal audit plan, or auditors' ability to perform duties – Mr. Christopher Moss and Ms. 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 1



**TEACHER RETIREMENT SYSTEM OF TEXAS
AUDIT COMMITTEE MEETING
September 19, 2014**

The Audit Committee of the Teacher Retirement System of Texas met on Friday, September 19, 2014 in the 5th floor Board room. The following persons were present:

TRS Board Members

Christopher Moss, Audit Committee Chair (via teleconference)
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
Todd Barth, 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
Art Mata, Internal Audit Consultant, Internal Audit
Michael Allen, Intern, Internal Audit
Britt Harris, Chief Investment Officer
Jerry Albright, Deputy Chief Investment Officer
Sylvia Bell, Director of Investment Operations, Investment Division
Kristi Vorce, Financial Analyst, Investment Operations, Investment Division
Mike Pia, Chief of Staff to the Chief Investment Officer, Investment Division
Carolina de Onís, General Counsel
Dan Junell, Assistant General Counsel
Rob Dunn, Assistant General Counsel
Mary Chang, Assistant General Counsel
Don Green, Chief Financial Officer

TRS Staff (cont'd)

Jamie Pierce, Director, General Accounting
Cindy Haley, Team Leader, Financial Reporting, General Accounting
John Dobrich, Manager, Purchasing and Contracts Administration, General Accounting
Marianne Woods Wiley, Chief Benefit Officer
Mike Rehling, Manager, Benefit Processing
Adam Fambrough, Assistant Manager, Benefit Processing
Janet Bray, Director, Human Resources
Howard Goldman, Director, Communications Department
Jay LeBlanc, Director, Risk Management & Strategic Planning
Michelle Pagán, ERM Program Manager, Risk Management & Strategic Planning
David Cook, Director, Project Management Office

Other Attendees

Ann Fickel, Texas Classroom Teachers Association
Ted Melina Raab, Texas American Federation of Teachers
Tom Rogers, Austin Retired Teachers Association
Steven Huff, Reinhart Boerner Van Deuren s.c.
Angelica Ramirez, State Auditor's Office
Michael Clayton, State Auditor's Office
Ishani Baxi, State Auditor's Office
Jason Lamin, Lenox Park LLC
Ron Franke, Myers and Stauffer LC
Tiffany Seaman, Myers and Stauffer LC
Jay Masci, Provaliant
Ernie Sanders, HP
Brian Kitzmiller, HP
Victor Ferreiro, HP
Prashant Jaiswal, HP
Murali Kyasa, HP
Melinda Maczko, HP
Mike Freeze, HP
Gary Fuchs, HP
Charles Smith
Jim Bausr
Brad Ramirez
Matt Strom

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 JULY 11, 2014 AUDIT COMMITTEE MEETING

On a motion by Ms. Anita Palmer, and seconded by Ms. Nanette Sissney, the proposed minutes of the July 11, 2014 Audit Committee meeting were approved as presented.

2. RECEIVE STATE AUDITOR'S OFFICE REPORT ON PLANNED AUDIT OF TRS' COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR FISCAL YEAR 2014

Mr. Michael Clayton, State Auditor's Office, stated that the objective of the audit is to issue an opinion on TRS' fiscal year 2014 financial statements in accordance with generally accepted auditing standards. He anticipates the audit opinion as well as the required report on the controls and compliance to be issued November 14, 2014. The Legislative Audit Committee report is expected to be issued the following week.

3. RECEIVE STATE AUDITOR'S OFFICE REPORT ON AUDIT OF TRS INCENTIVE COMPENSATION

Mr. Clayton reported on the results of the TRS incentive compensation audit. He stated that it was determined that TRS made incentive compensation payments in accordance with the fiscal year 2013 plan policies and procedures and no exceptions were identified. Additionally, Mr. Clayton stated that TRS had fully implemented the one recommendation that was made from the previous year's audit.

4. RECEIVE INTERNAL AUDIT REPORTS

A. Purchasing and Contract Administration Audit

Ms. Jan Engler presented the results of the Purchasing and Contract Administration Audit. She stated that three recommendations were made as a result of the audit. The recommendations were:

- TRS' *Contract Administration Manual* should encompass all valid TRS contracting processes, be more relevant and visible to users, and have a coaching and compliance component
- Contract signature authority delegation should be clearly defined and documented in a manner that is readily accessible to staff, and
- Contract files should be improved to include all necessary documentation and ownership should be clearly defined

Ms. Engler indicated that management had accepted the recommendations and were working to implement them.

B. Semi-Annual Testing of Benefit Payments

Ms. Amy Barrett presented the results of the Semi-Annual Testing of Benefit Payments. She indicated that two errors were identified in which members had been underpaid by small dollar amounts. Management agreed with the findings, corrections are being made and funds will be issued to the two identified members.

C. Fourth Quarter Test Results of Investment Controls (Strategic Asset Allocation and Energy and Natural Resources)

Mr. Hugh Ohn reported on the Fourth Quarter Test Results of Investment Controls. He stated that the controls testing did not identify any significant issues or recommendations for the Strategic Asset Allocation (SAA) Study. For the Energy and Natural Resources (ENR) portfolio, two

reportable, although not significant, issues and recommendations were identified related to the due diligence process and portfolio-monitoring process.

Mr. Jason Lamin, Lenox Park LLC, gave an overview of the two recommendations. He stated that both recommendations are suggested enhancements to processes already in place within the ENR program. The first recommendation was to tailor current manager and investment certification questionnaires to address ENR specific topics. The second recommendation was for the ENR program to consider leveraging consultants to a greater extent to supplement limited internal resources. Mr. Lamin stated that management is in agreement with both recommendations.

D. Overall Opinion on Investment Management Division Internal Controls

Mr. Ohn reported that the overall opinion on Investment Management Division (IMD) internal controls is that the controls are working effectively to achieve the division's business objectives. He stated that the purpose of the opinion is to provide assurance on internal controls within the entire Investment Management Division and is based on a total of 30 different audits and quarterly compliance tests completed over the past three fiscal years.

E. Quarterly Investment Testing

Mr. Ohn reported that no compliance issues were identified during the routine quarterly investment testing.

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

A. TRS Information Security Follow-Up Audit

Ms. Barrett gave a brief overview and background of the TRS Information Security Follow-Up Audit. She stated that this project followed up on a recommendation pertaining to the TRS information security program that was made during the previous Information Security Audit in August 2011. She then turned the presentation over to Ms. Tiffany Seaman, Myers and Stauffer LLC, to present the results.

Ms. Seaman explained that the previous recommendation included eight specific action items. During the course of the follow-up audit, each item was evaluated in order to determine if management responses fully addressed the original audit recommendations, whether or not TRS management responses had been implemented, and whether or not the implementation was current.

She reported that the audit work found that management responses to the original audit substantially addressed six of the eight action items. She also stated that management has substantially implemented four of the eight action items, and management actions were current for four of the eight action items. She stated that management did not implement audit recommendations in four follow-up areas.

In response to questions from members of the Board, Ms. Barrett asked that further discussion be postponed until the November Audit Committee meeting at which time a full presentation could be provided to discuss where TRS management is in regards to implementing the remaining four

recommendations. Mr. Moss and the committee agreed that these issues would be discussed during executive session at the November Audit Committee meeting.

Additionally, Ms. Barrett informed the committee that Internal Audit has agreed to loan a staff member to work with the Enterprise Risk Management team. They will work with each business unit within the agency to determine what specific types of data each unit works with in their processes and the security methods that they have in place or should have in place to protect the data.

Mr. T.A. Miller briefly addressed the committee and affirmed the willingness of the Information Technology department to work with Internal Audit and Enterprise Risk Management to further enhance the strong security processes that he feels are currently in place.

B. Status of Prior Audit and Consulting Recommendations

Ms. Barrett stated that all previous recommendations have either been implemented or are in progress. She added that there are specific significant recommendations that would be followed-up on, as included in the proposed Fiscal Year 2015 Audit Plan.

6. RECEIVE REPORTS ON QUALITY ASSURANCE IMPROVEMENT PROGRAM (QAIP) SELF-ASSESSMENT AND INTERNAL AUDIT STRATEGIC PLAN

A. QAIP Self-Assessment Report

Ms. Barrett reviewed the results of the annual quality assurance and improvement plan self-assessment conducted by Internal Audit. She stated that Internal Audit is in compliance with professional auditing standards and briefly discussed three areas identified for improvements to further enhance current processes. These improvements are currently being implemented within the department.

B. Internal Audit Strategic Plan for Fiscal Years 2015-2019

Ms. Barrett gave an overview of the updated Internal Audit Strategic Plan and discussed each of the four goals included in the plan and how they tie in to the overall TRS Strategic Plan. The strategic plan will be updated on a two-year cycle. The goals include:

- Goal 1 - Assist with the Success of the TRS Enterprise Modernization Application (TEAM) Program
- Goal 2 - Support Audit Committee Governance
- Goal 3 - Enhance Internal Audit Staff's Competence and Expertise in Support of TRS Risk Management, Control, and Governance Processes
- Goal 4 - Support Agency Culture Initiatives

7. CONSIDER RECOMMENDATIONS TO THE BOARD OF TRUSTEES

A. Proposed Revisions to the Internal Audit Charter

Ms. Barrett discussed proposed changes to the Internal Audit Charter. She stated that the changes were minor and included updating the charter to reflect that the Investment Compliance function is no longer in Internal Audit but a function of Legal Services, and to indicate that Internal Audit will

evaluate the effectiveness of the Investment Compliance program just as it does any other internal control process within the agency.

B. Proposed Audit Plan for Fiscal Year 2015

Ms. Barrett presented the proposed Audit Plan for Fiscal Year 2015. The comprehensive risk assessment from last year's audit plan was used as well as the Enterprise Risk Management (ERM) risk assessment to develop the audit plan. She highlighted a few key projects and discussed the Internal Audit's continued advisory role in the TEAM project and related committees with specific emphasis on internal controls. She also highlighted other key projects such as reporting entity audits, payables audit, and the internal controls testing in Investment Management Division (IMD). The reports on the internal controls testing of IMD will be reported semi-annually rather than quarterly.

Upon a motion by Ms. Sissney, the Committee voted unanimously to recommend that the Board adopt the proposed revisions to the Internal Audit Charter and the proposed Audit Plan for fiscal year 2015, as presented by staff.

8. 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

Ms. Barrett reviewed several standard administrative reports. She indicated that Internal Audit completed the assurance projects for the fiscal year 2014 Audit Plan and met the department's performance measures for the year.

The meeting adjourned at 9:19 a.m.

Approved by the Audit Committee of the Board of Trustees of the Teacher Retirement System of Texas on the 21st day of November, 2014.

Attested by:

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

TAB 2

Required Communication with Those Charged with Governance
Based on the Audit of the Teacher Retirement System (System) Fiscal Year 2014 Financial Statements

We have audited the financial statements of the Teacher Retirement System (System) for the year ended August 31, 2014, and have issued our report thereon dated November 17, 2014. Professional standards require that we provide you with the following information related to our audit.

No.	Item	Comments
1	The Auditor's Responsibilities Under Generally Accepted Auditing Standards	As stated in our engagement letter dated July 16, 2014, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are prepared, in all material respects, in accordance with generally accepted accounting principles. Our audit of the financial statements does not relieve management or those charged with governance of their responsibilities.
2	Planned Scope and Timing of the Audit	We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter dated July 16, 2014.
3	Corrected and Uncorrected Misstatements	Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those the auditor believes are trivial, and communicate them to the appropriate level of management. There were no misstatements identified by auditors that were not corrected by System management.
4	Other Information in Documents Containing Audited Financial Statements, Supplementary Information, and/or Required Supplementary Information	Our financial statement audit opinion applies to the basic financial statements, which include the accompanying notes. We also applied certain limited auditing procedures to the Other Supplementary Information and concluded that such information was fairly stated in all material respects in relation to the basic financial statements taken as a whole. We did not opine on Management's Discussion and Analysis (MD&A) and Required Supplementary Information. However, we performed limited procedures related to that information, which consisted of making inquiries of management regarding the methods of measurement and presentation, and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements.
5	Management Representations	We have requested certain representations from management that are included in the management representation letter dated November 17, 2014. We also requested a representation letter dated November 17, 2014, from the System's general counsel regarding the existence of certain contingent liabilities that might require disclosure in the financial statements.

Required Communication with Those Charged with Governance
Based on the Audit of the Teacher Retirement System (System) Fiscal Year 2014 Financial Statements

No.	Item	Comments
6	Qualitative Aspects of the Entity's Significant Accounting Practices	<p>Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the System are described in Note 1 to the financial statements.</p> <p>During fiscal year 2014, the System implemented the following statements to address Governmental Accounting Standards Boards (GASB) requirements:</p> <ul style="list-style-type: none"> • Governmental Accounting Standards Board (GASB) Statement No. 65, <i>Items Previously Reported as Assets and Liabilities</i> during fiscal year 2014. That statement reclassifies certain items previously reported as assets and liabilities to deferred outflows/inflows of resources or to outflows/inflows of resources and provides financial reporting guidance related to the effect of these outflows/inflows on financial statement elements. • GASB Statement No. 67, <i>Financial Reporting for Pension Plans</i> during fiscal year 2014. That statement establishes standards for financial reporting and amends note disclosure and supplemental information requirements for defined benefit pension plans administered through qualified trusts. • GASB Statement No. 68, <i>Accounting and Financial Reporting</i> effective for fiscal years beginning after June 15, 2014, and relates to governmental employers that provide pensions through trusts. The System will be providing the information necessary for employers to comply with that statement for the next fiscal year. <p>We noted no transactions entered into by the System during the year for which there was a lack of authoritative guidance or consensus. There were no significant transactions that have been recognized in the financial statements in a period that differs from when the transaction occurred.</p>
7	Significant Difficulties Encountered During the Audit	We did not encounter any restrictions in performing our procedures or gaining access to individuals or records. Management and staff provided us with all of the information and support we requested.

Required Communication with Those Charged with Governance
Based on the Audit of the Teacher Retirement System (System) Fiscal Year 2014 Financial Statements

No.	Item	Comments
8	Other Audit Findings or Issues	<p>We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year. Those discussions occurred in the normal course of the audit.</p> <p>We identified the following significant deficiency in controls: The System should strengthen controls over active employee census data to help ensure that data is complete and accurate</p>
9	Disagreements with Management	<p>We did not encounter any disagreements with management during the course of the audit.</p> <p>For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report.</p>
10	Management's Consultations with Other Accountants	<p>In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the System financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts.</p> <p>To our knowledge, there were no such consultations with other accountants.</p>
11	Significant Findings or Issues Discussed, or Subject to Correspondence, with Management	<p>Prior to and throughout our audit engagement, we had routine discussions, or engaged in correspondence, with management regarding the System and application of accounting principles and auditing standards.</p>
12	Independence	<p>The State Auditor's Office is independent to conduct the audit of System's fiscal year 2014 financial statements. It is the State Auditor's Office's philosophy to conduct all projects in an environment free of any threats that impair independence.</p>
13	Fraud, Abuse, or Noncompliance with Laws and Regulations, Contracts or Grant Agreements	<p>Auditing standards require auditors to exercise professional skepticism and increased awareness to detect potential violations, fraud, and abuse.</p> <p>We did not find evidence that fraud, abuse, or noncompliance with laws and regulations, contracts or grant agreements, had, or might have, occurred</p>

Required Communication with Those Charged with Governance
Based on the Audit of the Teacher Retirement System (System) Fiscal Year 2014 Financial Statements

This information is intended solely for the use of the System's Board of Trustees and management of the System and is not intended to be and should not be used by anyone other than those specified parties.

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

Teacher Retirement System Board of Trustees

Mr. R. David Kelly, Chairman
Ms. Nanette Sissney, Vice Chair
Mr. Todd Barth
Ms. T. Karen Charleston
Mr. Joe Colonna
Mr. David Corpus
Mr. Christopher Moss
Ms. Anita Smith Palmer
Ms. Dolores Ramirez

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the major enterprise funds and the aggregate remaining funds information, consisting of the fiduciary funds and the non-major enterprise fund of the Teacher Retirement System (System), a component unit of the State of Texas, as of and for the year ended August 31, 2014, and the related notes to the financial statements, which collectively comprise the System's basic financial statements and have issued our report thereon dated November 17, 2014.

Internal Control Over Financial Reporting

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

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

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

Summary of Findings and Responses
Finding Number
2014-1

Compliance and Other Matters

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

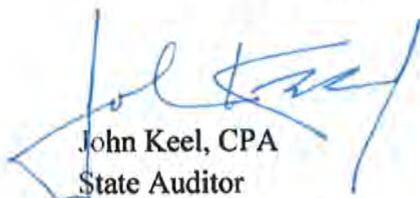
Auditors communicated certain issues that were not material or significant to the audit objectives in writing to the System's management.

System's Response to Findings

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

Purpose of this Report

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



John Keel, CPA
State Auditor

November 17, 2014

Schedule of Findings and Responses

Section 1

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

Reference No. 2014-1

Type of finding: Significant Deficiency

The Teacher Retirement System (System) should strengthen controls over active employee census data to help ensure that data is complete and accurate (see text box for additional information). More than 1,300 school districts,

Active Employee Census Data

Active employee census data is key demographic data that affects the actuarial estimate of the pension liability amount that the System presents in its financial statements.

Key data elements include:

- Gender.
- Date of birth.
- Salary.
- Years of service.

Source: American Institute of Certified Public Accountants February 2014 white paper entitled *Single-Employer and Cost-Sharing Multiple-Employer Plans: Issues Associated with Testing Census Data in an Audit of Financial Statements*.

colleges, and universities submit active employee census data regarding the active members who participate in the System's pension plan. The completeness and accuracy of that data is important because the System uses that data to calculate member pension benefits and the pension liability amount that the System presents in its financial statements.

The System's controls over active employee census data are not sufficient to properly identify data that is incomplete or inaccurate. The absence of effective management processes and controls represents a deficiency in internal control over financial reporting, as noted in the guidance that the American Institute of Certified Public Accountants (AICPA) issued in a February 2014 white paper.¹

Auditors tested census data at 99 school districts, colleges, and universities. The majority of that data was accurate, and auditors

identified no systematic issues. However, strengthening controls at the System would:

- Help to ensure that data is complete and accurate.
- Help to ensure that school districts, colleges, and universities are fully and accurately reporting that data.
- Improve the quality of the data that the System provides to its actuary to calculate the pension liability amount presented in the System's financial statements.

¹ The AICPA's white paper is entitled *Single-Employer and Cost-Sharing Multiple-Employer Plans: Issues Associated with Testing Census Data in an Audit of Financial Statements*.

Examples of ways in which the System could strengthen controls over active employee census data include:

- Performing periodic site visits at employers to verify active employee census data
- Providing employers with training or guidance on capturing active employee census data.
- Requiring school districts to periodically test the active employee census data and to certify the completeness and accuracy of that data when they submit that data to the System.

Recommendation

The System should develop and implement a process to strengthen controls over active employee census data.

Management's Response

TRS agrees with the recommendation. TRS is undertaking a modernization effort of its pension administration system that will, among other things, help to strengthen controls over active employee census data to help ensure that data is complete and accurate. The effort includes a new and improved web interface for employee data and payroll reporting and will replace the current employee data submission system. Once the new system goes live, TRS will receive more information, and information about more employees, than is currently received each month. These additional data elements will help TRS to ensure that it has complete and accurate information census data information per the new GASB 67 and 68 reporting and allocation guidelines. The new pension administration system is expected to go live in Fiscal Year 2016.

In the meantime, TRS is undertaking audit-related initiatives to improve the completeness and accuracy of information reported to it by its reporting entities. Specifically,

- *An internal benefits consultant transferred to Internal Audit from Benefit Accounting to work with auditors to develop reporting entity audit programs, gather information, serve as a resource about TRS rules, and develop external communication about audit-related initiatives.*
- *The Audit Plan for 2015 approved by the TRS Audit Committee of the Board of Trustees provides for 3 - 4 audits of reporting entities. Audits may increase over time, depending on available resources and issues identified.*

- *In October of 2014, TRS launched a webpage on its internet site providing information on audit activities of reporting entities, audit programs, and self-audit tools for assessing accuracy of reporting to TRS.*
- *In September, October, and November of 2014, Internal Audit made four presentations at association meetings and one regional education service center about audit initiatives, areas of concern to TRS, and resources available.*

TAB 3

November 2014 Audit Committee

Teacher Retirement System of Texas



Tab 3 – Status Report on Activities Regarding TRS Employers

Presented by: Amy Barrett, Art Mata, Karen Morris,
Dinah Arce, and Scot Leith

Employer Audits Webpage



TEACHER RETIREMENT SYSTEM OF TEXAS

Site Map • Login • Contact Us • Comments • Home

EMPLOYERS | Active Members | Retirees & Beneficiaries | Employers | General Information

EMPLOYERS

TEAM Program Communications

Reporting Officials

- GASB Statement Information
- Employer Audits
- Membership Eligibility Guidelines
- Reporting Requirements for Social Security Form SSA-1945
- IRS Salary Cap Provision for 2014 - 2015 School Year
- TEXNET Touch-Tone Instructions [pdf]
- School Calendar Form [www]
- Adding and Deleting a Contact

TRAQS Home Page

403(b) Certification & Product Registration

TRS-ActiveCare: Employers

Long Term Care Insurance

FAQs

Forms

Publications

- TRS News [pdf]
- Update Newsletter [pdf]

Employer Audits

As a result of two Governmental Accounting Standards Board (GASB) standards, TRS Internal Audit staff will begin employer audits of selected reporting entities this fiscal year.

The American Institute of Certified Public Accountants (AICPA) has issued guidance related to the implementation of the new standards, [GASB 67](#) and [GASB 68](#). This guidance emphasizes the consideration of plan controls over active member census data being provided by TRS reporting entities, specifically focused on the accuracy and completeness of the data. Auditing census data is the responsibility of both TRS auditors and reporting entity (employer) auditors.

As stated in the [October 2014 TRS Update](#), TRS Internal Audit staff will test employer census data and controls pertaining to census data reporting process for active members. TRS will review the following elements of the data: gender; dates of birth; dates of hire or years of service; eligible compensation; and termination or retirement dates. TRS auditors will also test eligibility and compensation for accuracy, completeness, and compliance with *TRS Laws & Rules*. If you are selected for an employer audit, you will be contacted by TRS Internal Audit staff.

As outlined in the [June 2014 TRS Update](#), the Texas State Auditor's Office (SAO) will also be conducting site visits to ensure employee payroll and demographic data submitted to TRS is accurate. TRS respectfully requests your cooperation during this process to ensure requested records are expeditiously collected and provided to SAO auditors.

Audit Resources and Guidance

To learn more about the upcoming employer audits, related resources, and the services Internal Audit provides, and how we can assist you, please click on the links below.

TEXTSIZE

TRAQS LOGIN



Quicklinks

- ER Correction System FAQs & Procedures
- ER Correction System Procedures [pdf]
- Member Data Correction System [pdf]
- Payroll Manual
- Employment After Retirement Brochure [pdf]
- Adding and Deleting a Contact
- Child Nutrition Calculation Worksheet [pdf]
- Social Media
- Social Media Terms of Service/Copyright

Resources

- TRS What's New
- TRS FAQs
- TRS Forms
- TRS Publications
- TRS Media Center



Employer Audits Webpage: Audit Resources and Guidance

[Update Newsletter \[pdf\]](#)

Audit Resources and Guidance

To learn more about the upcoming employer audits, related resources, and the services Internal Audit provides, and how we can assist you, please click on the links below.

[Presentations and Guidance](#)

Information and current issues related to TRS and its reporting entities activities

[Self-Audit Tools](#)

Specific how-to instructions and guidelines for conducting a self-audit of the data and contributions on various reports submitted to TRS.

[Employer Review Program for ISDs and Charter Schools](#)

For independent school districts and charter schools, this program includes specific review steps for conducting a review of employee eligibility for TRS plan participation, completeness and accuracy of contributions submitted to TRS, and compliance with employment after retirement requirements.

[Final TRS Audit Reports](#)

Results of recent employer audits conducted by TRS

[SAO Activities](#)

State Auditor's Office activities and communications related to employers

[Internal Audit Services](#)

TRS Internal Audit provides independent, objective assurance and consulting services.

[Frequently Asked Questions \(FAQs\) – Employer Audits](#)

Answers to the most often asked questions about the new GASB standards and TRS employer audits

Send your comments regarding the Employer Audit Program to [Employer Audits](#).

[TRS What's New](#)

[TRS FAQs](#)

[TRS Forms](#)

[TRS Publications](#)

[TRS Media Center](#)

[Calculators](#)

[Glossary](#)

[Related Sites](#)

[PDF Troubleshooting](#)

[Reporting Fraud](#)

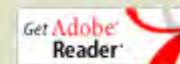
[Watch Board Meeting](#)

[Webcasts](#)

[Watch TRS Today](#)

[Videos](#)

Find us on:



[\[back to Top \]](#)

Employer Audits - Self-Audit Tools



EMPLOYERS

TEAM Program Communications

Reporting Officials

[GASB Statement Information](#)

[Employer Audits](#)

[Membership Eligibility Guidelines](#)

[Reporting Requirements for Social Security Form SSA-1045](#)

[IRS Salary Cap Provision for 2014 - 2015 School Year](#)

[TEXNET Touch-Tone Instructions \[pdf\]](#)

[School Calendar Form \[www\]](#)

[Adding and Deleting a Contact](#)

TRAQS Home Page

[403\(b\) Certification & Product Registration](#)

[TRS-ActiveCare: Employers](#)

[Long Term Care Insurance](#)

[FAQs](#)

[Forms](#)

[Publications](#)

TEACHER RETIREMENT SYSTEM OF TEXAS

[Site Map](#) • [Login](#) • [Contact Us](#) • [Comments](#) • [Home](#)

[Active Members](#) | [Retirees & Beneficiaries](#) | [Employers](#) | [General Information](#)

Employer Audits – Self-Audit Tools

These resources provide you the necessary information to conduct audits of your own processes, and verify the completeness and accuracy of the information and contributions you submit to TRS on required reports.

[!\[\]\(0f150dfc5893edf5a34bccb0a8df87cd_img.jpg\) Employment After Retirement Self-Audit: Employment of Retired Members Report](#)

[!\[\]\(1a4c38cde970e93f78e7bd980cc58123_img.jpg\) Pension Surcharge Self-Audit: Reporting Entity Pension Surcharge for Reported Retirees Report](#)

[!\[\]\(0b9bf566de77a648c82506300febc6df_img.jpg\) TRS-Care Surcharge Self-Audit: Reporting Entity TRS-Care Surcharge for Reported Retirees Report](#)

Once you have completed the self-audit, please complete the feedback form provided and submit to TRS according to the instructions. Your feedback helps us continue to improve these self-audit resources.

Send your comments regarding the Employer Audit Program to [Employer Audits](#).

TEXTSIZE

 **TRAQS LOGIN**



Quicklinks

[ER Correction System FAQs & Procedures](#)

[ER Correction System Procedures \[pdf\]](#)

[Member Data Correction System \[pdf\]](#)

[Payroll Manual](#)

[Employment After Retirement Brochure \[pdf\]](#)

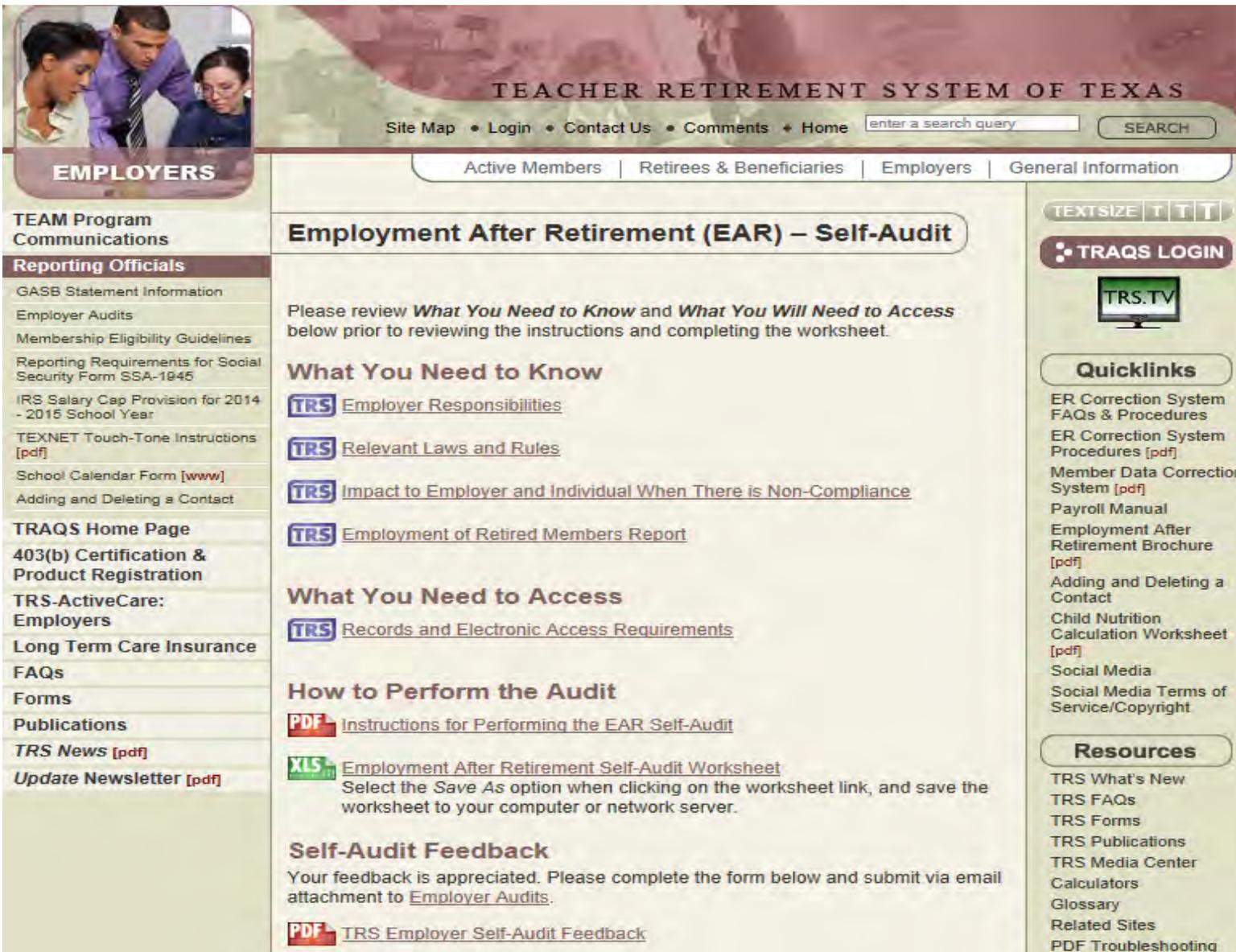
[Adding and Deleting a Contact](#)

[Child Nutrition Calculation Worksheet \[pdf\]](#)

[Social Media](#)

[Social Media Terms of Service/Copyright](#)

Employment After Retirement (EAR) - Self-Audit



TEACHER RETIREMENT SYSTEM OF TEXAS

Site Map • Login • Contact Us • Comments • Home

Active Members | Retirees & Beneficiaries | Employers | General Information

EMPLOYERS

TEAM Program Communications

Reporting Officials

- GASB Statement Information
- Employer Audits
- Membership Eligibility Guidelines
- Reporting Requirements for Social Security Form SSA-1045
- IRS Salary Cap Provision for 2014 - 2015 School Year
- TEXNET Touch-Tone Instructions [pdf]
- School Calendar Form [www]
- Adding and Deleting a Contact

TRAQS Home Page

403(b) Certification & Product Registration

TRS-ActiveCare: Employers

Long Term Care Insurance

FAQs

Forms

Publications

TRS News [pdf]

Update Newsletter [pdf]

Employment After Retirement (EAR) – Self-Audit

Please review *What You Need to Know* and *What You Will Need to Access* below prior to reviewing the instructions and completing the worksheet.

What You Need to Know

-  [Employer Responsibilities](#)
-  [Relevant Laws and Rules](#)
-  [Impact to Employer and Individual When There is Non-Compliance](#)
-  [Employment of Retired Members Report](#)

What You Need to Access

-  [Records and Electronic Access Requirements](#)

How to Perform the Audit

-  [Instructions for Performing the EAR Self-Audit](#)
-  [Employment After Retirement Self-Audit Worksheet](#)
Select the Save As option when clicking on the worksheet link, and save the worksheet to your computer or network server.

Self-Audit Feedback

Your feedback is appreciated. Please complete the form below and submit via email attachment to [Employer Audits](#).

-  [TRS Employer Self-Audit Feedback](#)

TEXTSIZE | T | T | T

TRAQS LOGIN



Quicklinks

- ER Correction System FAQs & Procedures
- ER Correction System Procedures [pdf]
- Member Data Correction System [pdf]
- Payroll Manual
- Employment After Retirement Brochure [pdf]
- Adding and Deleting a Contact
- Child Nutrition Calculation Worksheet [pdf]
- Social Media
- Social Media Terms of Service/Copyright

Resources

- TRS What's New
- TRS FAQs
- TRS Forms
- TRS Publications
- TRS Media Center
- Calculators
- Glossary
- Related Sites
- PDF Troubleshooting



FY15 Risk Assessment

- Population for current year's audits – all public schools (1,026 total)
- Criteria for risks – Reporting entity had:
 - Exceptions reported by State Auditors Office (SAO)
Census Data testing
 - Adjustments made to reports in TRAQS
 - Warrant holds
 - Legislative Budget Board reported weaknesses

- Criteria (cont.)
 - A complaint reported through an external source
 - No payment of retiree surcharge
 - No payment of new member contributions
 - No reported federal funds
 - Not been included in SAO census data testing for FY14 CAFR

- Next Step
 - Received executive management input of those reporting entities that they believe should be included in current year's audits
- Finally
 - Sorted the risk assessment by highest total risk
 - Selected the top four entities for audit during FY15



TEAM – Employers and Full Payroll

- What is “Full Payroll”?
- How will it impact employer reporting?
 - Reporting Entities will be required to provide more information to TRS than they currently provide.
 - More robust validations and verifications will be built into TEAM as reports are received.
 - Benefit Accounting staff will have more data to analyze, research and reconcile.
- How are we communicating the change to Reporting Entities?

TAB 4

QUARTERLY INVESTMENT TESTING
INVESTMENT POLICY STATEMENT (IPS), SECURITIES LENDING POLICY (SLP), WIRE TRANSFER PROCEDURES, EMPLOYEE ETHICS POLICY, AND CODE OF ETHICS FOR CONTRACTORS
 CALENDAR QUARTER ENDED SEPTEMBER 30, 2014

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 filing and reporting 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	Ethics policy requirements are not filed or reported
Management Assertions	All required reports are made to the Board	Approvals and fundings are within limits and made for qualified managers	Programs are within risk limits	Ethics policies and requirements are being followed
Agreed-Upon Procedures	<ul style="list-style-type: none"> Compare Board reports to IPS requirements 	<ul style="list-style-type: none"> Vouch Internal Investment Committee (IIC) approved investments to supporting documentation Verify approval limits of new investments 	<ul style="list-style-type: none"> Validate IMD obtained reporting requirements of new managers/funds and summarized results Obtain senior management disclosures about known compliance violations Test supporting documentation for wire transfers 	<ul style="list-style-type: none"> Obtain evidence that financial disclosures were made to the Texas Ethics Commission Obtain evidence that financial service providers disclosed conflicts
Test Results	<ul style="list-style-type: none"> All reporting requirements met Documentation provides support for reports tested 	<ul style="list-style-type: none"> All supporting documentation exists All investments tested were in compliance with approval limits 	<ul style="list-style-type: none"> All other requirements of the IPS, SLP, wire transfer procedures, etc. are met 	<ul style="list-style-type: none"> All ethics filing and reporting requirements have been met.
Management Responses	None	None	None	None

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

October 30, 2014

Carolina de Onis, TRS General Counsel

We have completed the **Quarterly Investment Testing** of compliance with the requirements of the Investment Policy Statement (IPS), Securities Lending Policy (SLP), Employee Ethics Policy, Code of Ethics for Contractors, and procedures for wire transfers as included in the *Fiscal Year 2015 Audit Plan*.

We performed the procedures listed below that were agreed to by the TRS Legal Services division. These procedures include tests that supplement the current compliance monitoring procedures performed by State Street and the Senior Compliance Specialist.

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 below 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 and Investment Accounting for their cooperation and professionalism shown to us during this quarterly testing.



Amy Barrett, CIA, CPA, CISA
Chief Audit Executive



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



Nick Ballard, CFA
Senior Investment Auditor

APPENDIX A

AGREED-UPON PROCEDURES AND RESULTS

STEP #	OBJ. #	TEST PURPOSE	TEST DESCRIPTION	TEST RESULT	MANAGEMENT RESPONSE
1	1	IPS Article 1.7 - Verify that all requirements were reported to Board of Trustees. Quarterly reporting requirements include investment performance, asset class exposures, and external investments under consideration. Semiannual reports include outstanding derivatives, leverage, and liquidity positions; and risk limits	Obtain copies of all reports required to be reported to Board of Trustees and compare to reporting requirements per Investment Policy Statement (IPS)	Reports required to be reported to Board of Trustees complied with IPS.	No response required
2	2	Article 2.6 – Verify that 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 verify 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	Article 2.7h – Verify funds added to previously approved investments for purposes of rebalancing or adjusting risk did not exceed 2% of associated portfolios	<ul style="list-style-type: none"> • Determine if Chief Investment Officer (CIO), Deputy CIO, or Director of External Public Markets adjusted portfolios for the purposes of rebalancing or adjusting risks • If funds added, did such additional investments or allocations exceed 2% of Hedge Fund Portfolio, External Manager Portfolio, or Other Absolute Return Portfolio (as appropriate) per investment on a monthly basis 	No rebalancing occurred in selected investments.	No response required

STEP #	OBJ. #	TEST PURPOSE	TEST DESCRIPTION	TEST RESULT	MANAGEMENT RESPONSE
			<ul style="list-style-type: none"> Obtain documentation from IMD staff supporting rebalancing analytics. Report on exceptions. 		
4	2	IPS Article 7 – Obtain evidence that new investments in emerging managers meet requirements	<p>Test sample of approved investments to verify:</p> <ul style="list-style-type: none"> Each is independent private investment management firm with less than \$2 billion Each has a performance track record as a firm of less than 5 years, or both TRS commitment did not exceed 40% of fund size 	<ul style="list-style-type: none"> Investments tested are independent private investment management firms with less than \$2 billion, or Have a performance track record as a firm that is no more than 5 years or both. 	No response required
5	3	IPS Article 10.3d – Obtain evidence of IMD’s examination of requirements of its securities lending agent	Confirm securities lending agent is an organization rated A- or better by a Nationally Recognized Statistical Rating Organization (NRSRO)	The rating for State Street was A- or better per Moody’s, Fitch, and Standard and Poor’s	No response required
6	2	Article 10.9 – Verify leverage used meets requirements	<ul style="list-style-type: none"> Verify leverage was used only as authorized Inquire whether any risk parameters were exceeded and if so, was the limit caused by leverage 	Leverage was used only as authorized and no risk parameters were exceeded.	No response required
7	2	IPS Article 12 - Verify existence of placement agent questionnaire for each new investment selected for testing and test for inclusion in summary report to Board	<ul style="list-style-type: none"> For each investment selected for testing, verify that IMD obtained responses to the questionnaire Determine that IMD compiled responses to the questionnaires and reported all results to 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
8	2	IPS Appendix B – Verify investments approved are within policy limits	<ul style="list-style-type: none"> Select sample of approved investments and obtain tear sheet for each, observe the approved amounts are within authorized limits <ul style="list-style-type: none"> a) Initial allocation – .50% b) Additional or follow-on – 1% c) Total Manager Limits – 3% d) Total limit each manager organization – 6% 	For the sample selected for testing, no manager or partner organization exceeded the authorized limits and documentation existed for IMD staff calculations of authorized limits. There were no Special Investment Opportunities.	No response required

STEP #	OBJ. #	TEST PURPOSE	TEST DESCRIPTION	TEST RESULT	MANAGEMENT RESPONSE
			<ul style="list-style-type: none"> • Obtain documentation from IMD staff that supports the calculations of the authorized limits • Inquire if any “Special Investment Opportunities” were made for the quarter 		
9	3	Quarterly Disclosures – Verify all known compliance violations have been reported	Send request for disclosure to IMD management, Legal Investment staff, and CIO requesting disclosure of any known compliance violations during testing period	Obtained all disclosures from IMD management, Legal Investment staff, and CIO of any known compliance violations during testing period	No response required
10	3	Test authorizations of wire transfers – Verify wire transfers are authorized and properly supported	Obtain wire transfer reports for testing period, select sample of wire transfers, verify that supporting documentation exists for each	All wire transfers tested were properly authorized and correct amounts were wired.	No response required
11	3	Securities Lending Policy – Verify IMD review of securities lending program and performance of lender	<p>Obtain evidence for the following securities lending policy requirements:</p> <ul style="list-style-type: none"> a) TRS loaned only eligible securities (i.e. domestic and international equity and fixed income securities). Additionally the TRS prime broker is prohibited from lending securities. b) Collateral received from borrowers was in the form of cash or government securities. c) Cash collateral received was invested in a collective trust that is qualified for exemption from taxation; or, if approved by the CIO, (1) in any open-ended money market fund managed by a registered investment advisor or (2) any short-term money market investment collective trust fund of which the current TRS bank custodian or securities lending agent is the trustee (no more than 10% of cash collateral may be invested in #2). 	<ul style="list-style-type: none"> a) TRS loaned only eligible securities. Additionally, prime broker contract prohibited the TRS prime broker from lending securities. b) All collateral received was cash or government securities. c) Cash collateral was only invested in a collective trust that was qualified for exemption from taxation. 	No response required
12	4	Employee Ethics Policy – Verify that the Executive	Obtain evidence that the TRS Executive Director filed a personal financial statement with the Texas Ethics	The Executive Director’s 2013 personal financial statement	No response required

STEP #	OBJ. #	TEST PURPOSE	TEST DESCRIPTION	TEST RESULT	MANAGEMENT RESPONSE
		Director filed a personal financial statement with the Texas Ethics Commission	Commission for the year ended December, 31, 2013. Ensure that that the filing was made prior to the April 30 th deadline.	was filed with the Texas Ethics Commission. The document was dated prior to the April 30 th deadline.	
13	4	Code of Ethics for Contractors – Verify that all TRS brokers, financial advisors, and financial service providers filed annual disclosure statements with the TRS General Counsel.	<ul style="list-style-type: none"> • Obtain evidence that all TRS brokers, financial advisors, and financial service providers complied with the Code of Ethics for Contractors by filing annual disclosure statements with the TRS General Counsel. Annual filing deadline is April 30th. • Obtain listing of disclosure statements received from TRS brokers, financial advisors, and financial service providers for calendar year 2013. Compare this list to the listing of all service providers to ensure completeness. • Select a sample of contractors and obtain copies of the disclosure statements for each contractor selected. 	All disclosure statements were signed and dated prior to the April 30th, 2014 due date. No selected contractors noted conflicts.	No response required

Note: Testing procedures for the Investment Policy Statement (IPS), Securities Lending Policy (SLP), Employee Ethics Policy, Code of Ethics for Contractors, and wire transfers are for the activity for the quarter ending September 30, 2014.

TAB 5

TAB 5A



INFORMATION TECHNOLOGY RISKS

Presented by: Ron Franke, CIA, CISA, CRISC, CICA, CFE

DEDICATED TO GOVERNMENT HEALTH PROGRAMS





IT Risk Areas

- Cyber Security
- Privacy
- Data Management
- Availability and Continuity
- IT Project / Portfolio Management



Factors Contributing to IT Risk

- New and Emerging Technologies
- Increasing Volume and Sophistication of Attacks
- Increasing Volume of Data
- Disappearing Perimeter
- Use of Third-Party Service Providers
- Increased Regulatory and Compliance Requirements
- Resource Demands and Availability



**MYERS AND
STAUFFER** LC
CERTIFIED PUBLIC ACCOUNTANTS

New and Emerging Technologies

- Mobile Devices and Mobile Computing
- Social Networking
- Cloud Computing
- Big Data
- “Internet of Things”



Department of Information Resources Top 10 Technology Priorities



Security and Privacy



Cloud



Legacy Modernization



Business Continuity



**Enterprise Planning
and Collaboration**



IT Workforce



Virtualization



Data Management



Mobility



Network

Department of Information Resources Top 10 Technology Priorities



Security and Privacy



Cloud



Legacy Modernization



Business Continuity



**Enterprise Planning
and Collaboration**



IT Workforce



Virtualization



Data Management



Mobility



Network



Board Considerations

Three general questions to ask:

- What are our IT risks?
- How are we managing them?
- How do we know?

Work with Management and ask questions to:

- Understand the relevance of current and emerging technologies in your business and technical environment.
- Understand how technologies can and will be used and how the related risks will be managed.
- Focus on top risks and ask questions to understand how risks are identified and mitigated.
- Understand the crisis management response plan for IT-related incidents.



**MYERS AND
STAUFFER** LC
CERTIFIED PUBLIC ACCOUNTANTS

INFORMATION TECHNOLOGY RISKS

Presented by: Ron Franke, CIA, CISA, CRISC, CICA, CFE

DEDICATED TO GOVERNMENT HEALTH PROGRAMS



TAB 5B



Assessment of Emerging Technology Risks

Myers & Stauffer LC

November 21, 2014



Myers & Stauffer LC Assessment of Emerging Information Technologies

- **Phase 1** – Colocation/Disaster Recovery (DR)
- **Phase 2** – Cloud Computing
- **Phase 3** – Mobile Device Security

Phase 1: Colocation/DR





Phase 1: Colocation/DR

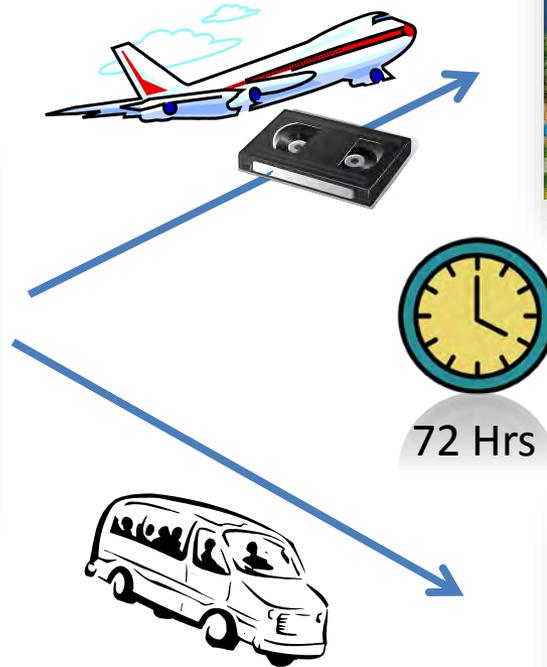
■ Engagement objectives:

- Review current TRS colocation plans, strategies, and assumptions making recommendations for improvement
- Make recommendations on the following key issues:
 - **Distance**
 - **Data Encryption**
 - **Security**
 - **Support and Staffing**
 - **Comparison of our plans with others**

Current DR Process



Red River Location



New York



Dallas

New Colocation Strategy

New Colocation & Synchronization Strategy



Red River Location



1-3 Hrs



Near Real time
Synchronization



Colocation Site





New Colocation Strategy

- **Advantages of new strategy**

- Ensure mission critical systems are available during a disaster or system outage
- Provide backup and protection of our critical data to a secondary location
- Provide support and replication for the new line of business applications being implemented through TEAM
- Ensure databases and applications are synchronized near real-time across systems
- Provide near real-time time access to critical systems during an outage
- Provide an efficient roll back plan
- Reduce risks



Phase 1: Colocation/DR

■ Overall Results:

- TRS strategy for colocation and disaster recovery are sound
- Similar approaches are common in state and federal government as well as the private industry
- TRS has a solid beginning in architecting and piloting their new disaster recovery approach
- The colocation vendor for the primary colocation facility is a reasonable choice





Phase 1: Colocation/DR

Recommendations:

- Formalize analysis of options, cost and benefits
- Finalize the site location and document the logic behind the decision
- Ensure contract terms are appropriate to meet TRS needs
- Implement monitoring procedures and assign to specific staff
- Ensure that the physical and logical security controls for data are consistent with the sensitivity of the data
- Develop a return to operations plan
- Ensure detailed recovery procedures are in place
- Assess the resources under contract and ensure they are adequate



Phase 1: Colocation/DR

Next Steps:

- Finalize contract negotiations with colocation and DR vendor
- Prepare new colocation site
- Setup, move and test equipment at the new site
- Conduct first DR test at the new colocation / DR facility in FY 2015

Phase 2: Cloud Computing





Phase 2: Cloud Computing

■ Engagement objectives:

- Review current use of cloud-based technologies, future directions, and current policies
- Highlight security and compliance concerns
- Create a cloud computing checklist documenting key considerations when evaluating a cloud-based solution
- Provide insight on how other state governmental and financial organizations are using cloud computing
- Document roles and responsibilities
- Recommend leading practices



Phase 2: Cloud Computing

■ Overall Results:

- TRS is committed to evaluating the risk components of cloud-based solutions and already has a number of solutions in place
- The process for making decisions to implement cloud-based solutions has not been formalized and therefore not consistent
- The decision making process needs to involve the business unit(s), IT, Legal and Enterprise Risk Management





Phase 2: Cloud Computing

■ Areas of Focus:

- Continue to refine and strengthen the vendor assessment process and questionnaire
- Develop cloud policies related to the use and selection of cloud-based solutions
- Develop cloud-based specific contract terms and conditions
- Develop a governance process related to cloud-based solution selection, to ensure inclusion of the key stakeholders throughout the process





Phase 2: Cloud Computing

■ Next Steps:

- Creation of a Cloud Computing committee that is charged with reviewing and customizing the recommendations based on TRS's risk tolerances and making recommendations on how to best operationalize them into TRS.
- **Recommendations from this team would be in the area of:**
 - Updated policies relating to the use of Cloud Computing
 - New processes and procedures to use when deciding if a Cloud Computing option is a good fit for a particular business solution
 - Checklists to use to provide consistency and assist decision makers in their due diligence process

Phase 3: Mobile Device Security





Phase 3: Mobile Device Security

■ Engagement objectives:

- Assist in creating a vision and guiding policy
- Review current mobile device policies and procedures
- Review current Personal Mobile Device User Agreement
- Highlight security and compliance concerns
- Recommend Bring Your Own Device (BYOD) options
- Review options for remote access and current policies
- Document roles and responsibilities
- Recommend leading practices



Phase 3: Mobile Device Security

■ Overall results:

- TRS has addressed most of the generally recognized security risks in the area of mobile device security
- TRS is currently capable of meeting most user requirements for remote access and mobile device functionality
- Overall, TRS capabilities regarding supporting issued and Bring Your Own Device (BYOD) mobile devices and remote access are consistent with or better than the capabilities as described to us by other state governmental agencies which we researched





Phase 3: Mobile Device Security

■ Areas of focus:

- Continue to refine and strengthen the mobile device and remote access policies and procedures
- Continue with current efforts to procure a Mobile Device Management Solution to strengthen the existing TRS capabilities to enforce security policies and standards
- Develop an employee education and training program to increase the awareness of available services and promote compliance with TRS security policies and standards





Phase 3: Mobile Device Security

■ Next Steps:

- Strengthen policies and procedures related to mobile devices
- Update our BYOD policy based on recommendations
- Procure new mobile device management solution to both strengthen current security controls and enhance functionality
- Increase employee awareness of available services and security considerations



Emerging Technologies

Questions?

TAB 6

CONFIDENTIAL PRIVATE DOCUMENT - NOT SUBJECT
TO PUBLIC DISCLOSURE - GOVERNMENT CODE §
552.139 relating to exception to disclosure for government
information relating to security issues for computers.

TAB 7

TAB 7A

Internal Audit Annual Report

Fiscal Year 2014

October 2014



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

TEACHER RETIREMENT SYSTEM OF TEXAS

BOARD AUDIT COMMITTEE (As of October 15, 2014)

Christopher Moss, Chair
T. Karen Charleston
David Corpus
Anita Smith Palmer
Nanette Sissney

BOARD MEMBERS (As of October 15, 2014)

R. David Kelly, Chair
Nanette Sissney, Vice Chair
Todd Barth
T. Karen Charleston
Joe Colonna
David Corpus
Christopher Moss
Anita Smith Palmer
Dolores Ramirez

EXECUTIVE DIRECTOR

Brian Guthrie

INTERNAL AUDIT DEPARTMENT

Amy L. Barrett, CIA, CISA, CPA, Chief Audit Executive
Karen Morris, CIA, CISA, CRMA, Director of Pension Audit Services
Jan Engler, CIA, CISA, CFE, Audit Manager
Lih-Jen Lan, CIA, CPA, CISA, CISSP, CCSA, Information Technology (IT)
Audit Manager
Hugh Ohn, CFA, CPA, CIA, FRM, Director of Investment Audit Services
Dinah G. Arce, CIA, CPA, CFE, CIDA, Senior Auditor
Toma Miller, CGAP, Senior Auditor
Dorvin Handrick, CISA, Senior IT Auditor
Nick Ballard, CFA, Senior Investment Auditor
Art Mata, CEBS, CPM, Internal Audit Consultant
Valerie Robateau, Administrative Assistant



Brian K. Guthrie
Executive Director

www.trf.state.tx.us 800.223.8778 1000 Red River Street
512.542.6400 Austin, Texas 78701-2698

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

October 27, 2014

Honorable Rick Perry, Governor
Members of the Legislative Budget Board
Members of the Sunset Advisory Commission
Mr. John Keel, CPA, State Auditor
Mr. R. David Kelly, Chair, TRS Board of Trustees
Mr. Christopher Moss, Chair, TRS Board Audit Committee
Members of the Board of Trustees, Teacher Retirement System of Texas

Attached is the annual report of the Internal Audit department of the Teacher Retirement System of Texas (TRS). This report provides information on the audit plan, assurance, consulting, and advisory projects completed, and other Internal Audit activities. It also meets the annual reporting requirement of the Texas Internal Auditing Act (Government Code, Chapter 2102.009 and Texas Government Code, Sections 2102.015 and 2102.0091). This report includes the following State Auditor's Office reporting guideline requirements:

- I. Compliance With House Bill 16 (Government Code, Section 2102.015)
- II. Planned Work Related to Proportionality of Higher Education Benefits
- III. Internal Audit Plan for Fiscal Year 2014
- IV. List of consulting and Nonaudit Services Completed
- V. External Quality Assurance Review
- VI. Internal Audit Plan for Fiscal Year 2015
- VII. External Audit Services Procured in Fiscal Year 2014
- VIII. Reporting Suspected Fraud and Abuse

The work performed by TRS Internal Audit contributes toward accountability, integrity, and good management practices within TRS operations. Fiscal year 2014 projects contributed to the improvement of risk management, control, and governance processes. Internal Audit issued eight assurance and six agreed-upon procedures reports, followed-up and reported quarterly on the status of all outstanding audit recommendations, and performed advisory services in various areas including TEAM (TRS Enterprise Application Modernization) Program initiatives and Executive areas.

For further information about the contents of this report or to request copies of Internal Audit reports, please contact Amy Barrett at (512) 542-6559.

Sincerely,


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

cc: Executive Council Members
Internal Audit Staff Members

TEACHER RETIREMENT SYSTEM OF TEXAS

INTERNAL AUDIT ANNUAL REPORT

FISCAL YEAR 2014

October 2014

Teacher Retirement System of Texas
Internal Audit Annual Report for Fiscal Year 2014

**I. Compliance with House Bill 16:
Posting Information on Internet Website**

Teacher Retire Teacher Retirement System of Texas Internal Audit Annual Report for Fiscal Year 2014

Section 1: Texas Internal Auditing Act – Compliance with House Bill 16: Publication of Internal Audit Plan, Internal Audit Annual Report, and Other Audit Information on Internet Website

House Bill 16 (83rd Legislature, Regular Session) amended the Texas Internal Auditing Act, by adding section 2102.015, which requires state agencies and institutions of higher education, as defined in the bill, to post agency internal audit plans and internal audit annual reports on the agency's internet website within 30 days of approval. House Bill 16 also requires entities to update the posting on the Internet to include a.) a detailed summary of the weaknesses, deficiencies, wrongdoings, or other concerns raised by the audit plan or annual report and b.) a summary of the actions taken to address concerns, if any, that are raised by the audit plan or annual report.

TRS Internal Audit follows the following procedures to ensure compliance with the requirements of House Bill 16:

- The **TRS Annual Internal Audit Plan** is approved each fiscal year by the TRS Board of Trustees as recommended by the TRS Audit Committee. The annual audit plan, as approved by the TRS Board of Trustees, is provided by Internal Audit staff to the TRS Website coordinators and posted to the TRS Website within 30 days of approval.
- The **TRS Internal Audit Annual Report** is prepared annually by Internal Audit staff in accordance with the Texas State Auditor's Office guidelines by the required deadline. This report, once approved by the Chief Audit Executive, is submitted to the Governor, the Legislative Budget Board, the Sunset Advisory Commission, the State Auditor's Office and the TRS' Board of Trustees by November 1st of each fiscal year. The annual report is provided by Internal Audit staff to the TRS Website coordinators to post to the TRS Website.
- **Summaries of the weaknesses, concerns, and actions** taken to address concerns in the audit plan or annual report are provided by Internal Audit in the quarterly TRS Audit Committee materials. The audit committee materials provide audit reports completed during each quarter, quarterly status reports on management action on outstanding audit recommendations, and the status of the current fiscal year audit plan. The individual audit reports provide the results, recommendations, and management actions taken to address the audit recommendations. The TRS Audit Committee materials are posted to the TRS Website, after dissemination to TRS Board of Trustees, through an administration process of board and committee materials prior to the scheduled board meeting.

**II. Planned Work Related to the Proportionality of Higher
Education Benefits**

Not applicable to TRS

Teacher Retirement System of Texas
Internal Audit Annual Report for Fiscal Year 2014

III. Internal Audit Plan for Fiscal Year 2014

**Teacher Retirement System of Texas
Internal Audit Annual Report for Fiscal Year 2014**

**Status of Fiscal Year 2014 Planned Assurance, Consulting, and
Advisory Services as of August 2014**

Title	Project #	Type	Status	Report Date
Executive				
Electronic Records	N/A	Audit	Deferred to FY 2015 Approved at June 2014 Audit Committee	N/A
Fraud Investigation Procedures Development	N/A	Advisory	Complete	N/A
Internal Ethics and Fraud Hotline Administration	N/A	Advisory	Complete	N/A
University of Texas Students' Project – Best Practices for Social Media	14-606 (2)	Consulting (Added)	Complete	4/22/14
Meetings Participation	N/A	Advisory	Complete	N/A
Special Requests	N/A	Advisory	Complete	N/A
Finance				
Purchasing and Contract Administration	14-401	Audit	Complete	9/17/14
GASB 67 and 68 Implementation Status	N/A	Advisory	Complete	N/A
State Auditor's Office (SAO) Financial Audit Coordination	N/A	Advisory	Complete	N/A
Meetings Participation	N/A	Advisory	Complete	N/A
Special Requests and Surprise Inspections	N/A	Advisory	Complete	N/A
TEAM Program				
TEAM Independent Program Assessment (IPA) Vendor Support	N/A	Advisory	Ongoing	N/A
TEAM Committees Participation	N/A	Advisory	Complete	N/A
TEAM Internal Controls Project	N/A	Consulting (Added)	Continue to FY 2015 Approved at June 2014 Audit Committee	N/A
Pension Benefits				
Cost of Living Adjustment (COLA) Calculation	14-404	Audit	Complete	9/18/14
Refunds, Inactive and Escheated Accounts	14-104	Audit	Complete	5/21/14
Special Service Buy Back Process	14-103	Audit	Complete	9/22/13

Teacher Retirement System of Texas Internal Audit Annual Report for Fiscal Year 2014

Title	Project #	Type	Status	Report Date
Telephone Counseling Center Follow-up (outsourced)	14-102	Audit	Complete	3/5/14
Benefits Payment Testing for SAO Financial Audit	14-100	Audit	Complete	N/A
Semi-annual Benefits Testing	14-101	Agreed-Upon Procedures	Complete	2/28/14 and 8/28/14
Employer Reporting				
TRS Employer Reporting Controls	N/A	Advisory	Complete	N/A
Employer Self-Audit Program	N/A	Advisory	Complete	N/A
Employer Reviews/Special Projects	N/A	Various	Complete	N/A

Title	Project #	Type	Status	Report Date
Health Care Benefits				
Health Care Governance, Risk Management, and Reporting	N/A	Consulting	Deferred Approved at June 2014 Audit Committee	N/A
Health Care Vendor Update Meetings	N/A	Advisory	Complete	N/A
Health Care Vendor and Auditor Selection Observation	N/A	Advisory	Complete	N/A
Information Technology				
Identity and Access Management, and Contractor Onboarding Process (Renamed "Contractor Onboarding and System Access")	14-502	Audit	Complete	5/15/14
Information Technology (IT) Security Program Follow-up (outsourced)	14-505	Audit	Complete	9/19/14
Emerging IT Risks (outsourced): (1) Cloud Computing (2) Mobile Device Security	14-503 and 14-504	Consulting	(1) Complete (2) In Progress	1.) 8/1/14 2.) N/A
University of Texas Students' Project – Best Practices and Policies for Cloud Computing and Mobile Devices	14-606 (1)	Consulting (Added)	Complete	December 2013
Co-Location/Disaster Recovery Planning (outsourced)	14-501	Consulting	Complete	4/18/14
Network Penetration Test; Security Risk Assessment Review	N/A	Advisory	Complete	N/A
Technology Committee Meetings Attendance	N/A	Advisory	Complete	N/A
Investment Management				
Overall Internal Control Opinion on Investment Activities (includes periodic status reports)	14-301	Audit	Complete	3/5/14 5/16/14 9/13/14
Quarterly Investment Testing	14-302	Agreed-Upon	Complete	11/20/13

Teacher Retirement System of Texas Internal Audit Annual Report for Fiscal Year 2014

Title	Project #	Type	Status	Report Date
		Procedures		3/5/14 5//20/14 9/3/14
Private Strategic Partner Network (SPN) Fee Calculations	14-303	Advisory	In Progress	N/A
Incentive Compensation Plan Review	N/A	Advisory	Complete	N/A
Investment Committees Attendance	N/A	Advisory	Complete	N/A
Internal Audit Department				
Internal Quality Assurance Review	14-605	Administrative	Complete	8/22/14
External Quality Assurance Reviews	N/A	Administrative	Complete	N/A
Annual Internal Audit Report	14-603	Administrative	Complete	10/15/13
Quarterly Audit Recommendations Follow-up	N/A	Administrative	Complete	N/A
Fiscal Year 2015 Audit Plan	N/A	Administrative	Complete	N/A
Health Care Audit Risk Assessment, Model 3Year Audit Plan Project	14-201	Consulting	Complete	May 2014
Audit Committee Meetings Preparation	N/A	Administrative	Complete	N/A
Internal Audit Strategic Plan	14-604	Administrative	Complete	9/19/14

Advisory and consulting projects are not assigned project numbers and are typically not reported to the Audit Committee.

**IV. Consulting Services
and Nonaudit Services Completed**

Teacher Retirement System of Texas

Internal Audit Annual Report for Fiscal Year 2014

IV. Consulting Services and Nonaudit Service Completed

During fiscal year 2014, Internal Audit conducted (or hired consultants to conduct) the following consulting (nonaudit services) projects resulting in formal recommendations to management.

1. Report on Health Care Audit Risk Assessment and Model Three-Year Audit Plan Project

(Project #: 14-201, Memorandum date: May 2014)

Objective: To identify and prioritize risks related to the process used in administering health care benefits provided under TRS-Care and TRS-ActiveCare to employees, retirees, and their dependents; develop a project report and model three-year audit program.

Strength identified include tone at the top, leadership commitment to meet needs of plan participants, close working relationship between management and vendors, and focus on continuous improvement.

Top potential risk areas were identified along with associated potential control weaknesses or deficiency risk drivers to be considered for future health care audits and consulting projects, which were ranked in priority order.

2. University of Texas Students' Consulting Projects on Best Practices Policies for Cloud Computing and Mobile Devices

(Project #14-606 (1), PowerPoint presentation, December 2013)

Objective: To research and identify best practices for the use of cloud computing and mobile devices among other business and/or government organizations and compare to TRS current policies and provide suggestions for improvement.

Strengths identified included employee signed agreements of use of mobile devices, strong passwords and encryption software, required protection of confidential information and corrective action for those not adhering to policy.

Suggestions for improvement include oversee data deletion from mobile devices, audit use of employee personal mobile devices, and install mobile device management software.

3. University of Texas Students' Consulting Projects on Best Practices Policies

(Project #14-606 (2), PowerPoint presentation, May 2014)

Teacher Retirement System of Texas

Internal Audit Annual Report for Fiscal Year 2014

Objective: To research and identify best practices for the use of social media among other business and/or government organizations and compare to TRS current policies and provide suggestions for improvement.

Strengths identified include deletion/response guidelines, permissible/non-permissible guidelines for comments, and working closely with IT.

Suggestions for improvement include security training for staff who administers the TRS social media site, adding software that reduces likelihood and impact of having social media accounts compromised, implementing a “social media crisis” policy, policy to limit use of hashtags, and changing passwords in accordance with the TRS Information Security Manual.

4. Co-Location/Disaster Recovery Planning (outsourced)

(14-501, PowerPoint presentation, April 18, 2014)

Objective: To review current TRS co-location plans, strategies, and assumptions making recommendations for improvement; assist and make recommendations on the issues of distance, data security/encryption, support and staffing, provide insight on how other organizations are co-locating, document concerns and review roles/responsibilities.

Strengths included an overall sound approach to a disaster recovery (DR) plan and a solid beginning in architecting and piloting new DR approach.

Suggestions included formalize and document analysis of options and costs, document logic behind decisions made, ensure provisions of contracts are appropriate to meet TRS’ needs, and develop and implement monitoring procedures.

5. Emerging IT Risks with Cloud Computing (outsourced)

(14-503, Memo, August 1, 2014)

Objective: To review TRS’ current use of cloud-based technologies, future directions, current policies and make recommendations on policies and procedures that need to be updated or put in place to protect TRS; document security concerns, create a cloud computing checklist, document factors and risks when deciding between different deployment methods, provide insight on how other organization are using cloud computing, document additional roles and responsibilities needed to support cloud computing.

Strengths include TRS’ commitment to evaluating the risk components of cloud-based solutions.

Suggestions included continue to refine and strengthen the vendor assessment process, develop cloud policies related to the use and selection of cloud-based solutions, and develop a governance process related to cloud-based solution selection.

Teacher Retirement System of Texas

Internal Audit Annual Report for Fiscal Year 2014

6. Emerging IT Risks with Mobile Device Security (outsourced)

(14-504, ongoing)

Objective: Work with TRS to create a vision and guiding policy for supporting mobile devices, review current TRS policies related to mobile devices and make recommendations, review user agreement, provide insight on how other organizations are supporting mobile devices, document security concerns, and reviewing remote access policies.

Strengths – N/A

Suggestions – N/A

Teacher Retirement System of Texas

Internal Audit Annual Report for Fiscal Year 2014

Objective: To research and identify best practices for the use of social media among other business and/or government organizations and compare to TRS current policies and provide suggestions for improvement.

Strengths identified include deletion/response guidelines, permissible/non-permissible guidelines for comments, and working closely with IT.

Suggestions for improvement include security training for staff who administers the TRS social media site, adding software that reduces likelihood and impact of having social media accounts compromised, implementing a “social media crisis” policy, policy to limit use of hashtags, and changing passwords in accordance with the TRS Information Security Manual.

4. Co-Location/Disaster Recovery Planning (outsourced)

(14-501, PowerPoint presentation, April 18, 2014)

Objective: To review current TRS co-location plans, strategies, and assumptions making recommendations for improvement; assist and make recommendations on the issues of distance, data security/encryption, support and staffing, provide insight on how other organizations are co-locating, document concerns and review roles/responsibilities.

Strengths included an overall sound approach to a disaster recovery (DR) plan and a solid beginning in architecting and piloting new DR approach.

Suggestions included formalize and document analysis of options and costs, document logic behind decisions made, ensure provisions of contracts are appropriate to meet TRS’ needs, and develop and implement monitoring procedures.

5. Emerging IT Risks with Cloud Computing (outsourced)

(14-503, Memo, August 1, 2014)

Objective: To review TRS’ current use of cloud-based technologies, future directions, current policies and make recommendations on policies and procedures that need to be updated or put in place to protect TRS; document security concerns, create a cloud computing checklist, document factors and risks when deciding between different deployment methods, provide insight on how other organization are using cloud computing, document additional roles and responsibilities needed to support cloud computing.

Strengths include TRS’ commitment to evaluating the risk components of cloud-based solutions.

Suggestions included continue to refine and strengthen the vendor assessment process, develop cloud policies related to the use and selection of cloud-based solutions, and develop a governance process related to cloud-based solution selection.

Teacher Retirement System of Texas

Internal Audit Annual Report for Fiscal Year 2014

6. Emerging IT Risks with Mobile Device Security (outsourced)

(14-504, ongoing)

Objective: Work with TRS to create a vision and guiding policy for supporting mobile devices, review current TRS policies related to mobile devices and make recommendations, review user agreement, provide insight on how other organizations are supporting mobile devices, document security concerns, and reviewing remote access policies.

Strengths – N/A

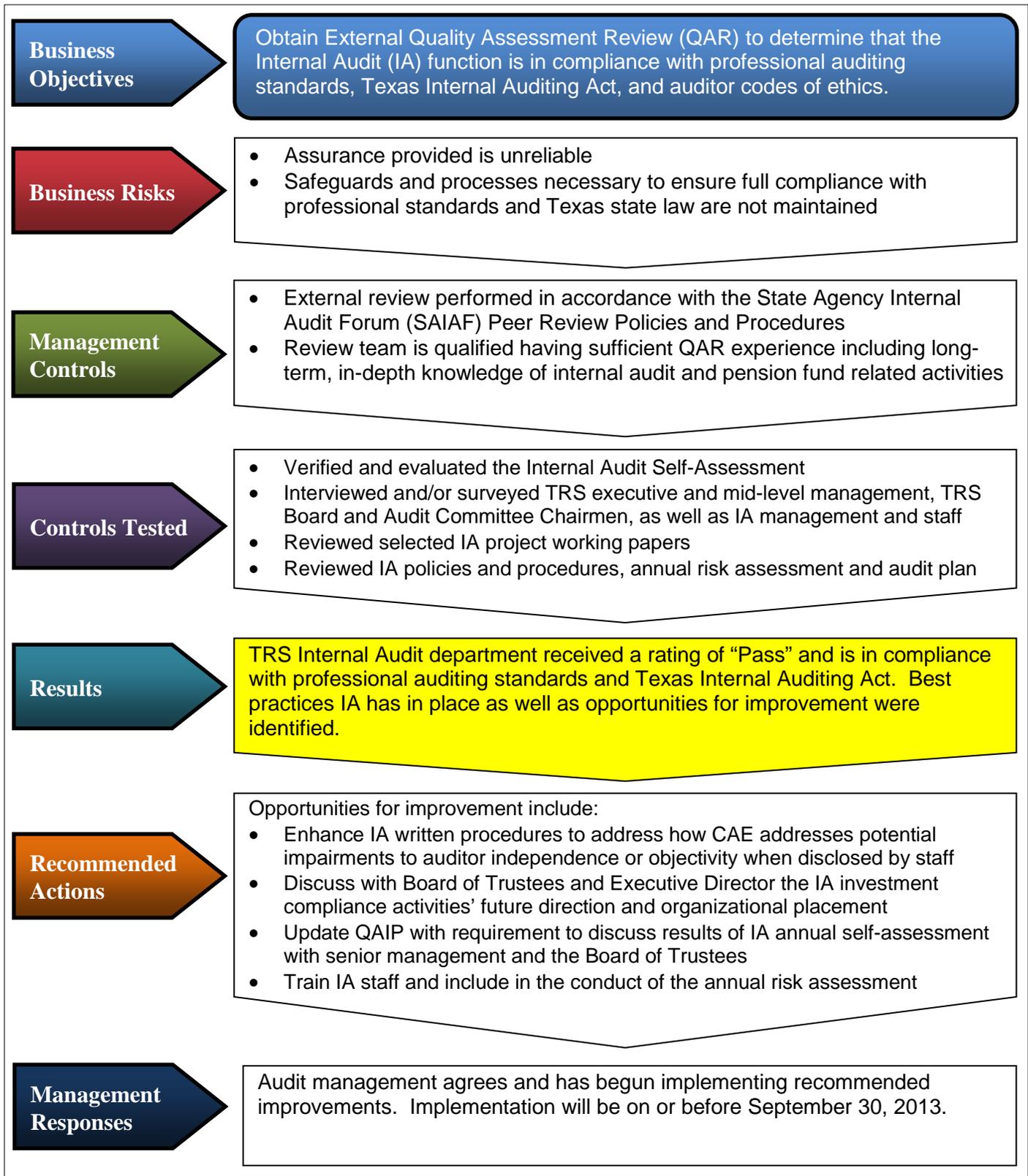
Suggestions – N/A

V. External Quality Assurance Review

INTERNAL AUDIT EXTERNAL QUALITY ASSURANCE REVIEW

JUNE 2013

TRS Internal Audit Department



Legend of Results:

Red - Significant to TRS
Yellow - Other Reportable Issue

Orange - Significant to Business Objectives
Green - Positive Finding or No Issue

**REPORT ON THE
EXTERNAL QUALITY ASSURANCE REVIEW
OF THE TEACHER RETIREMENT SYSTEM'S
INTERNAL AUDIT DEPARTMENT**

June 2013



Performed by

Karin Hill, CIA, CGAP, CRMA
Director of Internal Audit
Texas Department of Assistive and Rehabilitative Services

Jennifer Hymel
Director of Compliance and Assurance
Texas County and District Retirement System

Nicki Russell, MPA, CIA, CPA
Internal Auditor
Missouri State Employees Retirement System

OVERALL OPINION

Based on the information received and evaluated during this external quality assurance review, it is our opinion that the Teachers Retirement System of Texas' Internal Audit Department receives a rating of "Pass" and is in compliance with the Institute of Internal Auditors (IIA) *International Standards for the Professional Practice of Internal Auditing* and Code of Ethics, the United States Government Accountability Office (GAO) *Government Auditing Standards*, and the Texas Internal Auditing Act (*Texas Government Code*, Chapter 2102). This opinion means that policies, procedures, and practices are in place to implement the standards and requirements necessary for ensuring independence, objectivity, and proficiency of the internal audit function.

We found that the Internal Audit Department is independent, objective, and able to render impartial and unbiased judgments on the audit work performed. The staff members are qualified, proficient, and knowledgeable in the areas they audit and the Department is supported in obtaining additional expertise as necessary. Individual audit projects are planned using risk-based internal auditing; audit conclusions are supported in the working papers; and findings and recommendations are communicated clearly and concisely.

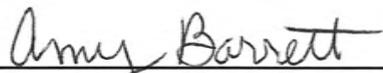
The Internal Audit Department is well-managed internally. In addition, the Department has an effective relationship with the Board of Trustees and is well respected and supported by management. Surveys and interviews conducted during the quality assurance review indicate that management considers Internal Audit an integral part of the overall agency operations and finds that the audit process and report recommendations add value and help improve the agency's operations.

Teacher Retirement System of Texas
Internal Audit Annual Report for Fiscal Year 2014

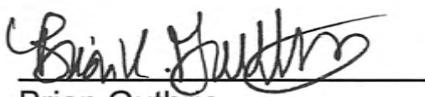
VI. Internal Audit Plan for Fiscal Year 2015

Fiscal Year 2015 Audit Plan

September 19, 2014


Amy Barrett, CIA, CISA, CPA
Chief Audit Executive


Christopher S. Moss
Chair, Audit Committee, Board of
Trustees


Brian Guthrie
Executive Director


R. David Kelly
Chair, Board of Trustees



Executive Summary

Professional and Statutory Requirements

This document provides the *Fiscal Year 2015 Audit Plan* (Audit Plan) as required by professional auditing standards, the *Texas Internal Auditing Act* (Act), and the *Texas Government Code 2102.008* for the Teacher Retirement System of Texas (TRS). The Act requires state agencies to conduct a program of internal auditing that includes an annual audit plan that is prepared using risk assessment techniques and identifies individual audit projects to be conducted during the year. The Audit Plan is required to be evaluated and updated annually for recommendation of approval by the TRS Audit Committee of the Board of Trustees (Audit Committee) to the TRS Board of Trustees (Board). Internal Audit is independent of management and provides objective assurance and consulting services designed to add value and improve TRS' operations.

Audit Plan Development and Scope

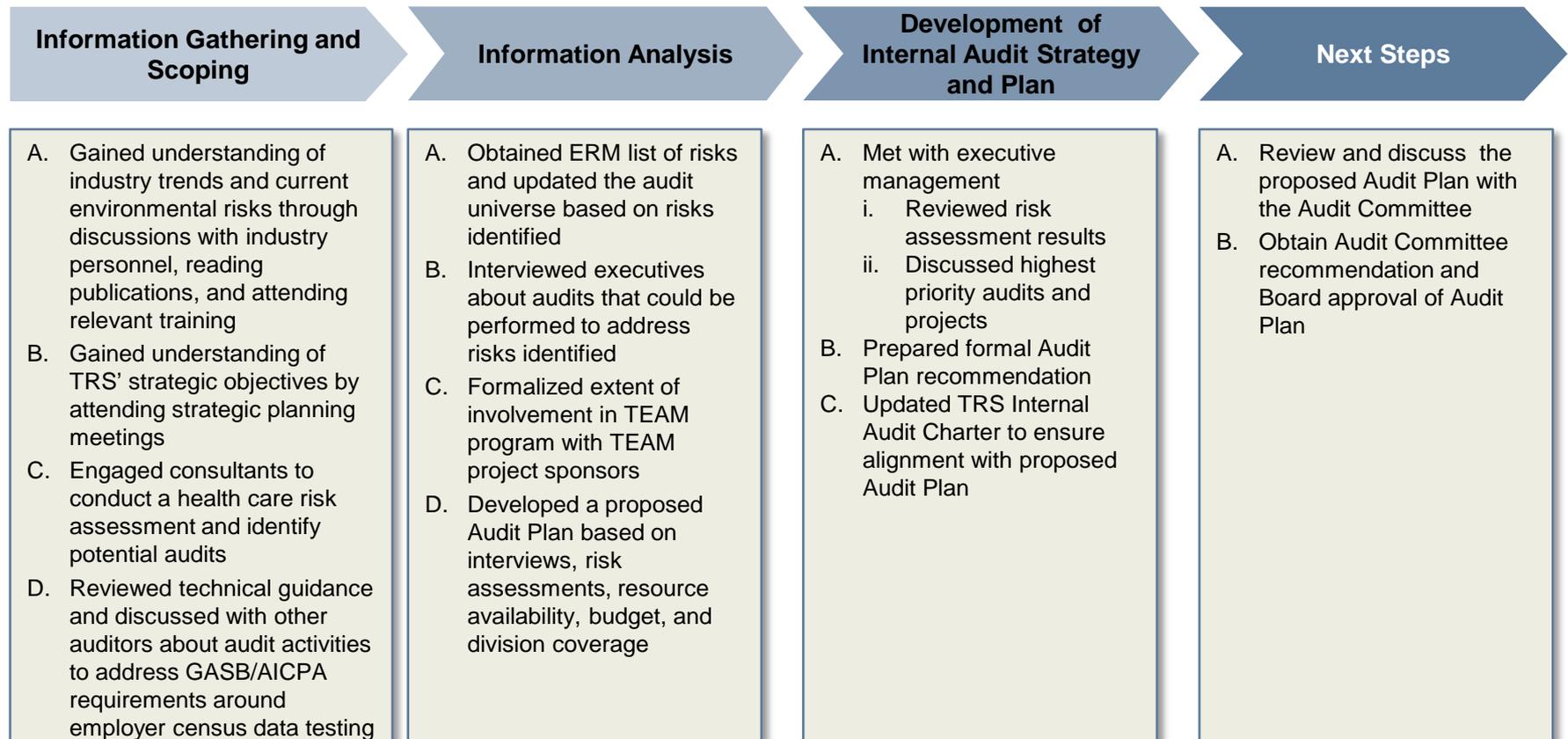
Our Audit Plan is designed to provide coverage of key risks, given the existing staff and approved budget. See the **Appendices** for information regarding the internal audit budget, performance measures, and audit universe.

Changes Subsequent to Approval

Interim changes to the Audit Plan will occur from time to time due to changes in business risks, timing of TRS' initiatives, and staff availability. We will report Audit Plan changes to senior management and present changes to the Audit Committee at the following quarterly Audit Committee meeting. Amendments to the approved Audit Plan deemed to be significant (based on discussions with the executive director and audit committee chair) will be submitted to the Audit Committee for recommendation to the Board for approval. The State Auditor's Office also requires notification of material changes to the Audit Plan.

Risk Assessment & Audit Planning Approach

Risk assessments developed by the Enterprise Risk Management (ERM) team and a health care audit services vendor were used to identify areas of risk and potential internal audit projects. This information was combined into an overall audit plan designed to address critical risks to achieving TRS objectives while being sensitive to operational requirements. The Audit Plan also includes hours for ad hoc projects and special requests. The following approach was taken in creating the Audit Plan:



Types of Projects to Cover Risk Areas

Internal Audit considered ERM risk ranking when identifying and prioritizing various projects. An important part of the Audit Plan is that the identified processes, systems, and initiatives should receive differing types and levels of review based on their importance, perceived risk, and most efficient approach. Our suggested levels of review activities are as follows:

Audit

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

Agreed-Upon Procedures

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

Formal Consulting

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

Informal Consulting (Advisory)

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

Audit Plan: TEAM

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

Title	Type	Preliminary Scope
TEAM Program Internal Controls Assessment	Advisory	Assist management in its evaluation of key internal controls, including security controls, incorporated into TRUST, the new benefits system, and business processes
TEAM Independent Program Assessment (IPA) Vendor Support	Advisory	Coordinate and monitor activities of the IPA vendor and ensure direct access to executive management and the board
TEAM Committees and TEAM Projects Participation	Advisory	Participate in TEAM Executive Steering Committee (ESC) and other committees in a non-voting capacity, and provide advisory services related to TEAM project activities

Audit Plan: Pension Benefits

Title	Type	Preliminary Scope
Follow-Up Audit on Significant Findings of Prior Benefits Audits	Audit	Follow-up on outstanding audit recommendations related to identified weaknesses with fraud prevention controls to determine whether mitigations have been implemented
Benefits Testing for State Auditor's Office (SAO) Audit of Comprehensive Annual Financial Report (CAFR)	Audit	Conduct benefit testing on behalf of the SAO to be used in completion of the CAFR audit
Semi-Annual Benefits Testing	Agreed-Upon Procedures	Recalculate a sample of benefit payments semi-annually and determine whether documentation on file supports the calculation

Audit Plan: Finance/Reporting Entities

Title	Type	Preliminary Scope
Payables Audit	Audit	Assess whether TRS received goods and services as invoiced and paid
Actuarial Data Controls	Audit	Assess whether data submitted to the actuary is complete and accurate and the controls surrounding the process are sufficient. Assess controls at actuary for complying with accounting standards and ensuring the completeness and accuracy of data reported to TRS for the financial audit.
Reporting Entity Audits (3-4) and investigations	Audit	Determine whether information reported to TRS is complete and accurate, especially in the areas of eligibility, compensation, employment after retirement and related surcharges
TRS Reporting Entity Website Audit Information	Advisory	Post audit-related information and tools on the TRS employer (reporting entity) website. Information may include self-audits, audit programs, audit results, technical guidance, and frequently asked questions about reporting entity audits.
State Auditor's Office (SAO) Financial (CAFR) Audit Coordination	Advisory	Coordinate activities of the SAO to ensure deadlines are met; coordinate quarterly update meetings with executive management and the SAO
Business Process Analysis of Activities Involving Multiple Departments	Consulting	In conjunction with Organizational Change Management, document and analyze business processes that overlap multiple departments; provide options to TRS management for realigning and streamlining process activities while considering segregation of duties requirements.

Audit Plan: Health Care

Title	Type	Preliminary Scope
Health Care Vendor Update Meetings	Advisory	Attend quarterly meetings with health care vendors to understand results, issues, and TRS management's monitoring controls
Health Care Vendor Selection Observation	Advisory	Observe selection process of large vendor and service providers
Health Care Audit Services Review	Consulting	Assess quality and scope of health care audit services procured by TRS management and provide feedback on approach and scope of future procurements by management for audit services

Audit Plan: Information Technology

Title	Type	Preliminary Scope
Electronic Records	Audit	Assess whether electronic records are maintained to enable business functionality and are in accordance with TRS requirements
Cloud Computing, Mobile Device Security, Co-Location/Disaster Recovery, IT Security	Consulting and Advisory	Provide additional advice or tools for implementing recommendations made in prior year's consulting and audit projects
Network Penetration Test; Security Risk Assessment Review	Advisory	Obtain, read, and follow-up on any issues identified during the network penetration tests and the security risk assessment conducted by the TRS Information Security Officer
Technology Committees Meeting Participation	Advisory	Participate (non-voting) in meetings to stay apprised of initiatives relating to enterprise security and information technology operations

Audit Plan: Investment Management

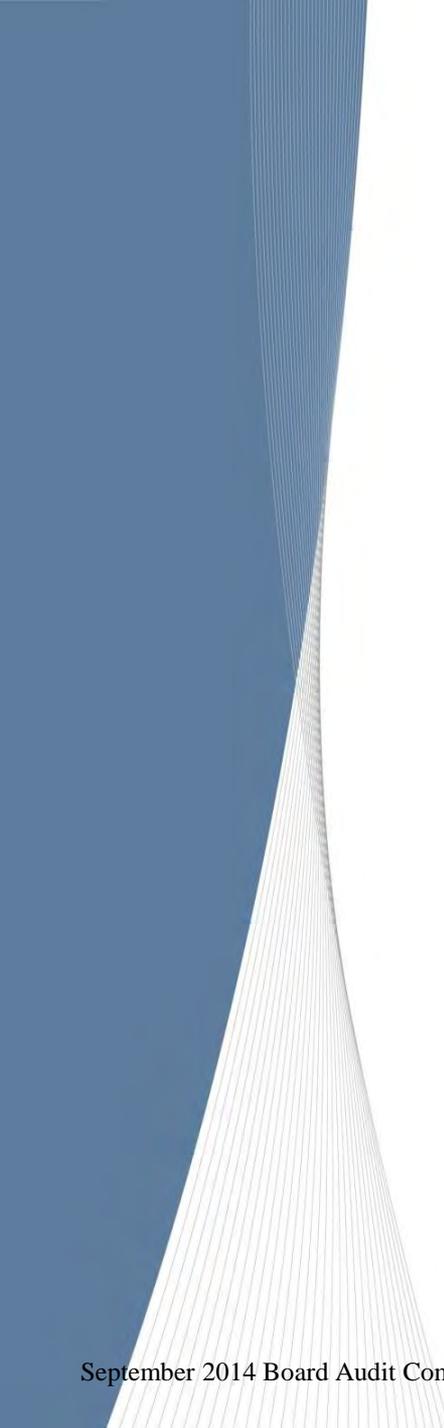
Title	Type	Preliminary Scope
Overall Internal Control Opinion on Investment Activities (includes periodic status reports)	Audit	Assess key operating, compliance, and reporting controls within the Investment Management Division and its service providers relating to private markets transactions. Private market activities to be assessed include due diligence, valuation, fees, fund transfers, risk management, governance, management and board reports, information systems, compliance, accounting, and investment operations.
Quarterly Investment Compliance and Ethics Policies Testing	Agreed-Upon Procedures	Assess compliance with TRS ethics policies and the Investment Policy Statement (IPS) requirements including placement agent disclosures and Internal Investment Committee (IIC) processes; test board report accuracy; test wire transfer compliance with internal procedures; provide input into IPS and other investment policy changes
Emerging Risk Reviews	Advisory	Stay current on changes in the Investment Management Division and review new initiatives when identified
Incentive Compensation Plan Review	Advisory	Prior to payment, recalculate the incentive compensation award amounts to determine if they are calculated in accordance with plan provisions; reconcile performance to the service provider
Investment Committees Attendance	Advisory	Stay current on Investment Management Division initiatives by attending IIC, Derivatives Operations, Monthly Staff, and other meetings including Annual Town Hall

Audit Plan: Internal Audit Activities

Title	Project Description
Internal Quality Assurance Review	Conduct a self-assessment of Internal Audit's compliance with professional auditing standards
Annual Internal Audit Report	Prepare annual report of audit activities in accordance with SAO instructions
Quarterly Audit Recommendations Follow-Up	Follow-up and report on the status of outstanding audit recommendations
Fiscal Year 2016 Audit Plan	Prepare annual audit plan based on a documented risk assessment in accordance with professional auditing standards and the Texas Internal Auditing Act
Audit Committee Meetings Preparation	Prepare communications and attend Audit Committee and Board meetings
Internal Audit Vendor Request for Qualifications (RFQ)	Prepare an RFQ to select qualified vendors for conducting health care audits
Internal Ethics and Fraud Hotline Administration	Follow-up on hotline calls (both internal and external) including complaints disclosed to TRS Internal Audit through other communication means
Meetings Participation	Participate (non-voting) in various TRS-wide meetings such as Executive Council, Leadership Team, and Risk Oversight Committee
Special Requests and Surprise Inspections	Complete projects as requested by TRS management; complete surprise inspections (such as cashier's function) to gain an understanding of controls in an area and provide "perception of detection"
University of Texas Students' Projects	Policy reviews and benchmarking – policies TBD

Audit Plan: High Risk Areas (High, Elevated, or Caution) Excluded from the Audit Plan And Areas of Interest to the SAO

Area	Reason for Exclusion
Legacy Information Systems	Systems are in process of being replaced. Internal Audit staff will participate in advisory capacity in decommissioning process and assessment of transfer of internal controls, including security controls, to new systems.
Information Security and Confidentiality	Information security follow-up audit conducted in FY14. Assurance is not planned for FY14; however, advisory work will continue in FY15 regarding implementation of outstanding recommendations.
Public Markets Operations	Tested in FY14 without any reportable findings
Purchasing and Contract Administration	Tested in FY14 without any significant findings. Payables audit scheduled for fiscal year 2015.



Appendix A

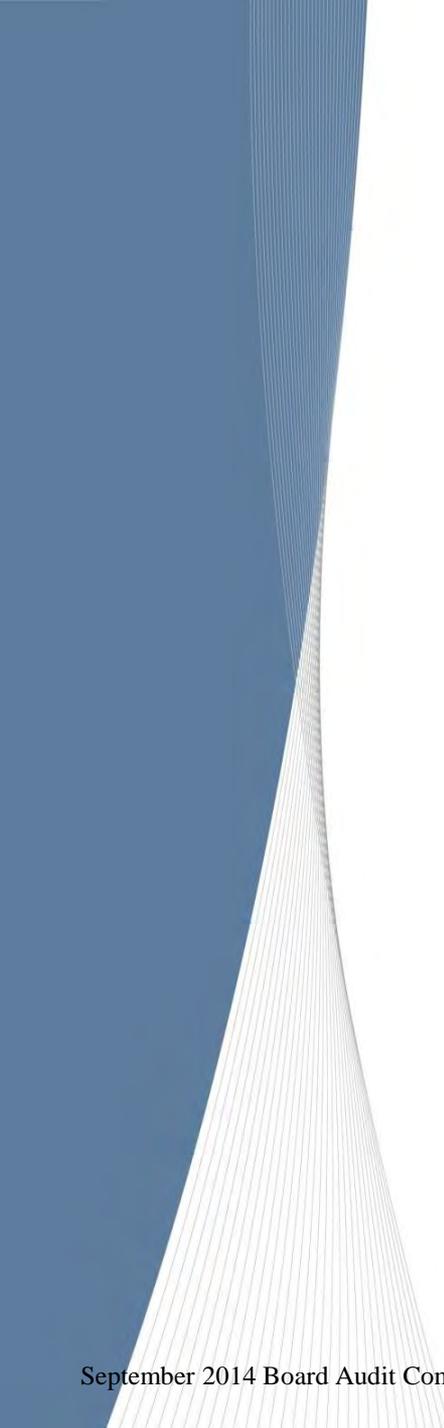
Internal Audit Operating Budget

Internal Audit Operating Budget

Line Item	Budget FY 2015	Budget FY 2014
000 – Salaries	\$977,204	\$949,133
000 – Benefits	230,556	236,053
200 – Professional Fees	652,500*	528,500
505 – Travel-In-State	14,500**	9,500
510 – Travel-Out-of-State	18,000	18,000
705 – Dues, Fees, and Staff Development	22,500	22,500
710 – Subscriptions and Reference Materials	4,500	4,500
Total Operating Budget (excluding indirect costs such as computers, office space, and utilities)	\$1,919,760	\$1,768,186
Full Time Equivalent (FTE) Positions	10.0	10.0

* Increase primarily due to SAO CAFR audit of employer (reporting entity) census data

** Increase primarily due to reporting entity audits



Appendix B Internal Audit Performance Measures

Internal Audit Goals and Performance Measures

For the internal audit function, the FY 2015 goals and performance measures are as follows:

Goal 1: Enhance Effectiveness of Internal Audit Organization

Performance Measures

- a. Spend a minimum of 75% of total available department hours (excludes uncontrollable leave) for professional staff on direct assurance, consulting, and advisory services
- b. Complete an internal self-assessment and report annually on the results of the Quality Assurance and Improvement Program

Goal 2: Develop and Implement Internal Audit Annual Audit Plan based on Formal Risk Assessment

Performance Measures

- a. Prepare an annual audit plan based on a documented risk assessment and obtain input from trustees and staff
- b. Execute 80% of audit and agreed-upon procedures projects (80% allows for flexibility due to changes in TRS business practices and special requests)
- c. Prepare a formal reporting entity risk assessment to identify reporting entities for audit.

Goal 3: Enhance Internal Audit Staff Skills and Knowledge in Emerging Risks and Controls with Emphasis on Information Technology, Investment and Health Care

Performance Measures

- a. Enhance staff knowledge of services provided to the Investment Management Division by visiting one TRS asset manager or service provider
- b. Engage a service provider for conducting or co-sourcing health care audits

Internal Audit Goals and Performance Measures, continued

Goal 4: Deliver Value-Added Consulting and Advisory Activities

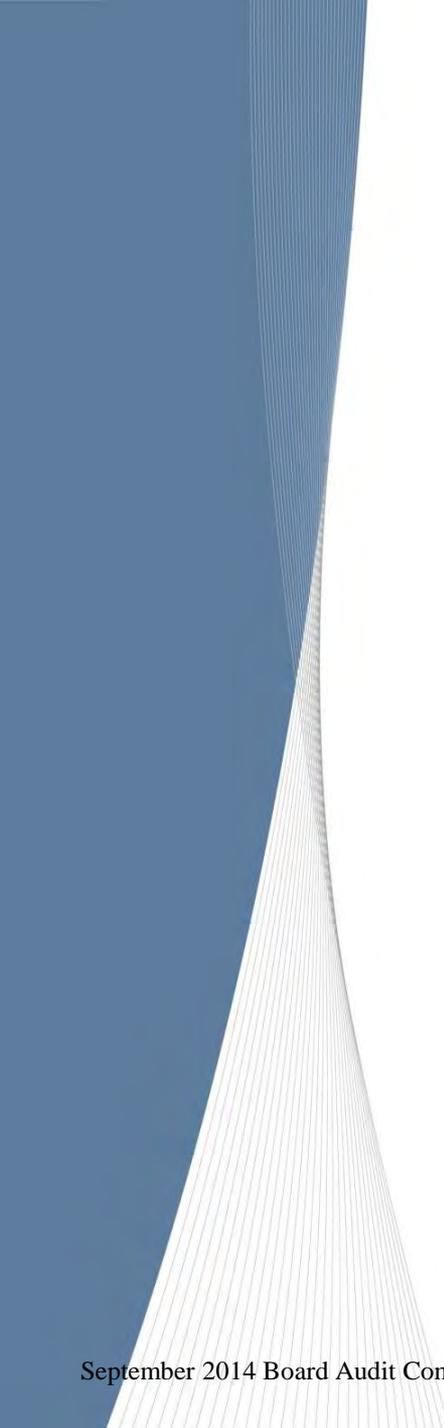
Performance Measures

- a. 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
- b. Facilitate timely completion and success of State Auditor's Office (SAO) audits in fiscal year 2015 by effectively providing audit support, coordinating meetings, reserving facilities and gathering schedule and documentation requests

Goal 5: Enhance Participation in Professional and Peer Organizations

Performance Measures

- a. Participate in professional organizations (APPFA, IIA, ISACA, ACFE, SIAIF, CFA Institute) through monthly chapter meetings and participate in leadership roles in at least two of the professional organizations
- b. Support staff in obtaining additional certifications including the CFA, CPA, and CIA certifications and have a minimum of two staff seek additional professional certifications in fiscal year 2015



Appendix C

Audit Universe

Audit Universe

Executive and Finance Divisions; Records Management		
Governance, strategy, and risk management		
Board governance (FY13)	Workforce Continuity	
Strategic planning and performance measures (FY13)	Employee recruiting and hiring practices (FY10)	Accounting & Reporting
Enterprise Risk Management	Employee training compliance (FY11)	
Information technology governance (FY10)	Internal policy setting and monitoring	
Open Government	Communications and External Relations	
Open meetings compliance	Social media	Budget
Open records request compliance	Information and communication	
403(b)		
Ethics and Fraud Prevention	403(b) certification process	Purchasing and Contracts
Employee ethics policies (FY13)	Records Management	
Fraud risk detection and prevention controls (FY14)	Records retention - paper (FY11)	Vendor file, encumbrance, purchasing (FY14)
Regulatory, Compliance, & Litigation	Records retention - electronic	Contract administration and monitoring (FY14)
Compliance: Pension Trust (FY14)	Accounting & Reporting	
Compliance: Health Care Trusts (FY13)	Financial/CAFR reporting including, new accounting pronouncements, reconciliations, general ledger, closing process (FY13)	Contract worker onboarding, monitoring and compliance (FY14)
Litigation risk management	Other reporting (non-financial / CAFR)	HUB program compliance and reporting
Business Continuity	Employee leave, timekeeping, and payroll (FY12)	Facilities and Facilities Planning
Business continuity plan (FY09)	Cashier (FY10)	Facility planning and maintenance
Risk management (health and safety, insurance) (FY12)		Mail room operations (FY10)
		Security (FY12)
		Government Relations and Legislation

IMD Processes	
Governance - IMD	
	Investment Governance and Management (FY14)
IMD Processes	
	Internal Public Markets (FY14)
	External Public Markets (FY14)
	Private Equity (FY12)
	Real Assets (FY12)
	Trade Management (FY14)
	Emerging Manager Program (FY13)
	Energy/Natural Resources (ENR) (FY14)
	Strategic Partners (FY14)
	Strategic Asset Allocation/Stable Value (FY14)
	Tactical Asset Allocation (FY13)
	Risk Management (FY12)
	Performance Analytics and Operations (FY14)
	Information Systems (FY12)
	Business Center, Reporting, and HR (FY12)
	Investment Accounting (FY12)

(FY #) - indicates last year audited

Audit Universe

Benefits and Customer Service	
Pension Benefit Administration	Pension Benefit Administration and Customer Service
1099R	Statistical reporting (actuarial) (FY10)
Annuity payroll (FY14)	Web self service
Benefit adjustments (FY14)	Work flow (Imaging)
Benefit calculations (FY14)	TRS employee benefit administration (administered separately from non-TRS employees)
Benefit estimates	
Cash receipts (FY10)	Telephone Counseling Center (FY14)
Check payments (FY14)	
Contact management	Employer Reporting
Death benefits (FY13)	Employer setup, enrollment, and reporting (FY14)
Disability benefits (FY13)	Health Care Administration
Legal orders (FY13)	TRS-Care vendor selection and contract monitoring (FY13)
Member account maintenance (FY09)	TRS-Care TRS Administration (FY13)
Member statements	TRS-ActiveCare vendor selection and contract monitoring
Optional Retirement Plan	TRS-ActiveCare TRS Administration
Refunds (FY14)	Retiree Health Care Funding
Retirement application process	TRS-Care Finance (FY10)
Retirement system transfer	TRS-ActiveCare Sustainability
Service credit calculation and purchase	TRS-ActiveCare Finance (FY10)

Information Technology (IT) Processes and TEAM	
Governance - IT	IT Processes
Project prioritization (FY10)	Change & Configuration Management
IT risk management	Applications (FY12)
IT Strategy & Planning	Databases
Asset management	Infrastructure
Human resources	Data Center Operations
IT Security and Confidentiality	Archive management (FY13)
Identity and access management (FY14)	Facilities management (TAC202) (FY12)
Threat and vulnerability management (FY13)	Technology Management
Security awareness and training (FY11)	Standards
Security configuration management	Technology upgrades
Virtualization	User and Vendor Support
Cloud based computing (FY14 Consulting)	Problem management
Mobile device security (FY14 Consulting)	Incident response
Disaster Recovery Plan	
Co-location (FY14 Consulting)	
Disaster Recovery Management (FY09)	
TEAM	
Independent Program Oversight (FY14)	
Internal Controls Assessment	

(FY #) - indicates last year audited

Teacher Retirement System of Texas

Internal Audit Annual Report for Fiscal Year 2014

Budget Hours for Fiscal Year 2015 Audit Plan Projects

As part of our annual audit plan development, we establish estimated budgets and timelines for completing assurance, consulting, advisory, and administrative projects. This information is used internally as project management tools and is not published in the annual audit plan. The chief audit executive (CAE) and audit managers review the status of scheduled projects on an ongoing basis throughout the fiscal year. The CAE must approve changes to scheduled audit projects.

The status of each audit plan project as well as projects added during the year is published quarterly in the TRS Board Audit Committee board books. The Audit Committee reviews these status reports in the quarterly Audit Committee meetings.

Projects Related to Expenditure Transfers, Capital Budget Controls, or any other limitation or restriction in the General Appropriations Act

TRS does not have any projects planned related to expenditure transfers, capital budget controls, or any other limitation or restriction in the General Appropriations Act.

2015 - 2019

TRS' Internal Audit Strategic Plan



Looking Towards the Future

*Trusted Assurance,
Trusted Assurance,
Valued Advice
Valued Advice*

TRS INTERNAL AUDIT STRATEGIC PLAN FY2015 – 2019

Our Mission

The mission of the Internal Audit department is to provide independent, objective assurance and consulting services designed to add value and improve the organization's operations. Internal Audit helps the organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Our Vision

We strive to provide ***trusted assurance and valued advice*** through our services to the Board of Trustees, the Audit Committee, and executive management:

- 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 Stakeholders

One of our priorities is to assess key stakeholder expectations, identify gaps, and implement a comprehensive strategy for improvement. Our primary stakeholders include:

- TRS Board of Trustees, and the Board Audit Committee
- Executive Director
- Executive Management

TRS INTERNAL AUDIT STRATEGIC PLAN FY2015 – 2019

STRATEGIC GOALS

Our four strategic goals were developed to ensure that Internal Audit supports the changing needs of TRS' stakeholders in achieving business goals and objectives. These goals represent a strategy for enhancing our contribution to the TEAM Program success, supporting effective Audit Committee governance processes, improving internal audit business expertise, and integrating TRS core values into internal audit processes.

- Goal 1 Assist with the Success of the TRS Enterprise Modernization Application (TEAM) Program
- Goal 2 Support Audit Committee Governance
- Goal 3 Enhance Internal Audit Staff's Competence and Expertise in Support of TRS Risk Management, Control, and Governance Processes
- Goal 4 Support Agency Culture Initiatives

The **table** on the following pages identifies the objectives and related strategies and tactics for each goal.

TRS INTERNAL AUDIT STRATEGIC PLAN FY2015 – 2019

GOAL 1: ASSIST WITH THE SUCCESS OF THE TRS ENTERPRISE APPLICATION MODERNIZATION (TEAM) PROGRAM	
Objective 1: Facilitate independent oversight for Board and external oversight agencies	
Strategy	Tactics
S1. Provide contract oversight and monitoring of Independent Program Assessment (IPA) vendor	T1: Obtain deliverables, schedule required meetings, and approve invoices for payment T2: Monitor hours incurred and contract performance
S2. Coordinate communication process between IPA vendor and key stakeholders	T1: Obtain and address feedback from stakeholders and IPA regarding communications process and access requests T2: Clarify audit's role relating to IPA in Internal Audit Charter update
S3. Coordinate with State Auditor's Office (SAO) for testing of Financial System Replacement (FSR) software application for financial and other future audits	T1: Participate in status update and key decision-making meetings on FSR T2: Communicate documentation requirements for SAO future audits T3: Review sufficiency of documentation in preparation for SAO future audits
Objective 2: Provide input and assistance during development and implementation of TRUST (new Benefits system)	
Strategy	Tactics
S1. Define involvement in TEAM program related to TRUST system	T1: Participate in TEAM committees and other activities, as requested, and ensure Internal Audit (IA) role is stated clearly in TEAM documents such as project charters T2: Allocate resources in annual audit plan to provide coverage of significant committees and projects activities T3: Participate in review of documents by established TEAM deadlines
S2. Assist management in evaluating key <u>internal</u> controls incorporated in TRUST system and business processes	T1: Allocate/schedule IA resources in annual audit plan T2: Obtain list of key controls from management where assistance in validation is desired T3: Assist management in evaluating selected key controls, participate in controls testing, review test results and follow-up on test exceptions T4: Formally communicate observations from testing participation to project management
S3. Assist management in evaluating key <u>security</u> controls incorporated in TRUST system and business processes	T1: Allocate/schedule IA resources in annual audit plan T2: Obtain list of key security controls from management where assistance in validation is desired T3: Assist management in evaluating selected key security controls, participate in controls testing, review test results, and follow-up on test exceptions T4: Formally communicate observations from testing participation to project management

TRS INTERNAL AUDIT STRATEGIC PLAN FY2015 – 2019

Objective 3: Use TRUST in future audits	
Strategy	Tactics
S1. Obtain training on using TRUST	T1: Coordinate with Business Process Managers (BPMs) to ensure Internal Audit (IA) training needs are identified and scheduled T2: Allocate/schedule IA resources in annual audit plan for TEAM training T3: Augment IA TEAM training with internal meetings as needed by IA Subject Matter Experts T4: Maintain IA repository for “training” documents as a permanent file for future use
S2. Utilize data analytics and continuous auditing	T1: Participate in TEAM program requirements gathering and detailed reviews to ensure that the TRUST system has the capability of providing data to perform data analysis T2: Based on knowledge obtained from training, identify potential new data analytic tests in the TRUST system T3: Incorporate data analytics and continuous auditing into projects associated with TRUST system
Objective 4: Provide input during development and implementation of the Financial System Replacement (FSR) software application	
Strategy	Tactics
S1. Define involvement in TEAM program related to the FSR software application	T1: Participate in TEAM committees and other activities, as requested, and ensure Internal Audit (IA) role is stated clearly in TEAM documents such as project charters T2: Allocate resources in annual audit plan to provide coverage of significant committees and projects activities T3: Participate in review of documents by established TEAM deadlines
S2. Assist management in evaluating key internal controls incorporated in the FSR software application and business processes	T1: Allocate/schedule IA resources in annual audit plan T2: Obtain list of key controls from management where assistance in validation is desired T3: Assist management in evaluating selected key controls, participate in controls testing, review test results and follow-up on test exceptions T4: Formally communicate observations from testing participation to project management
S3. Assist management in evaluating <u>security</u> controls incorporated in the FSR software application and business processes	T1: Allocate/schedule IA resources in annual audit plan T2: Obtain list of key security controls from management where assistance in validation is desired T3: Assist management in evaluating selected key security controls, participate in controls testing, review test results, and follow-up on test exceptions T4: Formally communicate observations from testing participation to project management

TRS INTERNAL AUDIT STRATEGIC PLAN FY2015 – 2019

Objective 5: Use FSR software application in future audits	
Strategy	Tactics
S1. Obtain training on using new FSR software application	T1: Coordinate with Business Process Managers (BPMs) to ensure Internal Audit (IA) training needs are identified and scheduled T2: Allocate/schedule IA resources in annual audit plan for TEAM training T3: Augment IA TEAM training with internal meetings as needed by IA Subject Matter Experts T4: Maintain IA repository for “training” documents as a permanent file for future use
S2. Utilize data analytics and continuous auditing	T1: Participate in TEAM program requirements gathering and detailed reviews to ensure that the FSR application has the capability of providing data to perform data analysis T2: Based on knowledge obtained from training, identify potential new data analytic tests in the FSR application T3: Incorporate data analytics and continuous auditing into projects associated with the FSR application
GOAL 2: SUPPORT AUDIT COMMITTEE GOVERNANCE	
Objective 1: Provide assurance to the Audit Committee and executive management on risk mitigation activities related to the pension and healthcare trusts	
Strategy	Tactics
S1. Conduct assurance activities relating to the completeness and accuracy of Reporting Entity information submitted to TRS	T1: Conduct audits and investigations of Reporting Entities as requested or as scheduled on the annual audit plan based on an objective risk assessment T2: Conduct internal audits of controls maintained by TRS or its vendors over completeness and accuracy of Reporting Entity data T3: Communicate to Reporting Entities regarding issues found during audits via presentations, the TRS website, and direct communication T4: Coordinate with the SAO to facilitate their audit of the TRS financial statements and with other interested organizations conducting reporting entity audits T5: Monitor changes in auditing requirements of professional organizations and the SAO
S2. Provide assurance on investment risk mitigation activities	T1: Issue an overall opinion annually on the effectiveness of internal controls relating to investment activities for the past three years T2: Test investment compliance, cash transfers, and ethics controls quarterly T3: Continuously monitor changes to the investment environment by analyzing investment data, attending important meetings, reading relevant documents, utilizing consultants, networking, attending relevant training, and maintaining certifications

TRS INTERNAL AUDIT STRATEGIC PLAN FY2015 – 2019

Strategy	Tactics
S3. Provide assurance on health care risk mitigation activities	T1: Stay current on legislative changes impacting TRS health plans and associated risks T2: Utilize TRS and vendor health care risks assessments to develop a reasonable and flexible approach for performing routine audits of the health care trusts T3: Procure health care expertise to execute risk-based audit plans, if needed T4: Obtain training for dedicated Internal Audit staff on health care risks and compliance requirements
S4. Coordinate with Enterprise Risk Management (ERM) on risk assessment activities	T1: Enhance collaboration with ERM through regular meetings and information sharing T2: Utilize risk assessments developed by management through the ERM program as the basis of the annual audit plan T3: Provide feedback after each audit to ERM about the completeness of management's risk assessments for future consideration T4: Participate in internal Risk Oversight Committee meetings
Objective 2: Improve Internal Audit communication	
Strategy	Tactics
S1. Refine report format of Internal Audit reports and Audit Committee materials	T1: Review current materials for possibilities for improvement T2: Survey Audit Committee members and management on report format and incorporate feedback T3: Review other entities' presentations for ideas
S2. Improve delivery of information	T1: Survey Audit Committee and management for improvement on delivery of information and incorporate feedback T2: Identify and participate in public speaking training/opportunities T3: Maintain Internal Audit intranet and internet sites
Objective 3: Provide information on effective Audit Committee practices	
Strategy	Tactics
S1. Obtain and provide information to the Audit Committee on best practices of audit committees	T1: Designate a portion of the spring meeting to Audit Committee education during legislative session years T2: Provide Audit Committee orientation to new trustees
S2. Consider using Audit Committee self-evaluation tool	T1: Present and explore concept of self-evaluation with the Audit Committee chair T2: Develop a self-evaluation tool for consideration by the Audit Committee chair
S3. Explore sharing governance resources through Diligent	T1: Meet with Diligent owner to discuss ideas and potential resources T2: Discuss idea of sharing information with the Audit Committee chair

TRS INTERNAL AUDIT STRATEGIC PLAN FY2015 – 2019

Objective 4: Improve governance on fraud awareness, prevention, and detection activities	
Strategy	Tactics
S1. Develop fraud detection activities	T1: Document standard procedures for Internal Audit fraud investigations T2: Provide input into updates to the TRS Fraud Policy T3: Provide assistance in investigations as formally requested T4: Incorporate control tests in assurance projects to ensure controls are there to prevent or timely detect unusual “fraud” red flag activity
S2. Improve fraud awareness and prevention program	T1: Administer the TRS Fraud and Ethics Hot Line, including updating promotional materials
GOAL 3: ENHANCE INTERNAL AUDIT STAFF’S COMPETENCE AND EXPERTISE IN SUPPORT OF TRS RISK MANAGEMENT, CONTROL, AND GOVERNANCE PROCESSES	
Objective 1: Cultivate in-house Subject Matter Experts	
Strategy	Tactics
S1. Deepen knowledge of TRS laws (federal and state), rules, and internal policies	T1: Pilot new auditor rotation into operational functions T2: Participate in internal training in business units T3: Hold lunch-and-learn knowledge transfers sessions at audit meetings T4: Analyze other audit reports and share best practices identified in those reports T5: Leverage knowledge transfer from contractors
S2. Broaden foundational skills in data analytics	T1: Prepare and present training programs (e.g., Audit Command Language, Microsoft Access, Computer-Aided Audit Tools) to Internal Audit (IA) staff T2: Add a project scoping step in TeamMate to include data analytics on every project T3: Identify data analytics mentors for IA staff T4: Attend and apply external data analysis training in projects
Objective 2: Ensure continued competence and expertise of Internal Audit	
Strategy	Tactics
S1. Develop workforce continuity plans	T1: Work with Human Resources to develop a continuity plan for Internal Audit (IA) T2: Establish a cross training policy within IA T3: Participate in the TRS Leadership Development Program

TRS INTERNAL AUDIT STRATEGIC PLAN FY2015 – 2019

GOAL 4: SUPPORT AGENCY CULTURE INITIATIVES	
Objective 1: Integrate TRS Core Values into Internal Audit activities	
Strategy	Tactics
S1. Explore opportunities and methods to tie audit findings into TRS core values	T1: Recognize Internal Audit and client actions that demonstrate TRS core values T2: Identify in audit activities when positive findings directly demonstrate a TRS core value
S2. Integrate TRS Core Values into IA policies and procedures	T1: Incorporate TRS core values into the internal Ethics and Fraud Hot Line materials T2: Update job descriptions and performance evaluations to include TRS core values (Human Resources led initiative)

VII. External Audit Services

Teacher Retirement System of Texas
Internal Audit Annual Report for Fiscal Year 2014

External Audit Services Procured in Fiscal Year 2014

External Audit Services Procured by Internal Audit	Provided by	Report Date
Comprehensive Annual Financial Report (CAFR) – Fiscal Year 2013	State Auditor’s Office	11/15/2013

External Audit and Consulting Services Procured by Internal Audit for Internal Audit Projects	Provided by	Report Date
Follow-Up Audit of Telephone Counseling Center Performance Measures	Myers and Stauffer LC	3/05/2014
Overall Internal Control Opinion on Investment Activities (includes periodic status reports)	Lenox Park LLC	11/21/13 3/5/14 5/16/14 9/3/14
TRS Information Security Follow-Up Audit	Myers and Stauffer LC	9/19/2014

External Audit Services Procured by TRS	Provided by	Report Date
TRS-Care Service Providers	Sagebrush Solutions, LLC	10/17/2014

VIII. Reporting Suspected Fraud and Abuse

Teacher Retirement System of Texas

Internal Audit Annual Report for Fiscal Year 2014

VIII. Reporting Suspected Fraud and Abuse

TRS has taken the following actions to implement the fraud detection and reporting requirements of Section 7.09 of the General Appropriations Act and Section 321.022 of the Texas Government Code:

- Adopted in January 2006, *TRS Fraud, Waste, and Abuse Policy* established a fraud, waste, and abuse prevention awareness program that includes employee training and guidelines for reporting suspected fraud, waste, and abuse. Key elements of the policy include definitions, covered acts, reporting procedures of detected or suspected fraud, waste, or abuse, detection and investigation, awareness training, and corrective action.
- The TRS Internet site includes the contact number of the State Auditor's Office Hotline and a link for reporting instructions.
- Links are available on the TRS intranet for both the State Auditor's Office Hotline and the TRS Internal Fraud and Ethics Hotline.
- In compliance with the reporting requirement of fraud, waste, and abuse, TRS reports all instances of suspected fraud, waste, and abuse to SAO.

TAB 7B

**TRS Internal Audit
Summary of Audit Recommendations Status
November 2014**

Project	Recommendation	Status	Issue Type	Estimated Date	Revised / Actual Date
12-403 Audit of Compensation, Payroll and Position Control					
	Develop and implement a written procedures manual for payroll	Implemented	Other Reportable	4/2013	10/2014
13-602 Fraud Risk Identification and Prevention Audit*					
	Benefit Accounting - Improve system access reviews to ensure access privileges remain current with job duties	Implemented	Significant	12/2013	12/2013
	Benefit Processing - Improve system access reviews to ensure access privileges remain current with job duties and are appropriately balanced between the need for cross-training staff and the need for restricted access to limit opportunity for fraud	Implemented	Significant	12/2013	9/2013
14-104 Refunds of Inactive and Dormant Accounts*					
	Fraud , Waste, and Abuse Policy (FWAP) refresher training needs to occur for existing employees as required by policy	In Progress	Significant	12/2014	
	Benefit Accounting department should assess risk and control options for enhancing account safeguards and decreasing the risk of fraudulent account refunds	In Progress	Significant	2/2015	

*A follow-up audit is included in the Audit Plan for Fiscal Year 2015.

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 <i>original</i> <u>or</u> 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 <i>original</i> <u>or</u> 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
November 2014**

Project	Recommendation	Status	Issue Type	Estimated Date	Revised / Actual Date
14-104 Refunds of Inactive and Dormant Accounts* (continued)					
	Benefit Processing department should assess risk and control options for enhancing account safeguards and decreasing the risk of fraudulent account refunds	In Progress	Significant	2/2015	
	Assign staff to review the MR6020 District 000A Transfer Error List	In Progress	Significant	2/2015	
	Written procedures need to be updated	In Progress	Other Reportable	2/2015	
	Research the underlying cause for the secondary verification process not always working as intended	In Progress	Other Reportable	2/2015	
14-301 FY 2014 Overall IMD Internal Control Opinion					
	The ENR team should tailor the manager and investment certification questionnaires to address ENR-specific topics	In Progress	Other Reportable	2/2015	
	The ENR team should explore leveraging consultants and expanding consultant coverage to obtain additional services and reporting	In Progress	Other Reportable	8/2015	
14-401 Purchasing and Contract Administration					
	<p>TRS' Contract Administration Manual revision process should ensure:</p> <ul style="list-style-type: none"> ➤ revisions are made by a coordinated workgroup across various TRS departments ➤ the competitive selection process is well defined and new procedures are inclusive of various procurement processes ➤ new procedures include a clear process for documenting the justification and approval for all exceptions 	In Progress	Other Reportable	9/2015	
	TRS' Contract Administration Manual should have a coaching component for all contract sponsors, their designees, and anyone involved in procurement at TRS. Coaching should be provided to the Board and include information regarding fiduciary responsibility and TRS fiduciary obligation.	In Progress	Other Reportable	12/2015	
	TRS' Contract Administration Manual should have a monitoring component to ensure compliance with the revised Contract Administration Manual and a method for follow-up and/or escalation of non-compliance.	In Progress	Other Reportable	9/2015	

**TRS Internal Audit
Summary of Audit Recommendations Status
November 2014**

Project	Recommendation	Status	Issue Type	Estimated Date	Revised / Actual Date
	The Purchasing Department should update written procedures to match current and new processes	In Progress	Other Reportable	10/2015	
	Financial Services management should work with Legal Services to improve control over who is authorized to obligate TRS during purchasing or contracting activities	In Progress	Other Reportable	2/2015	
	Improve central contract files to include all necessary documentation and train purchasing staff and contract sponsors on these requirements. Implement an escalation process to ensure required documentation is provided to the owner of the contract file.	In Progress	Other Reportable	12/2014	
	Update TRS record retention schedules to clearly define who the official record holders are for all contracts and related documentation.	In Progress	Other Reportable	2/2015	

14-605 Internal Audit Self-Assessment

Project	Recommendation	Status	Issue Type	Estimated Date	Revised / Actual Date
	Follow guidelines for policies and procedures	Implemented	Best Practice	10/2014	
	Create policy to comment on sufficiency of management's response	Implemented	Significant	10/2014	
	Establish procedure for audits terminated before completion	Implemented	Best Practice	10/2014	

TAB 8

Teacher Retirement System of Texas
NOVEMBER 2014 Audit Committee Agenda Items Mapped to TRS Stoplight Report

403(b)	<i>Accounting & Reporting</i> Agenda Item 2	Active Health Care Sustainability	Budget	Business Continuity
Communications & External Relations	Credit	Customer Service	<i>Employer Reporting</i> Agenda Item 3	Ethics & Fraud Prevention
Facilities Planning	Governmental/ Association Relations & Legislation	Health Care Administration	<i>Information Security & Confidentiality</i> Agenda Items 5, 6	Investment Accounting
<i>Investment Operations</i> Agenda Item 4	Legacy Information Systems	Liquidity/Leverage	Market	<i>Open Government</i> Agenda Items 7, 8
Pension Benefit Administration	Pension Funding	Purchasing & Contracts	Records Management	Regulatory, Compliance & Litigation
Retiree Health Care Funding	TEAM Program	Workforce Continuity		

Status of Fiscal Year 2015 Planned Assurance, Consulting, and Advisory Services as of November 2014

Title and Project #	Type	Status
Executive		
University of Texas Students' Projects (15-606A)	Consulting	
Internal Ethics and Fraud Hotline Administration	Advisory	Ongoing
Meetings Participation	Advisory	Ongoing
Special Requests	Advisory	
TEAM Program		
Payables Audit (15-403)	Audit	In Progress
Actuarial Data Controls (14-402)	Audit	
Reporting Entity Audits and Investigations (15-401)	Audit	In Progress
Business Process Analysis of Activities Involving Multiple Departments (15-404)	Consulting	
TRS Reporting Entity Website Audit Information	Advisory	Complete
State Auditor's Office (SAO) Financial (CAFR) Audit Coordination	Advisory	In Progress
Meetings Participation	Advisory	Ongoing
Special Requests and Surprise Inspections	Advisory	
TEAM Program		
TEAM Program Internal Controls Assessment (15-601)	Advisory	
TEAM Independent Program Assessment (IPA) Vendor Support	Advisory	Ongoing
TEAM Committees and TEAM Projects Participation	Advisory	Ongoing
Pension Benefits		
Follow-Up Audit on Significant Findings of Prior Benefits Audits (15-102)	Audit	
Benefits Testing for State Auditor's Office (SAO) Audit of Comprehensive Annual Financial Report (CAFR) (15-100)	Audit	Complete
Semi-Annual Benefits Testing (11-501)	Agreed-Upon Procedures	
Health Care		
Health Care Audit Services Review	Consulting	
Health Care Vendor Selection Observation	Advisory	
Health Care Vendor Update Meetings	Advisory	Ongoing

Status of Fiscal Year 2015 Planned Assurance, Consulting, and Advisory Services as of November 2014

Title and Project #	Type	Status
Information Technology		
Electronic Records (15-501)	Audit	
Cloud Computing, Mobile Device Security, Co-Location/Disaster Recovery, IT Security	Consulting and Advisory	In Progress
Network Penetration Test; Security Risk Assessment Review	Advisory	
Technology Committees Meeting Participation	Advisory	Ongoing
Investment Management		
Overall Internal Control Opinion on Investment Activities (includes periodic status reports) (15-301)	Audit	In Progress
Quarterly Investment Compliance and Ethics Policies Testing (15-302)	Agreed-Upon Procedures	1st Quarter Complete
Emerging Risks Reviews	Advisory	
Incentive Compensation Plan Review	Advisory	
Investment Committees Attendance	Advisory	Ongoing
Internal Audit Department		
Annual Internal Audit Report (15-603)	Audit	Complete
Quarterly Audit Recommendations Follow-up	Audit	Ongoing
Internal Quality Assurance Review	Advisory	
Fiscal Year 2016 Audit Plan	Advisory	
Internal Audit Vendor Request for Qualifications (RFQ) – Health Care Audits	Advisory	
Audit Committee Meetings Preparation	Advisory	Ongoing

Fiscal Year 2015 Internal Audit Advisory Services¹ September 2014 – November 2014

BENEFIT SERVICES
TEAM PROJECT PARTICIPATION <ul style="list-style-type: none"> • Executive Steering Committee • Budget Committee • Data Management Project • Decommissioning Project (including development of advisory guide on risks and controls related to back bridging) • Organizational Change Management Advisory Group • Business Procedures and Training Project • Detailed Level Requirements Gathering – Refunds, Member Account Maintenance, General Line of Business • Internal Control Project Development (including development of guidance for considering internal controls in the LOB project) • Monthly meetings with TEAM Project Manager • Core Management Team: Standing Prioritization Review Meeting • Independent Program Assessment Vendor Coordination and Support
HEALTH BENEFITS
<ul style="list-style-type: none"> • Health Plan Administrator (HPA) and Pharmacy Benefit Manager (PBM) Vendor Quarterly Update Meeting Participation
INVESTMENTS
<ul style="list-style-type: none"> • Internal Investment Committee (IIC) Attendance • Internal Public Markets (IPM) Performance Analysis Meeting Participation for Incentive Pay Plan • Bi-weekly meetings with the Senior Compliance Specialist
FINANCIAL SERVICES
<ul style="list-style-type: none"> • Coordination of State Auditor’s Office on the Audit of TRS’ Fiscal Year 2014 Comprehensive Annual Financial Report and plan for GASB 67 and 68 including AICPA guidance • Financial System Replacement (FSR) Weekly Meetings Participation
EXECUTIVE
<ul style="list-style-type: none"> • State Auditor’s Office Quarterly Update Meetings Coordination and Support • Hot Line Call Facilitation • Social Media Committee • Executive Requests
INFORMATION TECHNOLOGY (IT)
<ul style="list-style-type: none"> • Enterprise Security Team Participation • Co-Location Service Team Participation • Cloud Computing Committee Participation • IT Information Security Program Follow-up Audit Project Coordination: ERM Data Protection Project • Mobile Devices Security Consulting Project Coordination

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 2015
1st Quarter Ending November 30, 2014**

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 80% for the first quarter of fiscal year 2015	On Task
2. Complete an internal self-assessment and report annually on the results of the Quality Assurance and Improvement Program.	Internal self-assessment is scheduled for 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.	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 assurance and agreed-upon procedures projects are on schedule and assigned to staff	On Task
5. Prepare a formal reporting entity risk assessment to identify reporting entities for audit.	Internal Audit staff is currently preparing a formal risk assessment to identify reporting entities to audit this fiscal year.	On Task
Goal 3: Enhance Internal Audit Staff Skills and Knowledge in Emerging Risks and Controls with Emphasis on Information Technology, Investment and Health Care		
6. Enhance staff knowledge of services provided to the Investment Management Division by visiting one TRS asset manager or service provider	Open – to be scheduled	On Task
7. Engage a service provider for conducting or co-sourcing health care audits	Open – to be scheduled	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	On Task

**Internal Audit Goals and Performance Measures - Fiscal Year 2015
1st Quarter Ending November 30, 2014**

Target Performance	Activity	Status
9. Facilitate timely completion and success of State Auditor's Office (SAO) audits in fiscal year 2015 by effectively providing audit support, coordinating meetings, reserving facilities and gathering schedule and documentation requests.	Internal Audit staff is currently providing audit and coordination support.	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 participate in leadership roles in at least two of the professional organizations	The CAE is secretary for APPFA and IT Audit Manager is the web administrator for APPFA. One audit manager is on the Board of Governors for the Austin Chapter of the IIA. Participation in professional organizations is ongoing.	On Task
11. Support staff in obtaining additional certifications including the CFA, CPA, and CIA certifications and have a minimum of two staff seek additional professional certifications in fiscal year 2015.	Two staff members are currently preparing for professional certifications exams.	On Task

Legend: Target Status

- Target not achieved
- Behind in achieving target
- On task to achieve target
- Achieved target

Internal Audit Staff Quarterly Accomplishments

- Hugh Ohn, Nick Ballard, and Amy Barrett attended the Association of Pension Fund Auditors (APPPFA) Conference and gave a presentation on issuing an overall investment opinion based on COSO.
- Karen Morris, Art Mata, Dinah Arce, and Amy Barrett gave presentations at TASBO conferences in Dallas, San Antonio, and Frisco, Texas as well at Educational Service Center 1 in Edinburg, Texas.
- Internal Audit launched an Employer Audit webpage on the TRS Website that includes information and guidance on upcoming employer audits including self-audit tools. Art Mata led the webpage project with assistance from Karen Morris, Dinah Arce, and Toma Miller of Internal Audit as well as TRS Communications staff and SharePoint Administrators. The employer self-audit project was led by Karen Morris and assisted by Dorvin Handrick, Art Mata, and Lih-Jen Lan of Internal Audit, Legal Services' assistant general counsels, and Benefit Accounting Employer Reporting team.
- Lih-Jen Lan attended the 2014 TeamMate User Forum Conference.
- Art Mata attended the 11th Annual Public Pension Financial Forum P2F2 conference.
- Lih-Jen Lan has assumed the role of web administrator for the Association of Pension Fund Auditors (APPPFA).