



# TRS Risk Management Committee



December 2012

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**TEACHER RETIREMENT SYSTEM OF TEXAS MEETING  
BOARD OF TRUSTEES  
AND  
RISK MANAGEMENT COMMITTEE**

*(Mr. McDonald, Committee Chair; Mr. Barth; Ms. Charleston; Mr. Kelly; & Mr. Moss, Committee Members)*

**AGENDA**

**December 13, 2012 – 10:30 a.m.  
TRS East Building—Boardroom**

1. Consider approval of the proposed minutes of the September 13, 2012 committee meeting – Eric McDonald
2. Receive Risk Manager's Report – Jay LeBlanc
3. Receive report on the Enterprise Risk Management Program, including the status of action items from prior reports, and an update on the risk management activities relating to the Pension Funding, TEAM Program, Retiree Health Care, and Health Care Administration risk categories – Michelle Pagán

NOTE: The Board of Trustees (Board) of the Teacher Retirement System of Texas will not consider or act upon any item before the Risk Management Committee (Committee) at this meeting of the Committee. This meeting is not a regular meeting of the Board. However, because a quorum of the Board may attend the Committee meeting, the meeting of the Committee is also being posted as a meeting of the Board out of an abundance of caution.

**Tab 1**



## Minutes of the Risk Management Committee

September 13, 2012

The Risk Management Committee of the Board of Trustees of the Teacher Retirement System of Texas met on September 13, 2012 in the boardroom located on the fifth floor of the TRS East Building offices at 1000 Red River Street, Austin, Texas. The following committee members were present:

Eric McDonald, Chair  
Todd Barth  
Karen Charleston  
David Kelly  
Chris Moss

A quorum of the committee was present. Others present:

Joe Colonna, TRS Trustee	Howard Goldman, TRS
Anita Palmer, TRS Trustee	Amy Barrett, TRS
Nanette Sissney, TRS Trustee	Jay LeBlanc, TRS
Brian Guthrie, TRS	Patricia Cantú, TRS
Ken Welch, TRS	Susanne Gealy, TRS
Britt Harris, TRS	Michelle Pagán, TRS
Conni Brennan, TRS	Sylvia Bell, TRS
Dr. Keith Brown, Investment Advisor	Dennis Gold, TRS
Steve Huff, Reinhart Boerner Van Deuren	Hugh Ohn, TRS
Brady O'Connell, Hewitt EnnisKnupp	Angela Vogeli, TRS
Steve Voss, Hewitt EnnisKnupp	Denise Lopez, TRS
Jerry Albright, TRS	Lynn Lau, TRS
Jase Auby, TRS	Dan Herron, TRS
Noel Sherman, TRS	Philip Mullins
David Veal, TRS	John Claisse, Albourne America

Mr. McDonald called the meeting to order at 1:07 p.m.

**1. Consider the approval of the proposed minutes of the June 7, 2012 committee meeting – Committee Chair.**

On a motion by Mr. Moss, seconded by Mr. Barth, the committee approved the minutes of the June 7, 2012 meeting as presented.

**2. Review the Investment Risk Report – Jase Auby.**

Mr. Auby presented the investment risk report as of June 30, 2012. He reported that the asset allocation, Value at Risk (VaR), tracking error, leverage, counterparty risks, derivatives, and liquidity were in full compliance with the Investment Policy Statement. He provided information detailing compliance with each of those policies. Presenting the counterparty

exposure, Mr. Auby noted that Morgan Stanley had been downgraded to the BAA1 level by Standard and Poor's (S&P). He stated that staff continued to monitor TRS' exposure to Morgan Stanley. He confirmed for Dr. Brown that the exposure to Morgan Stanley was all on a short-term basis and quite low on a notional basis. Mr. Auby also noted that staff was closely monitoring six counterparties that were currently at risk of being downgraded by S&P.

Mr. Auby concluded that the trust's overall VaR had increased by 0.2 percent from the first quarter of 2012 to the second quarter of 2012, in which the trust-level VaR was lower than that of the trust benchmark (8.8 percent versus 9.0 percent).

The meeting was adjourned at 1:48 p.m.



Tab 2

# **Risk Manager's Report**

Jay LeBlanc

# State of ERM

- More organizations are implementing ERM programs
- Established ERM programs are maturing
- Public Pension Fund participation is increasing



**Risk management is everyone's responsibility**

## ERM Frameworks/Models

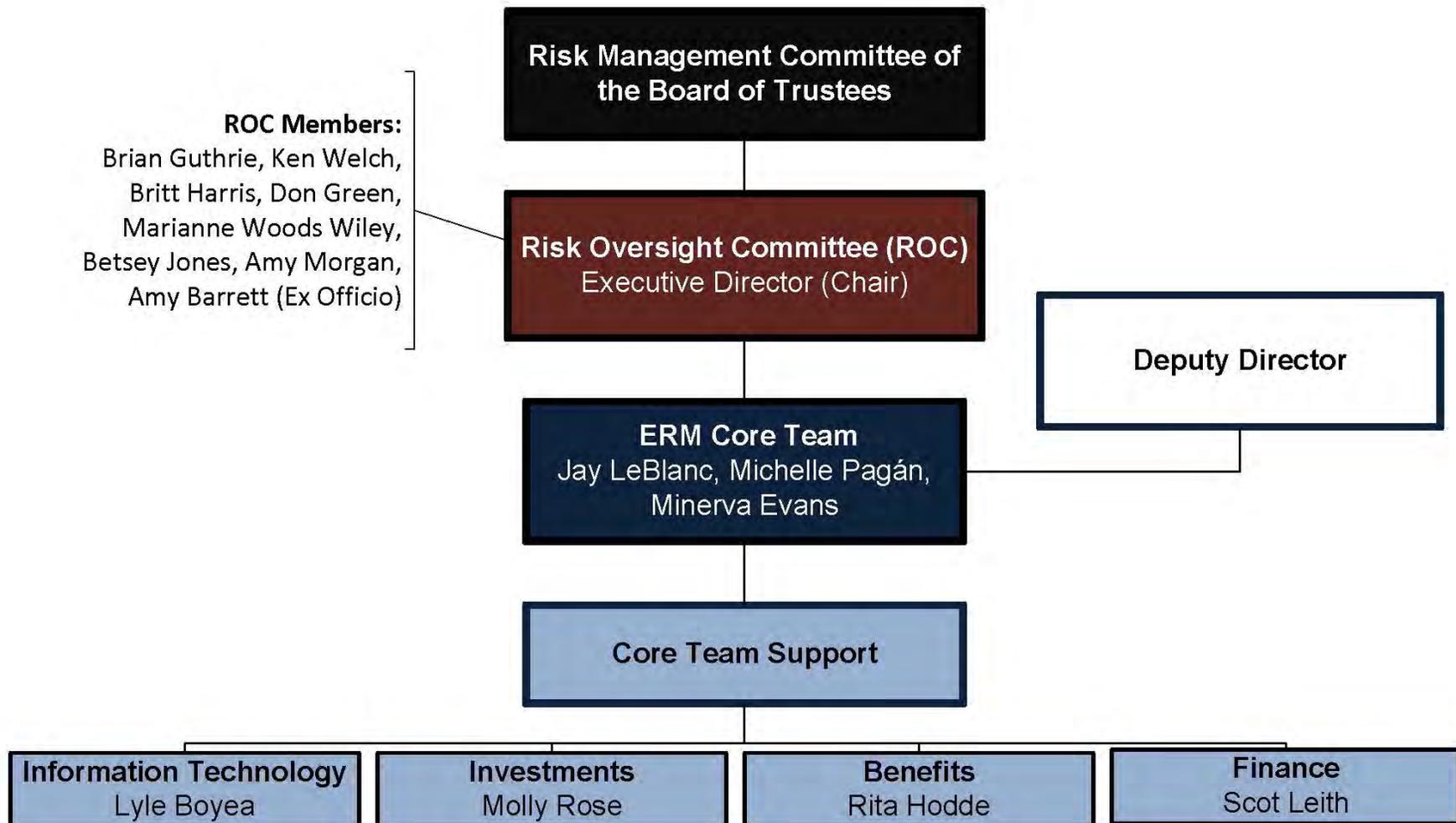
Two frameworks/models help us standardize the way risks are assessed, categorized, and prioritized across the organization.

- RIMS – The Risk and Insurance Management Society, Inc. (RIMS) is a professional association for risk management professionals dedicated to advancing the practice of risk management.
- ISO – The International Organization for Standardization (ISO) is an international standard-setting body composed of representatives from various national standards organizations. ISO 31000 provides generic guidelines for the design, implementation, and maintenance of risk management processes throughout an organization.

# ERM/Risk Definitions

- **RIMS** defines **Enterprise Risk Management (ERM)** as a strategic business discipline that supports the achievement of an organization's objectives by addressing the full spectrum of its risks and managing the combined impact of those risks as an interrelated risk portfolio. ERM represents a significant evolution beyond previous approaches to risk management in that it:
  1. Encompasses all areas of organizational exposure to risk (financial, operational, reporting, compliance, governance, strategic, reputational, etc.);
  2. Prioritizes and manages those exposures as an interrelated risk portfolio rather than as individual "silos";
  3. Evaluates the risk portfolio in the context of all significant internal and external environments, systems, circumstances, and stakeholders;
  4. Recognizes that individual risks across the organization are interrelated and can create a combined exposure that differs from the sum of the individual risks;
  5. Provides a structured process for the management of all risks, whether those risks are primarily quantitative or qualitative in nature;
  6. Views the effective management of risk as a competitive advantage; and
  7. Seeks to embed risk management as a component in all critical decisions throughout the organization.
  
- **ISO 31000:2009** defines **risk** as *the effect of uncertainty on objectives*, whether positive or negative. It provides generic guidelines for the design, implementation, and maintenance of risk management processes throughout an organization.

# TRS' ERM Structure



# Risk Assessments

- Risk assessments completed in the following risk areas since June 2012 board meeting:
  - Pension Funding
  - TEAM Program
  - Retiree Health Care
  - Health Care Administration

## Teacher Retirement System of Texas Enterprise Risk Inventory - 2012

ENTERPRISE		OPERATIONS	FINANCE	INVESTMENTS
<b>Pension Funding</b>	Communications & External Relations	Pension Benefit Administration	General Accounting & Reporting	Investment Operations
<b>Retiree Health Care</b>	Governmental/Association Relations	Health Care Administration	Budget	Investment Reporting
<b>Workforce Continuity</b>	<b>TEAM</b>	403(b)	Employer Reporting	Market
Governance	Legacy Information Systems	Customer Service	<b>Procurement &amp; Contract Management</b>	Credit
Business Continuity	Information Security	Tax Qualification Status		Liquidity/Leverage
Fraud Prevention & Detection	<b>Confidential Information</b>			
Records Management				

Tab 3

# **Enterprise Risk Management Program**

Michelle Pagán

# Risk Assessments



The risk categories in the “Spotlight” this quarter include: Pension Funding, TEAM, Retiree Health Care, and Health Care Administration.

## Pension Funding

- **Goal:** Sustain a financially sound pension trust fund.
- **Risk:** Absent sound funding for the plan could lead to insufficient assets to pay for long-term benefits and financial obligations.

## TEAM

- **Goal:** Implement cost effective, efficient, and sustainable processes and systems that enable TRS to serve its members, employers, and annuitants.
- **Risk:** System design, implementation, and functionality of the new processes and systems do not meet the growing demands of TRS in service of its members. Program/project implementation schedule and cost exceeds original estimates.

## Retiree Health Care

- **Goal:** Facilitate long-term soundness of TRS-Care in order to pay retiree health care costs.
- **Risk:** Inadequate funding would affect solvency of the program over the next biennium, requiring significant premium increases or benefit reductions.

## Health Care Administration

- **Goal:** Administer a retiree and active member health care program that is responsive to and valued by enrollees.
- **Risk:** Inadequate administration of the health care programs could possibly affect the health of those who depend on the delivery of the TRS health care services.



# Spotlight - Pension Funding

## Notable Risks

- Inadequate contribution rate over long-term
- Significant changes in plan structure increase unfunded liability
- Long-term investment returns below 8%



## Mitigations

- Conducted TRS *Pension Benefit Design Study*
- Requested exceptional item increase to contribution rate in Legislative Appropriations Request (LAR)
- Annual actuarial valuation
- Report & monitor investment performance quarterly
- Perform asset allocation & asset liability modeling studies at least every 5 years



## Action Items/ Monitoring Activities

- Report Fiscal Year 2012 Actuarial Valuation to TRS Board of Trustees in December 2012
- Update & report Actuarial Valuation as of February 28, 2013
- Ongoing monitoring of legislation



# Spotlight – TEAM

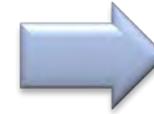
## Notable Risks

- Conflicting priorities between existing work and TEAM Program related assignments
- Decisions not made timely
- Lack of resources (staff)
- Internal TRS Program Management structure operating inefficiently
- Lack of staff acceptance



## Mitigations

- Prioritize & reallocate workload
- Project management
- Action and decision logs
- Meeting minutes
- Weekly reviews & meetings
- Risk assessments
- Spotlight on TEAM communication initiative



## Action Items/ Monitoring Activities

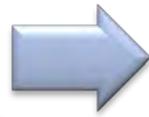
- Discuss TEAM project issues & decision due dates/milestones with the Core Management Team (CMT) routinely
- Implement staffing plan
- Development of Request For Offer (RFO) for Line of Business (LOB) vendor
- Revise Program Charters
- Planning organizational change management activities
- Independent Project Assessment (IPA) vendor selection in progress



# Spotlight – Retiree Health Care

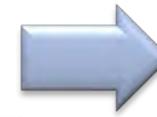
## Notable Risks

- Change in legislative policy direction
- Changes in Medicare
- Changes in state funding
- Incorrect assumptions for cost trends, population, payroll growth, etc., and underestimate liabilities when setting premium rates
- Legislative coverage mandates



## Mitigations

- Conducted *TRS-Care Sustainability Study*
- Assessed alternative options under Medicare Part D
- Offering Medicare Advantage and Medicare Part D plans based on eligibility
- Rebid existing pharmacy benefit manager contract
- Active communication with legislators & retirees
- TRS board has the authority to change benefits and/or premiums at any time



## Action Items/ Monitoring Activities

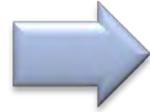
- Continuous monitoring & analysis of actual experience & trends to ensure adequate funding for a minimum two-year cycle
- Contract/vendor monitoring
- Provider network campaign
- Monitoring opt-outs
- Continue to communicate with retirees on TRS-Care plan changes



# Spotlight – Health Care Administration

## Notable Risks

- Change in legislative policy direction
- Inadequate information systems
- Reliance on external vendors (i.e., violation of contract terms, vendor/provider fraud, limited vendor competition)
- Unauthorized release of confidential information



## Mitigations

- Proposed legislation reviewed by TRS analyst
- Active communication with legislators
- Information Technology solutions
- Contract/vendor monitoring
- Financial performance penalties, suspension, & termination
- Business Associate Agreements under HIPAA



## Action Items/ Monitoring Activities

- Ongoing contract/vendor monitoring

# Conclusion

- Risks identified for the categories in the spotlight this quarter:
  - Do not pose an immediate threat to meeting TRS goals and objectives, and
  - Action items and current mitigations in place are expected to trend the risks down.
- Due to the inherent risks associated with technology system implementation:
  - TEAM continues to be on our high risk radar, and
  - Monitoring and routine follow-up with risk owners will help to ensure emerging risks are identified, assessed, and tracked until they are mitigated to management's satisfaction.



# APPENDIX

- A. TRS Spotlight Report
- B. Risk Report Details

## APPENDIX A – TRS Spotlight Report

Teacher Retirement System of Texas 2012 Spotlight Report		
Risk Category	Goal	Summary of Activities
1 Pension Funding	Sustain a financially sound pension trust fund.	In August 2012, TRS submitted a Legislative Appropriations Request for a baseline state contribution rate of 6.4% with an exceptional item that the state rate be increased incrementally by 0.5% per year to a rate of 6.9% in fiscal year 2014 and 7.4% in fiscal year 2015. In September 2012, completed the pension sustainability study.
2 Retiree Health Care	Facilitate long-term soundness of TRS-Care in order to pay retiree health care costs.	Funding projections for TRS-Care indicated that a shortfall of \$800 million could occur in the 2014-2015 biennium. To proactively respond to this issue, the Texas Legislature directed TRS to conduct a study to evaluate potential plan design options and other modifications to sustain the future funding for TRS-Care. The <i>TRS-Care Sustainability Study</i> was issued on September 1, 2012. Immediate initiatives taken to address the overall risk included: rebidding the existing pharmacy benefit manager contract, assessing alternative options under Medicare Part D, and offering Medicare Advantage and Medicare Part D plans based on eligibility. The study concluded that many options exist for TRS-Care to remain solvent in the future, whether the options are implemented individually or in combination. TRS recommends that the Legislature consider implementing any one or a multiple of options to take effect in fiscal year 2014.
3 TEAM	Implement cost effective, efficient, and sustainable processes and systems that enable TRS to serve its members, employers, and annuitants.	<ul style="list-style-type: none"> <li>• TRS Project Management Office gathered information regarding staff availability for the TEAM Program from each department.</li> <li>• Human Resources Director hired a staff member with an organizational change management background to begin the Change Management Project.</li> <li>• Project charters have been developed for the Reporting Entity Outreach, Data Management, and Business Rules projects. CMT and ESC charters are being reviewed and updated to provide a clearer definition of the roles and responsibilities of each group.</li> <li>• Reporting Entity Outreach and Data Management project risk assessments are complete.</li> <li>• A Communications Sub-Committee was formed to include three CMT members, Communications, and Human Resources to focus on specific targeted communications for TRS staff and TRS members.</li> </ul>
4 Workforce Continuity	Preserve valued institutional knowledge, and ensure a skilled, capable, and motivated workforce is maintained to execute TRS' functions.	Three risks related to turnover, knowledge transfer, and compliance were previously identified for this risk category and reported at the June 2012 Risk Management Committee of the Board of Trustees. A new risk related to performance management has been added this quarter. The Leadership Development Program is well underway. Participants are meeting routinely and working on projects to enhance TRS programs. Project presentations are planned for January 2013. A graduation ceremony for program participants is planned for February 2013.
5 Confidential Information	Protect confidential information and ensure compliance with applicable laws and rules.	Developed an online form to capture electronic signatures for web-based training participation. Web-based training for confidentiality/HIPAA is close to completion. Individual specialized departmental training for staff accessing HIPAA information is planned for development. Ten departments have re-certified their departmental information inventory; collected one additional inventory from new department within the Investment Management Division.
6 Procurement & Contract Management	Maintain effective procurement and contract management systems.	Effective risk mitigations, monitoring controls, and segregation of duties are currently in place. Additional oversight is ongoing to ensure these mitigations are maintained over the course of the TEAM Program initiative.

# APPENDIX B - Risk Report Details

## PENSION FUNDING RISK REPORT

**GLOBAL OWNER**

**REPORTING DATE**

Brian Guthrie

12/2012

### GOAL

### OVERALL RISK

Sustain a financially sound pension trust fund.

Absent sound funding for the plan could lead to insufficient assets to pay for long-term benefits and financial obligations.

### OBJECTIVES

- To manage an actuarially sound retirement system that maintains an amortization period of less than 31 years.
- Develop and implement an investment policy and alpha capability capable of achieving a long-term rate of return of 8 percent.
- Develop and maintain a sound, professional, and systematic risk management and capital allocation system.
- Create and maintain a highly capable and diversified external network of global investment, trading, and consulting relationships.

### SUMMARY OF ACTIVITIES

In August 2012, TRS submitted a Legislative Appropriations Request for a baseline state contribution rate of 6.4% with an exceptional item that the state rate be increased incrementally by 0.5% per year to a rate of 6.9% in fiscal year 2014 and 7.4% in fiscal year 2015. In September 2012, completed the pension sustainability study.

### RISK DETAILS

Risk/Risk Driver	Mitigations	
1. Actual benefit payouts over the long-term exceed actuarial assumptions	<ul style="list-style-type: none"> <li>▪ Review liabilities annually to assess financial status of the fund</li> <li>▪ Conduct periodic experience studies to ensure that assumptions are still reasonable</li> <li>▪ Verify that actual benefit payments are accurate</li> </ul>	<ul style="list-style-type: none"> <li>▪ Ensure quality of actuary (Request for Offer process, board selection)</li> <li>▪ Ensure all new benefit changes are properly costed</li> <li>▪ Obtain actuarial audit every 5 years</li> </ul>
2. Long-term investment returns below 8.0%	<ul style="list-style-type: none"> <li>▪ Report and monitor investment performance on a quarterly basis</li> </ul>	<ul style="list-style-type: none"> <li>▪ Actively manage fund assets both internally and externally to add value over passive benchmarks</li> </ul>

TRS Spotlight Category

## PENSION FUNDING RISK REPORT

Risk/Risk Driver	Mitigations	
	<ul style="list-style-type: none"> <li>▪ Independent general investment consultant verifies returns</li> <li>▪ Perform asset allocation studies and asset liability modeling (ALM) studies at least every 5 years and position portfolio accordingly</li> </ul>	<ul style="list-style-type: none"> <li>▪ Maintain a dedicated risk management and monitoring team within Investment Management Division</li> <li>▪ Perform tactical allocation adjustments periodically for short-term changes to the market</li> </ul>
3. Inadequate contribution rate over the long-term	<ul style="list-style-type: none"> <li>▪ Verify the “Actuarially Required Contribution” (ARC) rate annually</li> <li>▪ Work with the Texas Legislature to obtain adequate contribution rates</li> </ul>	<ul style="list-style-type: none"> <li>▪ Communicate regularly with stakeholders regarding the contribution rates</li> <li>▪ Monitor legislation</li> </ul>
4. Significant changes in plan structure that increase unfunded liability (e.g., moving to a 401(K) type plan for new hires)	<ul style="list-style-type: none"> <li>▪ Educate and communicate with stakeholders regarding impact of potential changes</li> </ul>	<ul style="list-style-type: none"> <li>▪ Conducted benefit design study</li> </ul>

Action Item	Target Date	Status	Comments
Fiscal Year 2012 Actuarial Valuation as of August 31, 2012	12/2012	In Progress	Valuation will be reported to the Board in December 2012.
Actuarial Valuation update as of February 28, 2013	3/2013	Planned	Valuation update will be reported to the Board in April 2013.

Monitoring Activities	
Key Mitigations	Monitored By
Review liabilities annually to assess financial status of the fund (Actuarial Valuation) (Risk 1)	Executive Director
Conduct periodic experience studies (Risk 1)	Executive Director
Report and monitor investment performance on a quarterly basis (Risk 2)	Chief Investment Officer
Perform asset allocation studies and asset liability modeling (ALM) studies at least every 5 years and position portfolio accordingly (Risk 2)	Chief Investment Officer
Verify the Actuarially Required Contribution (ARC) rate (Risk 3)	Executive Director
Work with the Texas Legislature to obtain adequate contribution rates (Risk 3)	Executive Director

TRS Spotlight Category

# TEAM RISK REPORT

**GLOBAL OWNER**

**REPORTING DATE**

Ken Welch

12/2012

## GOAL

## OVERALL RISK

## OBJECTIVE

Implement cost effective, efficient, and sustainable processes and systems that enable TRS to serve its members, employers, and annuitants.

System design, implementation, and functionality of the new processes and systems do not meet the growing demands of TRS in service of its members. Program/project implementation schedule and cost exceeds original estimates.

Implement modern pension and benefit information systems that allow TRS staff to serve our members and deliver accurate benefits effectively and timely by August 2016.

## SUMMARY OF ACTIVITIES

- TRS Project Management Office gathered information regarding staff availability for the TEAM Program from each department.
- Human Resources Director hired a staff member with an organizational change management background to begin the Organizational Change Management Project.
- Project charters have been developed for the Reporting Entity Outreach, Data Management, and Business Rules projects. Core Management Team (CMT) and Executive Steering Committee (ESC) charters are being reviewed and updated to provide a clearer definition of the roles and responsibilities of each group.
- Reporting Entity Outreach and Data Management project risk assessments are complete.
- A Communications Sub-Committee was formed to include three CMT members, Communications, and Human Resources to focus on specific targeted communications for TRS staff and TRS members.

## RISK DETAILS

Risk/Risk Driver	Mitigations	
1. Conflicting priorities between existing work and TEAM Program related assignments	<ul style="list-style-type: none"> <li>▪ Prioritize workload</li> <li>▪ Communication</li> </ul>	<ul style="list-style-type: none"> <li>▪ Reallocate workload</li> </ul>
2. Decisions not made timely	<ul style="list-style-type: none"> <li>▪ Program/Project management</li> <li>▪ Action/decision logs</li> </ul>	<ul style="list-style-type: none"> <li>▪ Weekly status updates</li> <li>▪ Escalate issues if needed</li> </ul>
3. Lack of resources (staff)	<ul style="list-style-type: none"> <li>▪ TRS/TEAM staffing plans</li> <li>▪ Prioritize workload</li> </ul>	<ul style="list-style-type: none"> <li>▪ Program/project milestones</li> </ul>

TRS Spotlight Category

## TEAM RISK REPORT

Risk/Risk Driver	Mitigations	
4. Internal TRS Program Management structure operating inefficiently	<ul style="list-style-type: none"> <li>▪ Weekly CMT and ESC meetings</li> <li>▪ Committee assignments</li> <li>▪ Status reports</li> </ul>	<ul style="list-style-type: none"> <li>▪ Decision log</li> <li>▪ Effective communication</li> </ul>
5. Inaccurate planning estimates	<ul style="list-style-type: none"> <li>▪ Obtain estimates</li> <li>▪ Periodic reassessments and communication</li> </ul>	<ul style="list-style-type: none"> <li>▪ Weekly status meetings</li> <li>▪ Research vendors and other pensions funds</li> </ul>
6. Failure to manage change and scope	<ul style="list-style-type: none"> <li>▪ Change control process</li> </ul>	
7. Lack of staff acceptance	<ul style="list-style-type: none"> <li>▪ Vendor demonstrations</li> <li>▪ Staff involvement</li> </ul>	<ul style="list-style-type: none"> <li>▪ Spotlight on TEAM communications to TRS staff</li> </ul>
8. Internal Fraud (i.e., requirements favor a specific vendor that staff or a board member may have a relationship with)	<ul style="list-style-type: none"> <li>▪ Open evaluation process</li> <li>▪ Assessment and valuation by committee</li> <li>▪ Fraud hotline</li> </ul>	<ul style="list-style-type: none"> <li>▪ Ethics Policy and training</li> <li>▪ Open records process</li> <li>▪ Open meetings act</li> </ul>

Action Item	Target Date	Revised	Status	Comments
Reallocation of duties (Risk 1)	8/2012		Complete	Business process managers identified for Benefits, Active Membership, and Financial. CMT has reallocated duties to others within their departments. Project teams and business rules teams are shifting duties to accommodate TEAM priorities. The process is now in place and therefore this will be an ongoing mitigation. Action item closed.
Include standing agenda item on the weekly ESC meeting agenda to discuss TEAM project issues and decision due dates/milestones with the CMT (Risk 2)	3/2013		In Progress	New action item to take a proactive communication approach to further mitigate the risk of decisions not being made timely, and to ensure that any needed decisions are recorded on the decision log for a timely response.
Assign accountability for action items related to timely decisions (Risk 2)	8/2012		Complete	Action and decision logs are in place; CMT and ESC members are reviewing logs at each meeting. Decisions may need more research prior to taking action on them. However, where applicable, accountability has been assigned. The process is now in place and therefore this will be an ongoing mitigation. Action item closed.

TRS Spotlight Category

## TEAM RISK REPORT

Action Item	Target Date	Revised	Status	Comments
Implement staffing plan (Risk 3)	10/2012	11/2012	In Progress	CMT provided input to the staffing plan. The plan will be refined based on input from vendors. Project Management Office (PMO) staff continues to work on collecting data about the project team staffing time for current duties and time that will be spent on the TEAM Program. That information will be used to focus on staffing needs for the Financial System Replacement.
Development of Request for Offer (RFO) for Line of Business (LOB) vendor (Risk 3)	8/2012	11/2012	In Progress	The first RFO draft is complete and was sent to the ESC and CMT for review. The final document is expected to be complete in November 2012. The RFO will be issued in February 2013.
Participate in the Intern Program (Risks 1 & 3)	8/2012		Complete	As TRS continues to participate in the student intern program, the TEAM Program will use interns where applicable. The process is now in place and will be an ongoing mitigation. Action item closed.
Develop teams for reporting entity outreach program (Risk 4)	12/2012		Complete	Charter approved and team members assigned; refer to the TEAM Repository for information. Action item closed.
Revise Program Charters (Risk 4)	12/2012		In Progress	As the Program begins to mature, revisions to the charters for the ESC and CMT are necessary to specify roles and responsibilities.
Vendor demonstrations and estimate cost for the Independent Project Assessment (IPA) (Risk 5)	8/2012		Complete	RFO is complete and responses are due back to TRS.
Communicate, monitor and enforce the change control process (Risk 6)	12/2012		Complete	PMO reviews all deliverables to assure completion and provide oversight. PMO will continue to review deliverables and accept or reject. The process is now in place and will be an ongoing mitigation. Action item closed.
Planning organizational change management project (Risk 7)	9/2012	1/2013	In Progress	Project sponsor assigned to Janet Bray, Human Resources (HR) Director. HR now has an organizational change management expert on staff and planning is underway for organizational change management activities.

## TEAM RISK REPORT

Action Item	Target Date	Revised	Status	Comments
Risk assessments at the program and project level will continue (All risks)	12/2012		Complete	The ERM program is involved with identifying risks and mitigations. Risk assessments are conducted at individual project inception and periodically reviewed and reported to the Risk Oversight Committee. The process is now in place and considered an ongoing mitigation. Action item closed.

Monitoring Activities			
Key Mitigations	Monitored By	Monitoring Process	Comments
Project management	Program & Project Manager	Minimum weekly program/project meeting to review all risk and mitigation plan updates with the Program/Project Manager and Sponsor. The PMO will meet with Project Managers regularly to ensure project consistency. As new projects begin, they will utilize the Service Request Process to help ensure that resources are better tracked.	A project sponsor and project manager is assigned to each project; this has been effective to manage the various concurrent projects.
Action and decision logs	ESC, CMT, Program & Project Manager	Documented action and decisions are received and reviewed weekly by ESC, CMT, and Program & Project Manager.	Logs provide documented support and quick reference for actions and decisions made that impact a project or the program. Separate logs are in place for the ESC, CMT, and individual projects. Project-level logs are part of the weekly status report.
Meeting minutes	ESC, CMT, Program & Project Manager	Meeting agenda, minutes, and decisions are documented and sent out for review. These are available in the TEAM Repository for all staff.	Minutes are reviewed by all participants and formally approved during meetings. These are an effective communication tool and also provide background and validation of actions taken and decisions made during project meetings.
Weekly reviews	Project Sponsor	Project Manager works with Project Sponsor regarding the reviewing, monitoring, and updating of the risks on the status reports. Project Sponsor reports risks and issues to the CMT and ESC.	Reassessing the list of risks on the status reports is completed as needed; issues or changes are communicated to the CMT or ESC. The drop dead lead time date is monitored to ensure the key risk is mitigated.

TRS Spotlight Category

## TEAM RISK REPORT

Monitoring Activities			
Key Mitigations	Monitored By	Monitoring Process	Comments
Risk assessments	ERM Team, Project Sponsor, Program & Project Manager	Risk assessments are conducted and tracked on the risk log. Results are shared with ESC, CMT, Project Sponsor, and Program & Project Manager.	As projects begin, risk assessments are conducted. Team members review the risks and mitigations for addition to the risk log. The Financial System Replacement and the Reporting Entity Outreach projects are in progress, and the Enterprise Security project is scheduled.

# RETIREE HEALTH CARE RISK REPORT

**GLOBAL OWNER**

**REPORTING DATE**

Betsey Jones

12/2012

## GOAL

## OVERALL RISK

## OBJECTIVE

Facilitate long-term soundness of TRS-Care in order to pay retiree health care costs.

Inadequate funding would affect solvency of the program over the next biennium, requiring significant premium increases or benefit reductions.

Manage the revenues, expenses, and benefits of TRS-Care in a way that contributes to its long-term sustainability.

## SUMMARY OF ACTIVITIES

Funding projections for TRS-Care indicated that a shortfall of \$800 million could occur in the 2014-2015 biennium. To proactively respond to this issue, the Texas Legislature directed TRS to conduct a study to evaluate potential plan design options and other modifications to sustain the future funding for TRS-Care. The *TRS-Care Sustainability Study* was issued on September 1, 2012. Immediate initiatives taken to address the overall risk included: rebidding the existing pharmacy benefit manager contract, assessing alternative options under Medicare Part D, and offering Medicare Advantage and Medicare Part D plans based on eligibility. The study concluded that many options exist for TRS-Care to remain solvent in the future, whether the options are implemented individually or in combination. TRS recommends that the Legislature consider implementing any one or a multiple of options to take effect in fiscal year 2014.

## RISK DETAILS

Risk/Risk Driver	Mitigations
1. Change in legislative policy direction	<ul style="list-style-type: none"> <li>▪ Proposed legislation reviewed by TRS analyst</li> <li>▪ Alternatives identified in <i>TRS-Care Sustainability Study</i></li> <li>▪ Fiscal notes prepared</li> <li>▪ Active communication with legislators and stakeholders</li> </ul>
2. Changes in Medicare	<ul style="list-style-type: none"> <li>▪ Monitor any changes and/or reductions</li> <li>▪ Change benefits</li> <li>▪ Monitor opt-outs</li> <li>▪ Adjust premiums</li> <li>▪ Seek emergency funding</li> </ul>
3. Changes in state funding	<ul style="list-style-type: none"> <li>▪ Change benefits</li> <li>▪ Adjust premiums</li> <li>▪ Seek emergency funding</li> </ul>
4. Funding shortage	<ul style="list-style-type: none"> <li>▪ Change benefits</li> <li>▪ Adjust premiums</li> <li>▪ Continuous monitoring to ensure adequate funding for a minimum two-year cycle</li> </ul>

TRS Spotlight Category

## RETIREE HEALTH CARE RISK REPORT

Risk/Risk Driver	Mitigations	
	<ul style="list-style-type: none"> <li>▪ Seek emergency funding</li> </ul>	<ul style="list-style-type: none"> <li>▪ Provider network campaign</li> </ul>
5. Incorrect assumptions for cost trends, population, payroll growth, etc. Underestimate liabilities when setting premium rates.	<ul style="list-style-type: none"> <li>▪ Continuous monitoring and analysis of actual experience and trends to ensure adequate funding for a minimum two-year cycle</li> <li>▪ Maintain contingency reserves</li> </ul>	<ul style="list-style-type: none"> <li>▪ Change benefits</li> <li>▪ Adjust premiums</li> <li>▪ Seek emergency funding</li> </ul>
6. Catastrophic claims	<ul style="list-style-type: none"> <li>▪ Request emergency appropriation from legislature</li> </ul>	<ul style="list-style-type: none"> <li>▪ Seek provider discounts</li> </ul>
7. Legislative coverage mandates	<ul style="list-style-type: none"> <li>▪ Monitor proposed legislation</li> <li>▪ Change benefits</li> <li>▪ Active communication with legislators and stakeholders</li> </ul>	<ul style="list-style-type: none"> <li>▪ Adjust premiums</li> <li>▪ Seek emergency funding</li> </ul>
8. Violation of contract terms by vendors, vendor/provider fraud, limited vendor competition	<ul style="list-style-type: none"> <li>▪ Use reputable vendors</li> <li>▪ Robust procurement process</li> <li>▪ External independent claims audits</li> <li>▪ Obtain and review SSAE 16 reports</li> <li>▪ Continuous vendor monitoring and monthly reporting</li> <li>▪ Quarterly vendor meetings</li> <li>▪ Performance guarantees and financial penalties, suspension, or termination</li> <li>▪ Healthcare consultants vendor disaster recovery plan</li> </ul>	<ul style="list-style-type: none"> <li>▪ Continuous claims monitoring to identify anomalies</li> <li>▪ Large \$ claims audit by internal staff</li> <li>▪ Third-party verification (independent healthcare consultants and auditors)</li> <li>▪ Customer satisfaction surveys</li> <li>▪ Confidentiality agreements</li> <li>▪ Signed code of conduct statements</li> <li>▪ Alert management</li> </ul>
9. Internal Fraud	<ul style="list-style-type: none"> <li>▪ Management/supervisor oversight and review</li> <li>▪ Restricted or limited file/system access</li> <li>▪ Secured storage</li> <li>▪ Attend fraud and/or ethics training</li> <li>▪ Documented policies and procedures</li> <li>▪ Audit trails</li> <li>▪ Monthly review and audit of databases</li> </ul>	<ul style="list-style-type: none"> <li>▪ Back-up data</li> <li>▪ Separation of duties</li> <li>▪ Alert management</li> <li>▪ Criminal background checks</li> <li>▪ Make staff aware of issues/consequences</li> <li>▪ Secondary review and verification</li> <li>▪ Internal system controls</li> <li>▪ Fraud hotlines (SAO, internal)</li> </ul>

## RETIREE HEALTH CARE RISK REPORT

Action Item	Target Date	Status	Comments
None at this time			

Monitoring Activities		
Key Mitigations	Monitored By	Monitoring Process
Continuous monitoring and analysis of actual experience and trends to ensure adequate funding for a minimum two-year cycle (Risk 5)	Gabriel, Roeder, Smith (GRS), TRS staff, Aetna, Express Scripts International (ESI)	<ol style="list-style-type: none"> <li>1. Claims data is submitted monthly to GRS and projections are updated based on actual experience.</li> <li>2. Quarterly vendor meetings to review plan experience.</li> <li>3. Quarterly fluctuation analysis to detect any abnormal activity/cost trend.</li> </ol>
Contract/vendor monitoring (Risk 8)	TRS staff and GRS	Independent external audits, quarterly/annual vendor reviews, and other periodic ad hoc reports.
TRS board has the authority to change benefits and/or premiums at any time (Risks 2, 3, 4, 5, & 7)	TRS staff and GRS	TRS staff makes recommendation to board on at least an annual basis.

# HEALTH CARE ADMINISTRATION RISK REPORT

**GLOBAL OWNER**

**REPORTING DATE**

Betsey Jones

12/2012

GOAL	OVERALL RISK	OBJECTIVE
Administer a retiree and active member health care program that is responsive to and valued by enrollees.	Inadequate administration of the health care programs could possibly affect the health of those who depend on the delivery of the TRS health care services.	Provide health care benefits in compliance with the statutory requirements for TRS-Care and TRS-Active Care while providing coverage that is comparable to other Texas governmental health plans.

## RISK SUMMARY

Risks identified for this category relate to legislative policy direction, information systems, reliance on external vendors, confidential information, compliance, staffing, and ineligibility. Based on current mitigations in place, there are no action items this quarter. A key mitigation noted for this category is contract and vendor monitoring by TRS staff and Gabriel, Roeder, Smith (GRS).

## RISK DETAILS

Risk/Risk Driver	Mitigations	
1. Change in legislative policy direction	<ul style="list-style-type: none"> <li>▪ Proposed legislation reviewed by TRS analyst</li> </ul>	<ul style="list-style-type: none"> <li>▪ Active communication with legislators</li> <li>▪ Fiscal notes prepared</li> </ul>
2. Inadequate information systems	<ul style="list-style-type: none"> <li>▪ Rely on IT for solutions</li> </ul>	
3. Reliance on external vendors (i.e., violation of contract terms, vendor/provider fraud, limited vendor competition)	<ul style="list-style-type: none"> <li>▪ Financial performance penalties, suspension, or termination</li> <li>▪ Independent healthcare consultants and auditors</li> <li>▪ Monthly reporting</li> <li>▪ Quarterly meetings</li> </ul>	<ul style="list-style-type: none"> <li>▪ Warnings, suspensions, or termination of contract</li> <li>▪ Contractual performance penalties</li> <li>▪ Vendor disaster recovery plan</li> <li>▪ Rely on vendor controls</li> <li>▪ Replace vendor</li> </ul>
4. Unauthorized release of confidential information	<ul style="list-style-type: none"> <li>▪ Business Associate Agreements under HIPAA</li> <li>▪ Require vendors to report monthly any unauthorized release of information</li> </ul>	<ul style="list-style-type: none"> <li>▪ Utilize secure email</li> <li>▪ Unique member identifiers</li> <li>▪ Documented policies and procedures</li> <li>▪ Confidentiality agreements/policy</li> </ul>

TRS Spotlight Category

## HEALTH CARE ADMINISTRATION RISK REPORT

Risk/Risk Driver	Mitigations	
	<ul style="list-style-type: none"> <li>▪ Sign code of conduct statement</li> <li>▪ Obtain TRS-628 (HIPAA) form</li> <li>▪ Limited disclosure of confidential information on documents</li> </ul>	<ul style="list-style-type: none"> <li>▪ Request changes in writing</li> <li>▪ Member notifications</li> <li>▪ Required annual training on HIPAA</li> </ul>
5. Failure to comply with laws/rules/regulations/policies and procedures	<ul style="list-style-type: none"> <li>▪ Departmental policies and procedures</li> <li>▪ Maintain and access copy of laws/rules</li> <li>▪ Weekly staff meeting</li> <li>▪ Periodic staff training</li> <li>▪ Ethics training</li> </ul>	<ul style="list-style-type: none"> <li>▪ Access to vendors' policies/procedures</li> <li>▪ Annual compliance statement</li> <li>▪ Escalate issues</li> <li>▪ Consult with co-workers</li> <li>▪ Review laws</li> </ul>
6. Inadequate staffing and resources (i.e., succession planning)	<ul style="list-style-type: none"> <li>▪ Departmental policies and procedures</li> <li>▪ Employee job descriptions</li> <li>▪ Cross-training</li> <li>▪ Prioritize workload/activities</li> </ul>	<ul style="list-style-type: none"> <li>▪ Hire temps</li> <li>▪ Share work</li> <li>▪ Flexible project teams</li> </ul>
7. Ineligible participants due to reliance on districts to determine eligibility (TRS-Active Care)	<ul style="list-style-type: none"> <li>▪ Designated district benefit administrators (BA)</li> <li>▪ Restricted/secure access by BAs to vendors' enrollment systems</li> <li>▪ TRS provides eligibility guidelines to BAs</li> </ul>	<ul style="list-style-type: none"> <li>▪ Districts have financial incentive to be accurate and timely</li> <li>▪ BA must verify eligibility by signature for each enrollee</li> </ul>

Action Item	Target Date	Status	Comments
None at this time			

Monitoring Activities		
Key Mitigation	Monitored By	Monitoring Process
Contract/vendor monitoring (Risk 3)	TRS staff and GRS	Quarterly/annual vendor reviews and other periodic ad hoc reports

# WORKFORCE CONTINUITY RISK REPORT

**GLOBAL OWNER**

**REPORTING DATE**

Janet Bray

12/2012

## GOAL

## OVERALL RISK

## OBJECTIVES

Preserve valued institutional knowledge, and ensure a skilled, capable, and motivated workforce is maintained to execute TRS' functions.

Lack of effective knowledge management, talent management, and turnover transition management could lead to loss of institutional knowledge, which could negatively impact the delivery of member services and pension fund management.

- Successful implementation of TRS' Leadership Development Program.
- Determine if all appropriate business units have current workforce continuity plans.

## SUMMARY OF ACTIVITIES

Three risks related to turnover, knowledge transfer, and compliance were previously identified for this risk category and reported at the June 2012 Risk Management Committee of the Board of Trustees. A new risk related to performance management has been added this quarter. The Leadership Development Program is well underway. Participants are meeting routinely and working on projects to enhance TRS programs. Project presentations are planned for January 2013. A graduation ceremony for program participants is planned for February 2013.

## RISK DETAILS

Risk/Risk Driver	Mitigations	
1. Turnover of critical positions as well as turnover associated with retirements.	<ul style="list-style-type: none"> <li>▪ TRS Leadership Development Program</li> <li>▪ Positive and rewarding work environment</li> </ul>	<ul style="list-style-type: none"> <li>▪ Monitor and assess turnover and retirement trends</li> <li>▪ Executive management support and oversight</li> </ul>
2. Lack of effective transfer of key institutional knowledge and skill.	<ul style="list-style-type: none"> <li>▪ Workforce continuity plans</li> <li>▪ Succession planning</li> </ul>	<ul style="list-style-type: none"> <li>▪ TRS Leadership Development Program</li> </ul>
3. Lack of knowledge, sound judgment or willful non-compliance regarding federal and state laws, statutes, regulations, and/or TRS policies and procedures governing areas related to human resources (HR).	<ul style="list-style-type: none"> <li>▪ Develop, review, and revise policies</li> <li>▪ Counsel and guidance from experts</li> <li>▪ Corrective action</li> </ul>	<ul style="list-style-type: none"> <li>▪ Training</li> <li>▪ Monitoring and advising</li> </ul>

TRS Spotlight Category

## WORKFORCE CONTINUITY RISK REPORT

Risk/Risk Driver	Mitigations
4. Lack of defined agency-wide performance appraisal system.	<ul style="list-style-type: none"> <li>▪ Organizational Development Specialist hired</li> <li>▪ Training and coaching</li> <li>▪ Automated performance appraisal system</li> </ul>

Action Item	Target Date	Status	Comments
Determine if all appropriate business units have current workforce continuity plans. (Risks 1 & 2)	5/2012	Complete	Workforce continuity plans were received by HR for Information Technology, HR, and Benefit Services by the target date. HR does not have plans for Financial, Internal Audit, Legal Services, or the Investment Management Division.
Develop a plan to ensure that all business units have workforce continuity plans in place. (Risks 1 & 2)	12/2013	Planned	The planning process to obtain workforce continuity plans is expected to be linked to the strategic planning process.
Individual business units monitor the effectiveness of their workforce continuity plans and update them as necessary. (Risk 2)	Ongoing	Move to Mitigations	Management is responsible for monitoring their workforce continuity plans, updating them as necessary, and providing HR with annual updates. This is an ongoing management practice and will be moved to mitigations.
Provide management and compliance training in close alignment with executive council requirements. (Risk 3)	9/2012	Ongoing	Management training is provided as requested by executive council. This is an ongoing mitigation and will be moved to mitigations.
	1/2013	In Progress	Compliance training is provided according to federal or state laws, rules or regulations, and TRS policies. Capturing electronic signatures for online training participation is complete. The TRS-wide web-based training for confidentiality/HIPAA is close to completion.
Develop standardized processes and procedures. (Risk 4)	12/2013	In Progress	New action item added in response to Risk 4 regarding the lack of a defined agency-wide performance appraisal system.

Monitoring Activities			
Key Mitigations	Monitored By	Monitoring Process	Comments
Monitor organization turnover and assess trends (Risk 1)	Human Resources	Monitor using payroll data and provide individual business unit data to management.	Annual; end of fiscal year, a key measure used to compare TRS to other state entities.

TRS Spotlight Category

## WORKFORCE CONTINUITY RISK REPORT

Monitoring Activities			
Key Mitigations	Monitored By	Monitoring Process	Comments
Workforce continuity plans (Risk 1)	Management	Follow biennial workforce continuity plan, review annual turnover data and trends, and update plan as necessary.	Plans in place are working as intended to address staffing issues.
<i>Survey of Employee Engagement</i> data (Risk 1)	Human Resources	Analyze biennial <i>Survey of Employee Engagement</i> data for trends within TRS control. Evaluate results and recommend actions for management's consideration.	Results were positively high as they were in previous years, so no action is recommended.
Evaluate career ladders (Risk 1)	Human Resources	Ongoing review of classification and career ladders.	Developing formal structure for career ladders and process for evaluation; creating new job description template to assist with this mitigation.
Documented processes and procedures (Risk 2)	Management	Identify and capture undocumented processes in written procedures or job aids. Maintain system to capture undocumented processes.	This is included in the process for maintaining workforce continuity plans currently in place.
Ongoing training needs assessments by departments (Risk 2)	Management	Conduct ongoing assessment of training/skill needs and knowledge gaps. Acquire, develop, and deliver training to address identified gaps.	Management determines if specific training is needed prior to the assessment conducted by HR.
Documented policies and procedures (Risk 3)	Human Resources	Develop, review, and revise policies per review schedule and in accordance with changes in federal and state laws and statutes or in response to agency needs.	HR collaborates with other state agencies to determine if there will be changes in laws or statutes that will require TRS policy changes.
Training (Risk 3)	Management and Human Resources	Track and report compliance.	HR is assessing compliance tracking software to determine the best option.
Corrective Action (Risk 3)	Management and Human Resources	Corrective action and performance management policies and procedures.	Planning for an agency-wide automated performance management system.

# CONFIDENTIAL INFORMATION RISK REPORT

**GLOBAL OWNER**

**REPORTING DATE**

Ken Welch

12/2012

## GOAL

## OVERALL RISK

## OBJECTIVE

Protect confidential information and ensure compliance with applicable laws and rules.

Unauthorized or unintentional release of confidential information could result in state and/or federal law violations and sanctions against TRS or its employees.

Ensure policies, procedures, and training is in place to safeguard confidential information.

## SUMMARY OF ACTIVITIES

- Developed an online form to capture electronic signatures for web-based training participation.
- Web-based training for Confidentiality/HIPAA is close to completion. Individual specialized departmental training for staff accessing HIPAA information is planned for development.
- Ten departments have re-certified their departmental information inventory; collected one additional inventory from new department within the Investment Management Division.

## RISK DETAILS

Risk/Risk Driver	Mitigations	
1. Non-compliance with federal or state laws and regulations result in civil or criminal penalties imposed on TRS or TRS employees.	<ul style="list-style-type: none"> <li>▪ Training and awareness</li> <li>▪ Policies and procedures</li> <li>▪ Audit and system security review</li> <li>▪ Legal review</li> </ul>	<ul style="list-style-type: none"> <li>▪ Physical security</li> <li>▪ System security</li> <li>▪ Corrective action</li> <li>▪ Records Retention Schedule</li> </ul>
2. Employees or contract workers accidentally expose or disclose confidential information to unauthorized parties.	<ul style="list-style-type: none"> <li>▪ Training and awareness</li> <li>▪ Policies and procedures</li> <li>▪ Monitoring compliance</li> <li>▪ Corrective action</li> <li>▪ System security</li> <li>▪ Physical security</li> </ul>	<ul style="list-style-type: none"> <li>▪ Management/supervisor oversight and review</li> <li>▪ Employer reference checks</li> <li>▪ Criminal history background checks</li> </ul>
3. Vendors, business partners, or external parties <u>expose or disclose</u> confidential information to unauthorized parties.	<ul style="list-style-type: none"> <li>▪ System security</li> <li>▪ Communication</li> </ul>	<ul style="list-style-type: none"> <li>▪ Non-disclosure agreements</li> <li>▪ Business associate agreements</li> </ul>

TRS Spotlight Category

## CONFIDENTIAL INFORMATION RISK REPORT

Risk/Risk Driver	Mitigations	
4. Vendors, business partners, <u>or</u> external parties <u>gain</u> unauthorized access to confidential information electronically or physically.	<ul style="list-style-type: none"> <li>▪ Vendor contract agreements</li> <li>▪ System security</li> <li>▪ Vendor contract agreements</li> <li>▪ Non-disclosure agreements</li> </ul>	<ul style="list-style-type: none"> <li>▪ Physical security</li> <li>▪ Business associate agreements</li> <li>▪ Physical security</li> <li>▪ Communication</li> </ul>
5. Natural disaster or accident exposes hardcopy confidential information (onsite or in the vendor's possession)	<ul style="list-style-type: none"> <li>▪ Vendor selection for disaster recovery services</li> <li>▪ Training and awareness</li> </ul>	<ul style="list-style-type: none"> <li>▪ Vendor's mitigation/remediation plan</li> <li>▪ Vulnerability assessments</li> </ul>

Action Item	Target Date	Revised	Status	Comments
Confirm vendors selected for disaster recovery services have mitigation/remediation plans to assist with document recovery after an incident (Contract Management)	Ongoing		Pending next RFO contract renewal	Staff will review Request for Offer (RFO) contract requirements to include disaster recovery service vendors have plans in place for recovery after an incident.
Provide information inventory report to information owners for recertification (Enterprise Risk Management)	9/2012	11/2012	In Progress	The business impact analysis process began in August 2012 for fiscal year 2013. The inventory was provided to information owners for recertification. Met with Investment Accounting and Human Resources to obtain an inventory for their departments.
Implement state encryption rule when published (Information Technology)	12/2013		Planned	To date, the encryption rule has not been published.
Enhance disaster recovery plans to respond to natural disasters or vendor accidents (Enterprise Risk Management)	12/2013		Planned	The business impact analysis process began in August 2012 for fiscal year 2013. During this process, the Incident Management Team Plan will be reviewed to include responding to natural disasters and vendor accidents.
Enhance established new employee orientation training and provide to current employees (Information Technology, Legal, Health & Insurance Benefits, Human Resources)	1/2013		In Progress	The new employee orientation training has been revised to include references to the revised <i>Confidentiality Policy</i> and related procedures and standards, including the updated definitions and classifying TRS information. This training is being converted to a web-based training to get current

## CONFIDENTIAL INFORMATION RISK REPORT

Action Item	Target Date	Revised	Status	Comments
	5/2013		In Progress	<p>employees up to speed. It will also include additional questions on Information Security since the topics are interrelated. The web-based training for confidentiality/HIPAA is close to completion.</p> <p>Procedures for conducting specialized departmental training have been collected from individual departments. This information as well as the revised <i>Confidentiality Policy</i>, related procedures and standards, and previous department-specific HIPAA quiz questions will be used to develop a web-based method for training departmental staff who access HIPAA-related information. Since this training will be specific to departments accessing HIPAA information, it will require more time for development and review, so an additional target date was added.</p>
System security enhancements (scanning, encryption, and monitoring) (Information Technology)	1/2013		<p style="text-align: center;">In Progress</p> <p style="text-align: center;">In Progress</p> <p style="text-align: center;">Complete</p> <p style="text-align: center;">In Progress</p>	<p><i>Encryption at Rest:</i></p> <ul style="list-style-type: none"> <li>• Laptop drive encryption is complete</li> <li>• Desktop PC drive encryption is in progress</li> </ul> <p><i>Removable media encryption:</i></p> <ul style="list-style-type: none"> <li>• Backup tape encryption is complete</li> <li>• Recommendations for USB drive encryption is in progress</li> </ul> <p><i>Email Encryption:</i> Encryption for emails to external entities is complete. Takes place on demand. Some contracts already require vendors to provide secure, encrypted communication methods with TRS.</p> <p><i>Vulnerability Scanning:</i> Vendor completed an internal vulnerability/security scan.</p>

## CONFIDENTIAL INFORMATION RISK REPORT

Action Item	Target Date	Revised	Status	Comments
			In Progress	<p>Network Infrastructure &amp; Support has received an initial vulnerability report. Next steps are to review the final report and build an action plan to remediate vulnerabilities.</p> <p><i>Security Monitoring:</i> Evaluation of managed security service providers (external security monitoring) continues with selections and recommendations planned by 12/31/12.</p>

Monitoring Activities			
Key Mitigation	Monitored By	Monitoring Process	Comments
System Security and Physical Security (Risks 1, 2, 3, & 4)	Information Technology, Staff Services, and Information Owners	<ul style="list-style-type: none"> <li>▪ Information Security Officer conducts annual:                             <ul style="list-style-type: none"> <li>○ Security risk assessments and makes recommendations.</li> <li>○ Vulnerability assessments and penetration testing.</li> </ul> </li> <li>▪ Security staff monitors both West and East buildings 24 hours a day. Routine security patrols ensure critical areas are secured.</li> <li>▪ Staff Services ensures that confidential shred bins are locked when the vendor picks them up from TRS. The vendor unlocks the bins at their processing facility. They return the empty bins and locks. Bins are re-locked when they are put in place or before they are placed at the dock for retrieval.</li> </ul>	System security is effective; however, enhancements to scanning, encryption, and monitoring are in progress to supplement current system security. Physical security is working as intended to secure the computer room and confidential shred bins. Routine security patrols help to deter any suspicious activity.
Criminal History Background Checks (Risk 2)	Human Resources	Human Resources conducts state and federal criminal history background checks on all new	This is a very thorough check that provides TRS with information to determine future

TRS Spotlight Category

## CONFIDENTIAL INFORMATION RISK REPORT

Monitoring Activities			
Key Mitigation	Monitored By	Monitoring Process	Comments
		employees, applicants, consultants, contractors and workers. Employees are also responsible for self-reporting incidents.	employment or continued employment based on the type of incident.
Records Retention Program (Risk 1)	Data Management and Records Liaisons	Records Analyst coordinates agency-wide records purge on an annual basis to ensure departmental information, which may contain confidential records, is destroyed in accordance with standard procedures.	The annual disposition cycle covers records regardless of media. Departments respond relatively well in processing their paper files; however, the deletion of electronic records is a concern. Individual electronic file deletion is labor-intensive due to volume and lack of standard filing procedures. To help with this issue, a project has been assigned to the Leadership Development Program participants to develop a file plan methodology to create department-specific standards, which may be used to automate records retention of electronic records.
Training and Awareness (Risk 2)	Human Resources, Information Security, and Management	<ul style="list-style-type: none"> <li>▪ Human Resources staff provides and documents training completion for confidentiality, HIPAA, information security, fraud, waste, and abuse prevention, and ethics.</li> <li>▪ TRS staff is provided individual specialized departmental training and instruction on confidentiality/HIPAA requirements prior to beginning their new job duties and as needed. Completion of annual refresher training will be documented and reported to Human Resources once a method has been determined.</li> <li>▪ Information Security provides and documents annual training completion.</li> </ul>	Training is conducted as outlined in the <i>Procedures for Compliance Training</i> ; to ensure attendance can be validated for web-based training, capturing electronic signatures for online participation has been developed. The TRS-wide web-based training for confidentiality/HIPAA is close to completion. To eliminate redundancy, some of the Information Security quiz questions related to confidentiality and HIPAA will be incorporated into this web-based training. Procedures for conducting specialized departmental training have been collected from individual departments. This information as well as the revised <i>Confidentiality Policy</i> , related procedures and standards, and

TRS Spotlight Category

## CONFIDENTIAL INFORMATION RISK REPORT

Monitoring Activities			
Key Mitigation	Monitored By	Monitoring Process	Comments
			previous department-specific HIPAA quiz questions will be used to develop a web-based method for training departmental staff who access HIPAA-related information.
Vendor contract agreements; non-disclosure agreements; and business associate agreements (Risks 3 & 4)	Contract Management	Contract management staff requests non-disclosure and business associate agreements as part of the vendor contract agreement and Request for Offer (RFO) process.	Contract management follows a standard process to request completion of these agreements during contract negotiations.

# PROCUREMENT & CONTRACT MANAGEMENT RISK REPORT

**GLOBAL OWNER**

**REPORTING DATE**

Don Green

12/2012

## GOAL

## OVERALL RISKS

## OBJECTIVES

Maintain effective procurement and contract management systems.

- Inappropriate procurement practices could result in purchases of sub-standard products and services, unfavorable pricing or contract terms, and violation of laws.
- Ineffective contract monitoring could result in contractors not fulfilling their contractual obligations.

- Mitigate procurement risk associated with processing purchases and contracts.
- Mitigate contract management risk through effective monitoring processes.

## RISK SUMMARY

Effective risk mitigations, monitoring controls, and segregation of duties are currently in place. Additional oversight is ongoing to ensure these mitigations are maintained over the course of the TEAM Program initiative.

## RISK DETAILS

Risk/Risk Driver	Mitigations	
1. Inadequate resources and loss of institutional knowledge	<ul style="list-style-type: none"> <li>▪ Succession planning</li> <li>▪ Cross-training and rotation of duties</li> <li>▪ Staff development</li> </ul>	<ul style="list-style-type: none"> <li>▪ Adequate funding for FTEs</li> <li>▪ Provide positive and pleasant work environment</li> </ul>
2. Failure to receive information in a timely manner	<ul style="list-style-type: none"> <li>▪ Effective communication</li> <li>▪ Planning</li> </ul>	<ul style="list-style-type: none"> <li>▪ Documented processes and procedures</li> </ul>
3. Unauthorized access to or release of confidential information	<ul style="list-style-type: none"> <li>▪ Documented processes and procedures</li> </ul>	<ul style="list-style-type: none"> <li>▪ Screen prospective employees</li> <li>▪ Management oversight</li> </ul>
4. Internal fraud	<ul style="list-style-type: none"> <li>▪ Documented processes and procedures</li> <li>▪ Management oversight</li> </ul>	<ul style="list-style-type: none"> <li>▪ Segregation of duties</li> <li>▪ Screen prospective employees</li> </ul>

TRS Spotlight Category

## PROCUREMENT & CONTRACT MANAGEMENT RISK REPORT

Risk/Risk Driver	Mitigations
5. Collusion with vendor/contractor on major contracts (Health Care Contracts)	<ul style="list-style-type: none"> <li>▪ Cross-functional participation on major contracts</li> <li>▪ Management oversight</li> <li>▪ Segregation of duties</li> <li>▪ Documented processes and procedures</li> </ul>
6. Competing priorities/heavy workload	<ul style="list-style-type: none"> <li>▪ Plan and prioritize work</li> <li>▪ Management oversight</li> <li>▪ Cross-training and rotation of duties</li> </ul>

Action Item	Target Date	Status	Comments
Prioritize filling vacant positions (Risk 1)	Ongoing	Move to Mitigations	All positions are filled; however, resource limitations still exist due to two staff heavily involved with the TEAM Program and related projects.
Generate opportunities for cross-training, team building, and professional development to minimize turnover (Risk 1)			Training opportunities are provided dependent on workload, skill sets, and timing (fiscal year-end).
Monitor statute/rule changes and reporting requirements; update TRS procurement policy and procedures (Risk 2)			Statute/rule changes are typically communicated after a legislative session; if any apply to TRS, we will update our policies and procedures. Inform staff of new requirements and provide guidance for implementation. Convey existing procedures as opportunities arise.
Inform staff of new requirements and convey existing procedures as opportunities arise (Risk 2)	Ongoing	Combined with above Action Item	If any new statutes/rules apply to TRS, we will inform staff and provide guidance for implementation.
Obtain legal review on matters involving confidentiality (Risk 3)	Ongoing	Move to Mitigations	TRS has a standard confidentiality agreement. Purchasing consults Legal Services as needed.
Ensure appropriate forms are included in contractual agreements (Risk 3)			Contract staff review forms list to ensure appropriate forms are included in agreements.
Maintain contract for Fraud, Waste, and Abuse Hotline, which allows for anonymous reporting (Risk 3)	Ongoing	Pending annual renewal	This contract provides a deterrent for fraud. Purchasing ensures contract renewal information is provided to Internal Audit for annual renewal.

TRS Spotlight Category

## PROCUREMENT & CONTRACT MANAGEMENT RISK REPORT

Action Item	Target Date	Status	Comments
Continue Fraud, Waste, and Abuse Prevention training as part of New Employee Orientation (Risk 4)	Ongoing	Move to Mitigations	Moving this action item since it relates to a compliance requirement covered in training provided by Human Resources.
Maintain existing controls and monitoring (Risk 5)	Ongoing	In Progress	Mitigations in place are functioning as intended. This action item is listed to note its importance during the Financial System Replacement Project.
Ensure sufficient resources exist throughout the TEAM Program development (Risk 6)			Two staff members are heavily involved in TEAM so resource limitations still exist.

Monitoring Activities			
Key Mitigations	Monitored By	Monitoring Process	Comments
Cross-Training (Risk 1)	Purchasing & Contracts Team Leader	Systematically ensure that multiple team members have the knowledge to perform each team task.	Ad-hoc as needed; standard processes, clauses are in place to create efficiencies.
One-on-One and Team Meetings (Risk 1)	Purchasing & Contracts Team Leader	Actively solicit feedback from team members regarding workload levels and any possible issues affecting the Purchasing Team.	Ad-hoc as needed to discuss and comment on efficiencies.
Monitor Staffing Levels (Risk 1)	Department Manager	Review overtime reports and workload metrics to determine appropriate staffing levels.	Reports are submitted to support and justify requests for additional positions.
Documented processes and procedures (Risk 2)	Purchasing Staff, Contract Administration Coordinator, and Purchasing & Contracts Team Leader	Maintain documented processes and procedures. Note any changes to current Purchasing Team processes and/or procedures and ensure that these are captured in the team procedures and/or Contract Administration Manual.	Ad-hoc as needed; contract administration manual is typically updated annually.
Effective Communication (Risk 2)	Purchasing & Contracts Team Leader and Contract Administration Coordinator	Ensure that email, Intranet, and/or phone are used to share necessary information in a timely manner to meet the need(s) at hand.	Daily communication via multiple methods.

TRS Spotlight Category

## PROCUREMENT & CONTRACT MANAGEMENT RISK REPORT

Monitoring Activities			
Key Mitigations	Monitored By	Monitoring Process	Comments
Review of Procurements (Risks 3 & 4)	Purchasing & Contracts Team Leader and Contract Administration Coordinator	Ensure all procurements are in accordance with established processes and procedures.	Standardized forms and spreadsheets are used; pre-contract and post-contract reviews are conducted.
Contract Review (Risks 3 & 4)	Purchasing & Contracts Team Leader and Contract Administration Coordinator	Perform periodic review of contracts to ensure that contract requirements, deliverables, and payments are in accordance with the terms of the contract.	Contracts greater than \$10,000 require completion of a risk assessment questionnaire, which is numerically scored to determine level of monitoring throughout the contract period.
Cross-Functional Participation (Risk 5)	Divisional Management, Legal Services, Internal Audit, Purchasing & Contracts Team Leader	Active involvement throughout the contracting process by Divisional Management, Legal Services, Internal Audit, and Procurement.	Cross-functional participation from various departments has been very effective.
Contract Review (Risk 5)	Purchasing & Contracts Team Leader and Contract Administration Coordinator	Review of major contracts to ensure that contract requirements and appropriate documentation are contained in the contract file.	Standardized forms and checklists for contracts allows reviewer to easily identify missing or required documentation.
Contract Administration Tracking System (CATS) (Risk 6)	Purchasing & Contracts Team Leader, Contract Administration Coordinator, Purchasing Staff	Use contract expiration reports to plan for the renewal or re-solicitation of expiring contracts and allows the Contract Administration Coordinator to monitor and review higher risk contracts.	Reports processed from CATS provide 2-3 months advance notice of renewal dates expiring and allows the Contract Administration Coordinator to schedule contract reviews.
Planning (Risk 6)	Purchasing & Contracts Team Leader and Purchasing Staff	Maintain regular contact with contract sponsors to obtain knowledge and status of upcoming contracts.	Routine communication ensures planning can begin on future contracts.
Communication (Risk 6)	Purchasing & Contracts Team Leader	Meet one-on-one or as a team to verify priorities and gauge workloads.	Discuss workload, priorities, and other procurement issues.