



TRS Risk Management Committee



December 2013

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

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

AGENDA

**December 12, 2013 – 12:30 p.m.
TRS East Building, 5th Floor, Boardroom**

1. Consider the approval of the proposed minutes of the September 12, 2013 committee meeting – Karen Charleston
2. Receive report on Enterprise Risk Management – Jay LeBlanc & Michelle Pagán
3. Receive report on the Value of ERM from the Perspective of the User – Marianne Woods Wiley

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 12, 2013

The Risk Management Committee of the Board of Trustees of the Teacher Retirement System of Texas met on September 12, 2013 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:

Todd Barth, Presiding Chair
David Kelly
Chris Moss

A quorum of the committee was present.

Others present:

Anita Palmer, TRS Trustee	Dan Junell, TRS
Nanette Sissney, TRS Trustee	Eric Lang, TRS
Joe Colonna, TRS Trustee	Lynn Lau, TRS
Brian Guthrie, TRS	Jay LeBlanc, TRS
Ken Welch, TRS	James Nield, TRS
Amy Barrett, TRS	Hugh Ohn, TRS
Carolina de Onís, TRS	Michelle Pagán, TRS
Britt Harris, TRS	Sharon Toalson, TRS
Jerry Albright, TRS	David Veal, TRS
Thomas Albright, TRS	Angela Vogeli, TRS
Jase Auby, TRS	Dr. Keith Brown, Investment Advisor
Mohan Balachandran, TRS	Steve Huff, Reinhart Boerner Van Deuren
Sylvia Bell, TRS	Steve Voss, Hewitt EnnisKnupp
Ronnie Bounds, TRS	Leroy DeHaven, Texas Retired Teachers Association
Dennis Gold, TRS	John Claisse, Albourne America
Brian Gomolski, TRS	Tom Rogers, Texas Retired Teachers Association and Austin Retired Teachers Association

Mr. Barth called the meeting to order at 10:55 a.m.

1. Consider the approval of the proposed minutes of the June 14, 2013 committee meeting

On a motion by Mr. Kelly, seconded by Mr. Moss, the committee approved the minutes of the June 14, 2013 meeting as presented.

2. Review the Investment Risk Report

Mr. Auby summarized the key risk measures, including Value at Risk (VaR), tracking error, leverage, liquidity, counterparty exposures, and derivative exposures. He addressed current compliance based on those measures. He noted a non-compliance issue relating to the Absolute Return asset allocation as of the end of June. He explained that the 69 basis point underweight by the Tactical Asset Allocation (TAA) group caused the Absolute Return asset allocation to be below policy by six basis points. He stated that TAA had since adjusted its position to bring the trust back into compliance and added a systematic, automatic check to its process. He stated that staff anticipated that the dislocated credit positioning would stay at the current level going

forward. He responded to Mr. Voss that the policy violation was detected by State Street. He confirmed for Mr. Voss that there were no other existing manual procedures that could potentially cause policy violations in the future. However, he noted that staff was reviewing the strategic partnership agreements and would recommend amendments to the agreements to avoid any potential policy violations in the future. Ms. de Onís noted that TRS Legal Services had taken on the responsibility of investment compliance and would work with the Investment Management Division closely on those issues. She also noted that Compliance Officer Terry Harris, who reviews compliance reports, had joined the Legal team.

Mr. Auby detailed the improvements made to the risk model to more accurately capture private markets assets. He stated that the new risk model allowed staff to calculate the tracking error on a total trust basis by including both public and private markets assets. He stated that the new model also expanded the look-back period by keeping the start date on January 1, 2008. Mr. Auby described for Mr. Kelly the process of finding risk proxies for private markets assets in order to better model underlying risk. He further clarified for Mr. Kelly that State Street aggregated information from the holdings and provided data to TRS.

In conclusion, Mr. Auby stated that the new risk model improved the prediction of the total trust tracking error and the VaR modeling. He reported that, with the different asset types being included in the new risk model, the total fund currently had a slightly higher risk compared to the benchmark. That result, he explained, reflected the fact that the Real Assets Portfolio had more opportunistic and riskier investments than the core benchmark.

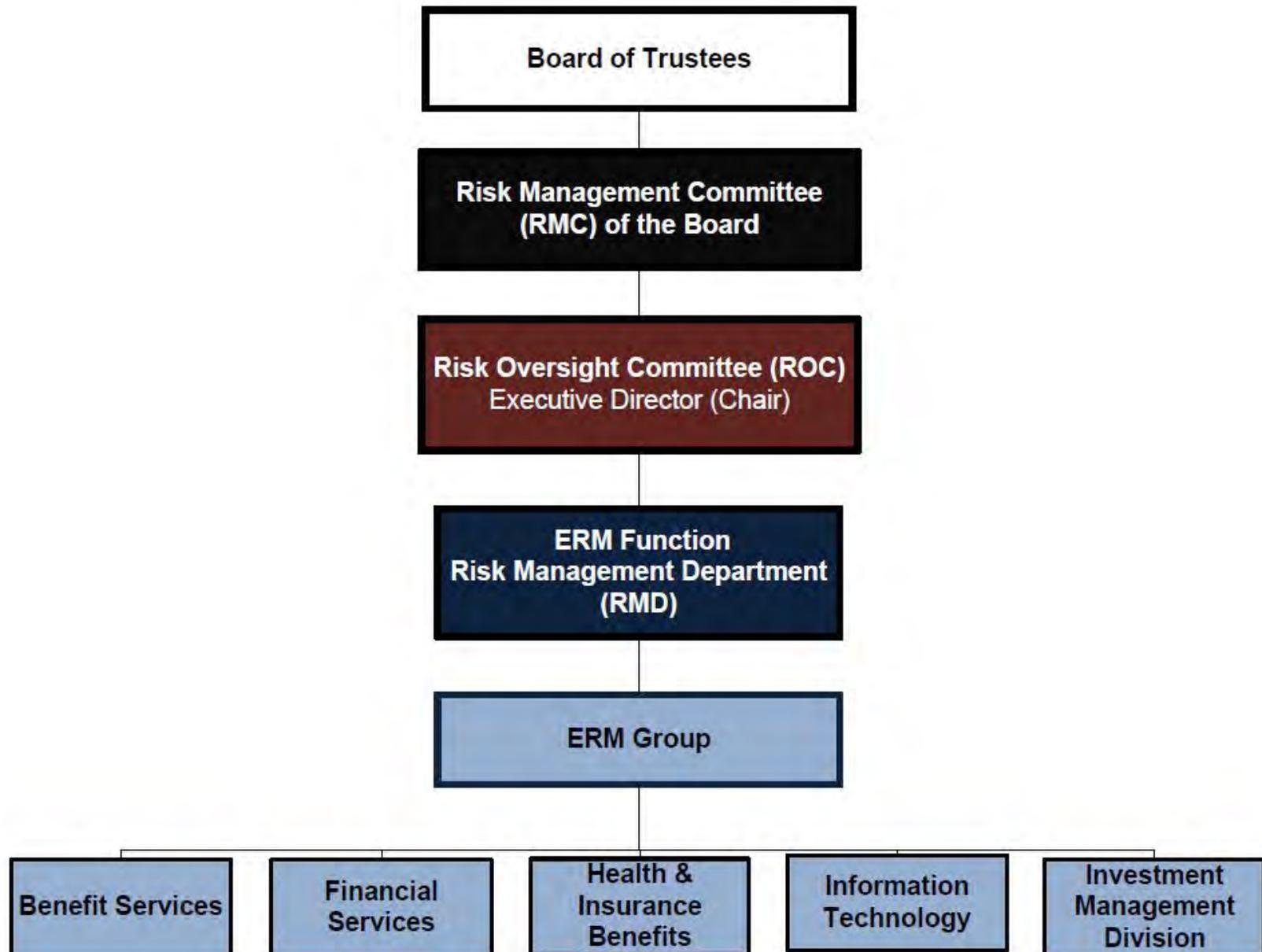
The meeting adjourned at 11:19 a.m.

Tab 2

Enterprise Risk Management Report

Jay LeBlanc & Michelle Pagán

TRS' ERM Structure



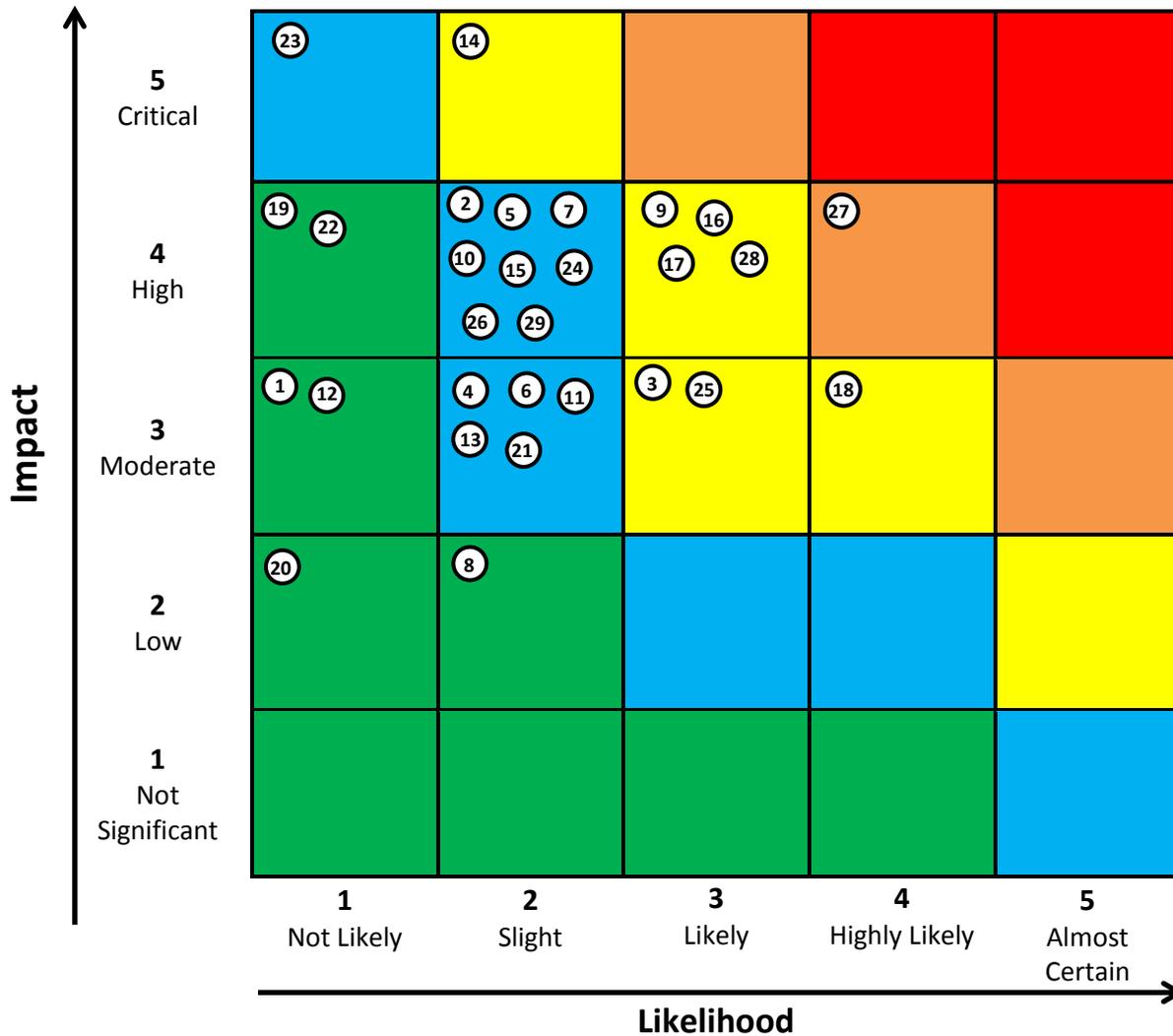
Teacher Retirement System of Texas Stoplight Report – December 2013

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

RISK LEVEL	
HIGH	High Risk - high threat to achieving TRS goals and objectives
ELEVATED	Elevated Risk - elevated threat to achieving TRS goals and objectives
CAUTION	Moderate Risk - moderate threat to achieving TRS goals and objectives
GUARDED	Guarded Risk - minimal threat to achieving TRS goals and objectives
LOW	Low Risk - low threat to achieving TRS goals and objectives

EXPECTED RISK LEVEL TREND (NEXT 12-24 MONTHS)		
INCREASE	DECREASE	REMAIN CONSTANT
		

Teacher Retirement System of Texas Risk Heat Map – December 2013



Risk Category (Risk Score)

1. 403(b) (3,1)
2. Accounting & Reporting (4,2)
3. Active Health Care Sustainability (3,3)
4. Budget (3,2)
5. Business Continuity (4,2)
6. Communications & External Relations (3,2)
7. Credit (4,2)
8. Customer Service (2,2)
9. Employer Reporting (4,3)
10. Ethics & Fraud Prevention (4,2)
11. Facilities Planning (3,2)
12. Governmental/Association Relations & Legislation (3,1)
13. Health Care Administration (3,2)
14. Information Security & Confidentiality (5,2)
15. Investment Accounting (4,2)
16. Investment Operations (4,3)
17. Investment Reporting (4,3)
18. Legacy Information Systems (3,4)
19. Liquidity/Leverage (4,1)
20. Market (2,1)
21. Open Government (3,2)
22. Pension Benefit Administration (4,1)
23. Pension Funding (5,1)
24. Purchasing & Contracts (4,2)
25. Records Management (3,3)
26. Regulatory, Compliance & Litigation (4,2)
27. Retiree Health Care Funding (4,4)
28. TEAM Program (4,3)
29. Workforce Continuity (4,2)

Teacher Retirement System of Texas Risk Level & Trend Summary – December 2013

Risk Category	6/2013	12/2013
403(b)		
Accounting & Reporting		
Active Health Care Sustainability		
Budget		
Business Continuity		
Communications & External Relations		
Credit		
Customer Service		
Employer Reporting		
Ethics & Fraud Prevention		
Facilities Planning		
Governmental/Association Relations & Legislation		
Health Care Administration		
Information Security & Confidentiality		
Investment Accounting		

Risk Category	6/2013	12/2013
Investment Operations		
Investment Reporting		
Legacy Information Systems		
Liquidity/Leverage		
Market		
Open Government		
Pension Benefit Administration		
Pension Funding		
Purchasing & Contracts		
Records Management		
Regulatory, Compliance & Litigation		
Retiree Health Care Funding		
TEAM Program		
Workforce Continuity		

Teacher Retirement System of Texas Risk Profiles – December 2013

Risk Category	Risk Owner	Goal	Overall Risk	Risk Score	Risk Level & Trend	Comments	
						Risk Level	Trending
403(b)	Rebecca Merrill	Set fee caps for 403(b) products offered to school district employees. Maintain list of both qualified companies and products which meet requirements of law and TRS rule.	Public education employees purchase non-qualified products and/or products from non-qualified companies.	3,1		While the 403(b) program is important to help ensure that members invest with reputable companies, it is not a core part of TRS' mission. So, if the program were to experience problems, TRS' core functions would continue on without interruption. Additionally, TRS has mitigations in place – such as review of 403(b) rules and a 403(b) program specialist – to help ensure the consistency of the 403(b) program. Therefore, the impact and likelihood of a 403(b) program failure seem low.	Current mitigations are not changing and there is no new anticipated legislation impacting the 403(b) program. So, the trend remains constant.
Accounting & Reporting	Don Green	Maintain and monitor the integrity, accuracy, and completeness of financial information and timeliness of reporting.	Materially inaccurate financial information and reports would result in Board of Trustees and Texas Legislature decisions being made on flawed data and adverse or qualified audit opinions.	4,2		Although there are challenges ahead in the implementation of a new accounting system and new accounting pronouncements, there should be adequate and knowledgeable staff to accomplish the tasks.	It is anticipated that staffing levels and experience will remain relatively constant. Any challenges initiated by the implementation of the TEAM Program (TEAM) will be mitigated by sound accounting and reporting processes and procedures.
Active Health Care Sustainability	Betsey Jones	Facilitate long-term soundness of TRS-ActiveCare in order to pay eligible participant health care claims.	Inadequate funding by the state and participating entities could affect sustainability.	3,3		Inadequate funding would jeopardize the fund's ability to provide public school employees with affordable health care.	The fund has a negative balance on an incurred basis as of 8/31/2013 and medical and drug claim costs continue to rise. District and State minimum contribution requirements to the fund have been static since the inception of the plan.

RISK SCORE	
IMPACT	5-Critical, 4-High, 3-Moderate, 2-Low, 1-Not Significant
LIKELIHOOD	5-Almost Certain, 4-Highly Likely, 3-Likely, 2-Slight, 1-Not Likely

Example: 3,1 (Impact, Likelihood) = 3-Moderate, 1-Not Likely

RISK LEVEL				
HIGH	ELEVATED	CAUTION	GUARDED	LOW
High Risk	Elevated Risk	Moderate Risk	Guarded Risk	Low Risk

EXPECTED RISK LEVEL TREND (NEXT 12-24 MONTHS)		
INCREASE	DECREASE	REMAIN CONSTANT

Teacher Retirement System of Texas Risk Profiles – December 2013

Risk Category	Risk Owner	Goal	Overall Risk	Risk Score	Risk Level & Trend	Comments	
						Risk Level	Trending
Budget	Don Green	Ensure TRS has appropriate budget to provide and sustain resources necessary to successfully carry out TRS' mission, goals, and objectives to serve our members.	Lack of a sufficient operating budget could jeopardize our ability to effectively serve our members.	3,2		The agency's operating budget is driven by staffing, membership growth, trust fund balance, and other workload drivers. The agency's strong organizational governance plays a crucial role in meeting these challenges.	Any risk drivers in the ability to sustain an appropriate budget and available resources are mitigated by a strong strategic planning process and working closely with all divisions to identify funding to achieve goals and objectives in accordance with state statute.
Business Continuity	Ken Welch	Recover and resume operations in the event of a major business interruption.	Members do not receive statutorily required services timely.	4,2		Updating the business impact analysis questionnaires and business continuity plans occurs annually. Critical systems are identified and recovery timeframes are communicated to the disaster recovery teams. Based on annual disaster recovery testing and mitigations in place, business continuity represents a minimal threat to meeting TRS' goals and objectives.	Over the next 12-24 months the risk level is not expected to change due to the mitigations in place and the proof-of-concept testing for a co-location alternative.
Communications & External Relations	Howard Goldman	Maintain effective communication and positive relations with members, retirees, employers, TRS employees, news media, and the public.	Poor communication could lead to confusion resulting in increased calls to TRS, poor or inappropriate decision-making regarding TRS benefits, and incorrect information provided to external parties.	3,2		Due to existing procedures and routine interaction with other departments when responding to media requests, preparing articles for publications and developing information for social media channels and our website, the overall risk level is controlled.	No substantive changes have occurred in the processes and policies followed to warrant an increase or decrease in risk levels.
Credit	Jase Auby	Maintain effective management of counterparty and securities lending risks.	Unmanaged counterparty and securities lending exposures could result in losses to the investment portfolio.	4,2		All counterparties currently meet required credit ratings.	One counterparty has a Baa1 rating from Moody's. All other ratings are A3/A- or higher.
Customer Service	Marianne Woods Wiley	Deliver superior service to members and internal/external customers.	Inadequate customer service could result in dissatisfied members or customers and could lead to increased scrutiny and oversight.	2,2		High quality customer service is provided by all Benefit Services departments based on internal and external feedback. Telephone hold time should be shorter but we have hired more counselors which should help mitigate this. Also, we are researching new ways to measure this metric.	Expect trend to be constant unless major legislative changes are passed, a larger than usual number of members retire, and/or TEAM requires more subject matter expert involvement than anticipated.

Teacher Retirement System of Texas Risk Profiles – December 2013

Risk Category	Risk Owner	Goal	Overall Risk	Risk Score	Risk Level & Trend	Comments	
						Risk Level	Trending
Employer Reporting	Don Green	Accurately capture and utilize employer reported data to project and calculate future benefits of TRS members.	Incorrect reporting could lead to calculated benefits being inaccurate.	4,3		Staff turnover within TRS-covered employers continually presents a training challenge. We are identifying new ways to create training modules.	A limited number of employer audits will begin in FY14. There are also plans to roll out a self-audit tool concerning reporting compliance that will be optional in the beginning but may progress to become mandatory. This may cause the reporting entities to increase their focus on reporting compliance, which would positively affect this risk category. We do not anticipate any major changes that will effect or impact the risks until the implementation of TEAM.
Ethics & Fraud Prevention	Brian Guthrie	Maintain a culture that upholds ethical behavior and values that contribute and promote the fiduciary duties of prudence and loyalty, and reduces fraud risks.	A lack of ethics could undermine the duties of prudence and loyalty and create fraud risks resulting in loss of assets and credibility, adverse publicity, and increased scrutiny and oversight.	4,2		While the impact of an ethical breach or instance of fraud would be high, the likelihood of such an event is relatively low. Currently, TRS has a number of mitigations in place such as educating individuals on the fraud, waste, and abuse policy and the fraud web reporting form. These types of mitigations, along with TRS' background check policy, operate together to create a guarded risk for a fraud or ethics breach.	The risk of a fraud or ethical breach is trending neither up nor down. TRS continues to maintain mitigations that help prevent incidences of fraud or an ethical breach. This holds the trend line constant.
Facilities Planning	Don Green	Develop a long-term space plan for TRS facilities.	Inadequate facilities planning could result in less than desirable conditions for TRS members, visitors, and staff and could jeopardize our ability to continue providing an exemplary level of service to our members.	3,2		An evolving organization with rapidly changing needs for the amount and type of space required can experience negative impacts on service levels and/or moderate business disruptions.	Implementation of TEAM is creating immediate and short-term challenges that are being mitigated through temporary reallocations of space. Long-term challenges are being addressed by management through discussions with legislative and regulatory agency representatives.
Governmental/ Association Relations & Legislation	Ray Spivey	Maintain effective communications and positive relations with the Legislature, associations, and other public parties.	Poor communications could lead to adverse relations, unfavorable legislation, and restricted funding.	3,1		Our relationship with the legislature is constantly improving and communication has been effective. Our relationship with the public also appears to be positive.	No major issues are expected over the next 12-24 months.

Teacher Retirement System of Texas Risk Profiles – December 2013

Risk Category	Risk Owner	Goal	Overall Risk	Risk Score	Risk Level & Trend	Comments	
						Risk Level	Trending
Health Care Administration	Betsey Jones	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 TRS health care services.	3,2		Much of the administration of the programs is outsourced. Contract monitoring and controls mitigate this risk.	Administration of the programs is stable with no anticipated significant changes.
Information Security & Confidentiality	Amy Morgan/ Ken Welch	Maintain the integrity, availability, and protection in the storage, use, and transfer of TRS information resources (in any form or medium).	Unauthorized or unintentional release/access of TRS confidential information could result in state or federal law violations, sanctions against TRS or its employees, and harm the best interests of TRS.	5,2		Depending on the scope of an unauthorized or unintentional release of confidential data, this could have a critical impact on TRS. With the existing mitigation strategies and the new strategies in place that were recommended through the HIPAA/HITECH audit the likelihood is low.	While we have put additional controls in place based on findings in the HIPAA/HITECH audit, new security risks are introduced into technical environments daily. Our security posture has improved but information security is an area that needs constant attention. We should never get comfortable that enough security or mitigating strategies are in place.
Investment Accounting	Don Green	Maintain the integrity of investment information - reporting and disclosure, accuracy, completeness and valuation.	Materially inaccurate investment information and reports would result in Board of Trustees and Texas Legislature decisions being made on flawed data and adverse or qualified audit opinions.	4,2		The system's custodian maintains the official investment book of record. Department monitoring and oversight controls mitigate this risk.	The State Street custodian relationship is stable with no anticipated significant changes.
Investment Operations	Sylvia Bell	Maintain accurate transaction settlement and position management processes.	Inaccurate understanding of investment positions could result in loss and inappropriate investment actions.	4,3		Although we have a strong team in place there are several moving parts in the processes and a mistake could result in a moderate threat to TRS achieving its goals and objectives.	Investment Management Division (IMD) has engaged a dedicated State Street service team based in Sacramento in order to improve efficiency and accuracy within the operation and reporting groups. As part of this new service model, the custodian is working with both IMD and Investment Accounting to evaluate the overall service delivery strategy.
Investment Reporting	Sylvia Bell	Maintain the integrity of investment information - reporting	Investment reports would contain material inaccuracies.	4,3		Communication of inaccurate information, to both internal and external parties, could result in	IMD has engaged a dedicated State Street service team based in Sacramento in order to improve

Teacher Retirement System of Texas Risk Profiles – December 2013

Risk Category	Risk Owner	Goal	Overall Risk	Risk Score	Risk Level & Trend	Comments	
						Risk Level	Trending
		and disclosure, accuracy, completeness and valuation. Develop and disseminate customized investment reporting for both management and governance to enhance making better strategic and tactical investment decisions.				moderate damage to the reputational and operational goals and objectives of TRS.	efficiency and accuracy within the operation and reporting groups. As part of this new service model, the custodian is working with both IMD and Investment Accounting to evaluate the overall service delivery strategy.
Legacy Information Systems	Amy Morgan	Provide information systems to meet TRS' business and customer service needs.	Inability to provide adequate and consistent information in a timely fashion via the preferred delivery mechanism.	3,4		It is complicated for our legacy systems to provide robust, online self-service applications for our members. So there is a moderate impact that the preferred delivery mechanism may not be available when desired. The likelihood is highly likely because we know that some of our membership would like to do all their business with us online and that desire will only grow over time.	The legacy systems are still working well and are stable. The functionality that they provide has not and will not diminish in the near future. There are some web self-service applications for members and retirees to use.
Liquidity/Leverage	Jase Auby	Maintain levels of liquidity appropriate for the support of fund disbursements, anticipated investment funding needs and trust level leverage.	Inadequate liquidity could lead to cash shortfalls.	4,1		Trust is highly liquid and minimally levered.	Trust use of liquidity and leverage is projected to remain stable.
Market	Britt Harris	Maintain market risk exposures consistent with investment objectives.	Too little or too much exposure to market risk could each lead to undesirable investment outcomes.	2,1		Investment policy asset allocation ranges limit market risk appropriately; active risk (tracking error) is budgeted by IMD.	Limits are projected to remain appropriate until the next strategic asset allocation review in 2014.
Open Government	Carolina de Onís	Ensure compliance with laws and rules related to open records and meetings.	Non-compliance could lead to penalties and fines or voiding of board actions.	3,2		Volume and complexity of investment-related open records requests and requests seeking personal financial information about TRS' key employees.	Hired new staff attorney devoted to investment-related open records requests; installed and configured new software to process, track, and respond to requests; new legislation enhances protection of key employees'

Teacher Retirement System of Texas Risk Profiles – December 2013

Risk Category	Risk Owner	Goal	Overall Risk	Risk Score	Risk Level & Trend	Comments	
						Risk Level	Trending
							personal financial information.
Pension Benefit Administration	Marianne Woods Wiley	Accurate delivery of benefits to TRS members, retirees and beneficiaries, including systems monitoring and controls related to accurate calculations and benefit payments to others.	Ineffective delivery of benefits could lead to inaccurate information, inaccurate benefits/ payments, dissatisfied members, retirees, or beneficiaries, and loss of credibility, adverse public perception, increased scrutiny, and oversight.	4,1		Current controls and monitoring assure accurate delivery of benefits. Accuracy and timeliness of benefit delivery meets or exceeds expectations as evidenced through audits and performance metrics.	Expect trend to be constant unless major legislative changes are passed, a larger than usual number of members retire, and/or TEAM requires more subject matter expert involvement than anticipated.
Pension Funding	Brian Guthrie	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.	5,1		While the impact of a loss of pension funding would be significant, the likelihood of such an event is relatively low. Recent legislation increased contributions and adjusted benefits to bring the fund into actuarial soundness. The actuary is currently conducting the valuation for 2013, and it is anticipated that the funding period will be around 31 years, which is a good indicator of fiscal soundness. These factors mitigate the likelihood of a fiscally unsound plan. However, the fund is expected to recognize additional deferred losses, the plan's fiscal health depends on adequate future contributions, and there continues to be parties interested in changing the plan's funding and defined benefit status. Therefore, the risk is guarded.	The Texas Legislature made plan modifications that improved the health of the plan and increased contribution rates. The 8/31/2013 valuation is expected to indicate good fiscal health. Currently, the risk of a fiscally unsound pension fund remains constant.
Purchasing & Contracts	Don Green	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	4,2		Impact is listed at 4 (high) because in the event the overall risk were to occur, it would have a fairly significant impact to TRS ranging from appearance issues, violation of statute, or by not spending TRS funds in a responsible manner (pay too much, contractors not fulfilling obligations, project failures, etc.). Likelihood is listed at 2 (slight) because	The procurement function has a fairly stable risk trend and risks should remain somewhat similar and constant over time. Significant impacting factors would be loss of staff with institutional knowledge and divergence from current oversight levels and controls. As these are not the case at TRS, our procurement risk level should

Teacher Retirement System of Texas Risk Profiles – December 2013

Risk Category	Risk Owner	Goal	Overall Risk	Risk Score	Risk Level & Trend	Comments	
						Risk Level	Trending
			contract monitoring could result in contractors not fulfilling their contractual obligations.			TRS has good processes and procedures in place, our Contract Administration Coordinator performs an internal quality assurance function, we must report procurement activities regularly, and we are subject to audit by multiple audit entities, both internal and external.	remain the same.
Records Management	Marianne Woods Wiley	Preserve and destroy TRS records through adherence to laws and rules, and by applying TRS records management policies and practices.	An ineffective records management program could result in loss or accidental release of records, loss of credibility, delays in accessing/destroying records, and increased scrutiny and oversight.	3,3		There is a high growth rate in the volume of e-records. We have silos of files where the retention and disposition is managed manually by individual staff.	While staff is paying more attention to managing e-records, progress is slow and volume continues to grow. Additional time is needed to develop tools that allow e-records to be managed more efficiently.
Regulatory, Compliance & Litigation	Carolina de Onís	Adhere to and analyze current laws, rules, and policies (e.g., maintain tax qualification status). Render competent advice on legal risk management and awareness, manage litigation risks, and negotiate contracts to address risks.	Non-compliance with laws and rules could lead to penalties, fines, liability and litigation; impaired ability to conduct business; burdensome oversight; third-party investigations/audits; adverse legislation; increased scrutiny; or loss of tax qualification status.	4,2		Changes in regulatory environment (Dodd-Frank, BASEL III) and changes in TRS laws (open records, retirement age, health plans, etc.).	Hired and have regular consultation with outside counsel; created Chief Compliance Officer position for IMD (housed within Legal) and moved Investment Compliance from Internal Audit to Legal, better coordination within Legal; hiring new benefits attorney; and retaining existing expertise.
Retiree Health Care Funding	Betsey Jones	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.	4,4		Inadequate funding would jeopardize retirees having access to affordable health care. The fund is projected to become insolvent in the 2016-2017 biennium.	The fund is projected to deplete each year and become insolvent in the 2016-2017 biennium.
TEAM Program	Ken Welch	Implement cost effective, efficient, and sustainable processes and systems that	System design, implementation and functionality of the new processes and systems	4,3		Remains at a "Moderate Risk" threat level. Both the impact and the likelihood ratings remained constant from the last report to this report, at a	The number of key TEAM risks remained the same, at 14, from the previous report to the current one. With contracts awarded for the

Teacher Retirement System of Texas Risk Profiles – December 2013

Risk Category	Risk Owner	Goal	Overall Risk	Risk Score	Risk Level & Trend	Comments	
						Risk Level	Trending
		enable TRS to serve its members, employers, and annuitants.	do not meet the growing demands of TRS in service of its members. Program/ project implementation schedule and cost exceeds original estimates.			4 and 3 rating respectively.	Pension Administration Line of Business project and the Financial System Replacement project, both of which began in November, it is expected that several new risks will be identified. It is also expected that several of the existing risks will have their likelihood reduced due to the mitigations that have been taken to date. The results of the increase in the number of risks and the reduction in the likelihood are expected to offset each other for the next report keeping the risk trend at a "Remain Constant" rating over the next 12 months.
Workforce Continuity	Janet Bray	Preserve valued institutional knowledge, and ensure a skilled, capable, and motivated workforce is maintained to execute TRS' functions.	The delivery of member services and pension fund management could be negatively impacted by turnover, the inability to retain qualified staff, lack of a sufficient knowledge transfer program, and an inconsistent performance management process.	4,2		Maintaining a qualified, competent workforce is important for TRS to achieve its goals and objectives. Turnover in the workforce is inevitable, and the loss of staff may create some delays or reductions in meeting strategic or operational objectives. However, these potential risks are not critical enough to stop TRS from meeting goals or terminate business services. As a result, the overall workforce continuity risk level color is set at Guarded (Blue) because of minimal threats to achieving TRS goals and objectives.	We anticipate overall workforce continuity risks decreasing over the next 12-24 months due to various Human Resources (HR) initiatives. These include implementing new HR technologies; updating all agency job descriptions; identifying core competencies, knowledge, skills and abilities for positions; addressing gaps in those attributes through increased learning and development opportunities; and resolving staffing needs through workforce planning, succession planning and the realignment of job functions as necessary.

ERM Update – December 2013

Stoplight Report Changes

- Active Health Care Sustainability – new risk category
- “Facilities” changed to “Facilities Planning”
- Legacy Information Systems risk level color changed from Elevated “orange” to Caution “yellow”

Risk Profile Additions/Updates

- New Risk Profile – Active Health Care Sustainability
- Goal or Overall Risk
 - Facilities Planning and Workforce Continuity
- Risk Level and/or Trending Information
 - Credit, Employer Reporting, Governmental/Association Relations & Legislation, Investment Operations, Investment Reporting, Legacy Information Systems, Open Government, Pension Funding, Regulatory, Compliance & Litigation, and TEAM Program

ERM Update – December 2013

Risk Assessments

- New Risk Assessments
 - Accounting & Reporting
 - Active Health Care Sustainability
 - Budget
 - Customer Service
 - Facilities Planning
 - Governmental/Association Relations & Legislation
 - Investments Records Management
 - Legacy Information Systems
 - Pension Benefit Administration

- Updated Risk Assessments (reported last year)
 - Health Care Administration
 - Information Security & Confidentiality
 - Pension Funding
 - Purchasing & Contracts
 - Retiree Health Care Funding
 - TEAM Program (reported June 2013)
 - Workforce Continuity

Conclusion

Summary for this Reporting Period

- Risk assessments for 16 Stoplight Report categories completed this reporting period
 - In addition to monitoring activities, management is further mitigating their higher risks through action items

ERM Activities for Next Year

- Complete Risk Assessments
 - Ethics & Fraud Prevention
 - Investment Operations
 - Investment Reporting
 - Regulatory, Compliance & Litigation
- Update Risk Assessments
 - Stoplight Report
 - TEAM Program projects
- Ad-hoc Risk Assessments

Tab 3

Value of ERM from the Perspective of the User

Marianne Woods Wiley

Illustration of ERM in Action Through the Strategic Plan

TRS Strategic Plan FY 2013-2017 Excerpt

Goal 3: Build and maintain strong, customer-focused business relationships.

Objective for Goal 3:

Process 98 percent of initial annuity payments to TRS retirees when first due.

Outcome Measure:

Percentage of annuity payments processed within 31 days of receipt of all required documents.

Strategies:

- Provide quality initial and ongoing staff training.
- Cross-train staff members to provide assistance during peak periods.
- Improve existing automated systems used in the delivery of benefits.
- Implement approved statute and rule changes to simplify business processes.
- Conduct periodic review of TRS laws and rules to streamline and simplify.

Output Measure:

Number of retirements.

Pension Benefit Administration Risk Profile

Teacher Retirement System of Texas Risk Profile – December 2013							
Risk Category	Risk Owner	Goal	Overall Risk	Risk Score	Risk Level & Trend	Comments	
						Risk Level	Trending
Pension Benefit Administration	Marianne Woods Wiley	Accurate delivery of benefits to TRS members, retirees and beneficiaries, including systems monitoring and controls related to accurate calculations and benefit payments to others.	Ineffective delivery of benefits could lead to inaccurate information, inaccurate benefits/ payments, dissatisfied members, retirees, or beneficiaries, and loss of credibility, adverse public perception, increased scrutiny, and oversight.	4,1		Current controls and monitoring assure accurate delivery of benefits. Accuracy and timeliness of benefit delivery meets or exceeds expectations as evidenced through audits and performance metrics.	Expect trend to be constant unless major legislative changes are passed, a larger than usual number of members retire, and/or TEAM requires more subject matter expert involvement than anticipated.

Pension Benefit Administration Risk Report

GOAL	OVERALL RISK	OBJECTIVE
Accurate delivery of benefits to TRS members, retirees and beneficiaries, including systems monitoring and controls related to accurate calculations and benefit payments to others.	Ineffective delivery of benefits could lead to inaccurate information, inaccurate benefits/ payments, dissatisfied members, retirees, or beneficiaries, and loss of credibility, adverse public perception, increased scrutiny, and oversight.	Process 98% of initial annuity payments to TRS retirees when first due.

SUMMARY

Mitigations are appropriate to address the level of risk for this risk category and the risk owner accepts all risks. No additional mitigation strategies are planned at this time. Key mitigations include cross-training/training, verification process, quarterly testing, TRS Policy Decision Repository, and prioritizing the workload.

RISK DETAILS

Risk Description	Mitigations	
1. human error	<ul style="list-style-type: none"> ▪ system edits and reports ▪ processes and procedures ▪ verification process 	<ul style="list-style-type: none"> ▪ internal audits and quarterly testing ▪ performance evaluations ▪ periodic quality checks
2. complexity of the pension plan	<ul style="list-style-type: none"> ▪ policies and procedures ▪ review applicability of rules, policies, and procedures 	<ul style="list-style-type: none"> ▪ training ▪ TRS Policy Decision Repository ▪ automated systems
3. sustained reliance on legacy information systems (e.g., level of staff effort to maintain systems, performance issues)	<ul style="list-style-type: none"> ▪ TEAM implementation ▪ system performance monitoring and diagnostics 	<ul style="list-style-type: none"> ▪ regular maintenance of systems ▪ policies and procedures
4. conflicting priorities due to TEAM implementation	<ul style="list-style-type: none"> ▪ backfills approved ▪ streamline work processes 	<ul style="list-style-type: none"> ▪ cross-training ▪ prioritize workload

Pension Benefit Administration Risk Report

Risk Description	Mitigations
5. spikes in retirement or other service areas due to legislative changes create backlog	<ul style="list-style-type: none"> ▪ cross-training ▪ prioritize workload ▪ streamline work processes ▪ overtime pay ▪ proactive member communication

Action Item	Owner	Target Date	Revised	Status	Comments
None at this time.					

Monitoring Activities		
Key Mitigation	Monitored By	Monitoring Process
Quarterly Testing (Risk 1)	Benefit Processing, Internal Audit	Ongoing quarterly testing of benefit payments and resolve any exceptions.
Verification Process (Risk 1)	Benefit Services	Ongoing secondary review.
TRS Policy Decision Repository (Risk 2)	Executive Management	Administrative decisions made to clarify application of laws and rules.
Cross-Training/Training (Risk 2, 4, 5)	Benefit Services Management	Training with new staff and refresher and cross-training with existing staff; within and across departments.
Prioritize Workload (Risk 4, 5)	Benefit Processing Management	Weekly management team meetings to review workload and age of documents in order to prioritize.

Perspective of the User

Value/Benefits to me:

- Risks and controls are identified and determined adequate or inadequate so that management can be satisfied with the current conditions or take action to improve the current conditions
- Team building occurs naturally when we get together to document and rate the risks
- Vendors and internal staff are held accountable for mitigating risk
- Audits are facilitated because risks and controls/mitigations are already identified
- ERM helps managers know where to concentrate resources

APPENDIX

A. Risk Report Details

ACCOUNTING & REPORTING RISK REPORT

RISK OWNER

Don Green

REPORTING DATE

December 2013

GOAL

OVERALL RISK

OBJECTIVES

Maintain and monitor the integrity, accuracy, and completeness of financial information and timeliness of reporting.	Materially inaccurate financial information and reports would result in Board of Trustees and Texas Legislature decisions being made on flawed data and adverse or qualified audit opinions.	<ul style="list-style-type: none"> • Ensure timely and accurate reporting for decision-making purposes. • Obtain favorable or unqualified audit results.
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SUMMARY

Mitigations are appropriate to address the level of risk for this risk category and the risk owner accepts a majority of the risks. Other risks need further mitigation and action items are planned or in progress for those risks. Key mitigations include policies and procedures, hiring additional experienced personnel, and quality assurance processes. Two notable activities for this risk category include the following:

- Received Certificate of Achievement for Excellence in Financial Reporting for fiscal year ended August 31, 2012.
- Favorable 2013 Comptroller Post-Payment preliminary audit results.

RISK DETAILS

Risk Description	Mitigations	
1. inadvertent errors, duplicates, or omissions	<ul style="list-style-type: none"> ▪ quality control process ▪ documented policies and procedures ▪ hiring additional personnel 	<ul style="list-style-type: none"> ▪ exception reports ▪ reconciliations ▪ audit trails
2. missed oversight or regulatory deadline	<ul style="list-style-type: none"> ▪ documented policies and procedures ▪ hiring additional personnel 	<ul style="list-style-type: none"> ▪ planning schedule ▪ Outlook reminders
3. incomplete data due to system or human error	<ul style="list-style-type: none"> ▪ quality control process ▪ documented policies and procedures ▪ hiring additional personnel 	<ul style="list-style-type: none"> ▪ exception reports ▪ reconciliations ▪ audit trails
4. inaccurate data due to system or human error	<ul style="list-style-type: none"> ▪ quality control process ▪ documented policies and procedures ▪ hiring additional personnel 	<ul style="list-style-type: none"> ▪ exception reports ▪ reconciliations ▪ audit trails

ACCOUNTING & REPORTING RISK REPORT

Risk Description	Mitigations	
5. lack of training	<ul style="list-style-type: none"> ▪ documented policies and procedures ▪ training budget 	<ul style="list-style-type: none"> ▪ documented workpapers ▪ hiring experienced personnel
6. misunderstanding instructions or training materials	<ul style="list-style-type: none"> ▪ documented policies and procedures ▪ documented workpapers 	<ul style="list-style-type: none"> ▪ hiring experienced personnel
7. competing priorities	<ul style="list-style-type: none"> ▪ supervisory guidance ▪ cross-training ▪ contract workers 	<ul style="list-style-type: none"> ▪ delegation ▪ hiring additional, experienced personnel
8. poorly defined information requests (external)	<ul style="list-style-type: none"> ▪ obtain clarification ▪ good communication skills 	<ul style="list-style-type: none"> ▪ hiring experienced personnel
9. lack of information or unclear communication (internal)	<ul style="list-style-type: none"> ▪ obtain clarification ▪ documented policies and procedures ▪ good communication skills 	<ul style="list-style-type: none"> ▪ documented workpapers ▪ hiring experienced personnel
10. inadequate or poorly executed quality control process	<ul style="list-style-type: none"> ▪ hiring experienced personnel ▪ multiple reviewers when needed 	<ul style="list-style-type: none"> ▪ documented policies and procedures ▪ checklists
11. labor intensive manual data collection process	<ul style="list-style-type: none"> ▪ automate processes ▪ streamline manual processes 	<ul style="list-style-type: none"> ▪ adequate staffing resources
12. misunderstanding or misinterpretation by the report user	<ul style="list-style-type: none"> ▪ clearly communicate information ▪ provide footnotes 	<ul style="list-style-type: none"> ▪ document assumptions

Action Item	Owner	Target Date	Revised	Status	Comments
Enhance time management process (e.g., scheduling appointments to minimize interruptions) (Risk 7)	General Accounting	November 2013		Planned	
Assign functional contacts for General Accounting questions (Risk 7)	General Accounting	October 2013		Complete	Due to the Payroll Team hiring a new employee to assist with payroll, leave, and insurance, now we are able to direct all questions to one person in Payroll which has minimized interruptions. We also hired a contract employee that is streamlining the timesheet process, which will give us more time to provide customer service.

ACCOUNTING & REPORTING RISK REPORT

Action Item	Owner	Target Date	Revised	Status	Comments
Implement new financial system (Risk 11)	General Accounting	Pending Completion of Envision Phase		In Progress	The Financial System Replacement Project is part of the TEAM Program.

Monitoring Activities			
Key Mitigation	Monitored By	Monitoring Process	Comments
Policies and procedures (Risk 1, 2, 3, 4, 5, 6, 9, 10)	General Accounting	Reviewed and updated annually.	Provided to the State Auditor’s Office during the CAFR audit.
Hiring additional, experienced personnel (Risk 1, 2, 3, 4, 5, 6, 7, 8, 9, 10)	General Accounting	Job description review, qualifications screening, reference and background checks, and skills-based testing. Feedback during probationary period.	
Quality control processes (Risk 1, 3, 4)	General Accounting	Maintain up-to-date desk procedures. Ongoing supervisory review.	

ACTIVE HEALTH CARE SUSTAINABILITY RISK REPORT

RISK OWNER

Betsey Jones

REPORTING DATE

December 2013

GOAL

Facilitate long-term soundness of TRS-ActiveCare in order to pay eligible participant health care claims.

OVERALL RISK

Inadequate funding by the state and participating entities could affect sustainability.

OBJECTIVE

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

SUMMARY

Mitigations are appropriate to address the level of risk for this risk category and the risk owner accepts all risks. An action item to conduct a *TRS-ActiveCare Sustainability Study* is planned. This will provide further information on alternatives and options. Key mitigations include the TRS board has the authority to change benefits and/or premiums at any time, continuous monitoring and analysis of actual funding and trends to ensure adequate funding on an annual basis, contract/vendor monitoring, and participating districts' incentive to provide affordable health coverage by contributing above the minimum.

RISK DETAILS

Risk Description	Mitigations	
1. change in legislative policy direction	<ul style="list-style-type: none"> ▪ proposed legislation reviewed by TRS analyst ▪ alternatives identified in <i>TRS-ActiveCare Sustainability Study</i> ▪ fiscal notes prepared 	<ul style="list-style-type: none"> ▪ active communication with legislators and stakeholders ▪ participating entities may increase their contributions above the required minimum
2. reductions in state funding or required entity funding	<ul style="list-style-type: none"> ▪ districts have an incentive to provide affordable health coverage by contributing above the required minimum 	<ul style="list-style-type: none"> ▪ adjust premiums and/or benefits
3. funding shortage	<ul style="list-style-type: none"> ▪ adjust premiums and/or benefits ▪ alternatives identified in <i>TRS-ActiveCare Sustainability Study</i> 	<ul style="list-style-type: none"> ▪ continuous monitoring to ensure adequate funding for the plan year
4. incorrect assumptions for cost trends, population, payroll growth, etc., underestimate liabilities when setting premium rates	<ul style="list-style-type: none"> ▪ continuous monitoring and analysis of actual experience and trends 	<ul style="list-style-type: none"> ▪ adjust premiums and/or benefits

ACTIVE HEALTH CARE SUSTAINABILITY RISK REPORT

Risk Description	Mitigations	
5. catastrophic claims due to natural disasters or pandemic	<ul style="list-style-type: none"> ▪ seek greater short-term provider discounts 	
6. legislative coverage mandates increase claims costs (including the Affordable Care Act (ACA))	<ul style="list-style-type: none"> ▪ monitor proposed legislation ▪ adjust premiums and/or benefits 	
7. violation of contract terms by vendors, vendor/provider fraud, limited vendor competition	<ul style="list-style-type: none"> ▪ use reputable vendors ▪ robust vendor procurement process ▪ external independent claims audits ▪ obtain/review SSAE 16 reports ▪ continuous vendor monitoring and monthly reporting ▪ performance guarantees and financial penalties, suspension, termination ▪ healthcare consultants vendor disaster recovery plan 	<ul style="list-style-type: none"> ▪ continuous claims monitoring to identify anomalies ▪ large \$ claims reviewed by internal staff ▪ third party verification (independent healthcare consultants & auditors) ▪ customer satisfaction surveys ▪ vendor signed code of conduct statements ▪ alert management ▪ quarterly vendor meetings ▪ confidentiality agreements
8. internal fraud	<ul style="list-style-type: none"> ▪ management/supervisor oversight ▪ management/supervisor review ▪ restricted or limited file/system access ▪ secured storage ▪ required fraud and/or ethics training ▪ documented policies and procedures ▪ audit trails ▪ separation of duties 	<ul style="list-style-type: none"> ▪ monthly review & audit of databases ▪ back-up data ▪ alert management ▪ criminal background checks ▪ make staff aware of issues/consequences ▪ secondary review/verification ▪ internal system controls ▪ fraud hotlines (SAO, internal)

Action Item	Owner	Target Date	Revised	Status	Comments
Draft <i>TRS-ActiveCare Sustainability Study</i> (Risk 1, 2)	Director of Health Care Policy & Administration	August 2014		Planned	Study to be completed by August, 2014.

ACTIVE HEALTH CARE SUSTAINABILITY RISK REPORT

Monitoring Activities			
Key Mitigation	Monitored By	Monitoring Process	Comments
TRS board has the authority to change benefits and/or premiums at any time (Risk 2, 3, 4, 6)	TRS staff and Gabriel, Roeder, Smith (GRS)	TRS staff makes recommendation to the board on at least an annual basis.	Some changes may require 60-day participant notification before implementation due to the ACA.
Continuous monitoring and analysis of actual experience and trends to ensure adequate funding on an annual basis (Risk 4)	GRS, TRS staff, BCBSTX, Express Scripts International (ESI)	<ol style="list-style-type: none"> 1. Claims data is submitted monthly to GRS by the vendors and projections are updated by GRS based on actual claims experience. 2. Quarterly vendor meetings to review plan claims experience. 3. Quarterly fluctuation analysis to detect any abnormal activity/cost trend. 	GRS models plan finances with projections several years in advance and provides ad hoc models for any considered benefit changes.
Contract/vendor monitoring (Risk 7)	TRS staff and GRS	Independent external claims and rebate audits, quarterly and annual vendor reviews, and other periodic ad hoc reports.	TRS staff is in daily contact with the vendors regarding a multiplicity of topics so emergent issues are resolved quickly.

BUDGET RISK REPORT

RISK OWNER

Don Green

REPORTING DATE

December 2013

GOAL

Ensure TRS has appropriate budget to provide and sustain resources necessary to successfully carry out TRS' mission, goals, and objectives to serve our members.

OVERALL RISK

Lack of a sufficient operating budget could jeopardize our ability to effectively serve our members.

OBJECTIVE

To efficiently request, plan, allocate, and control the spending of financial resources.

SUMMARY

Mitigations are appropriate to address the level of risk for this risk category and the risk owner accepts a majority of the risks. Other risks need further mitigation and action items are in progress for those risks. Key mitigations include policies and procedures, hiring additional, experienced personnel, and quality assurance processes.

RISK DETAILS

Risk Description	Mitigations	
1. inaccurate data from systems	<ul style="list-style-type: none"> ▪ reconciliations ▪ internal and external audits 	<ul style="list-style-type: none"> ▪ documented desk and departmental procedures
2. lack of training	<ul style="list-style-type: none"> ▪ training through oversight agencies 	<ul style="list-style-type: none"> ▪ cross-training
3. competing priorities	<ul style="list-style-type: none"> ▪ supervisor guidance ▪ cross-training ▪ routine meetings 	<ul style="list-style-type: none"> ▪ prioritize workload ▪ intern program ▪ ongoing communication
4. lack of support from upper management	<ul style="list-style-type: none"> ▪ ongoing communication 	<ul style="list-style-type: none"> ▪ supervisor guidance
5. labor intensive manual processes	<ul style="list-style-type: none"> ▪ automate processes ▪ periodic reassessment 	<ul style="list-style-type: none"> ▪ streamline manual processes ▪ quality control process
6. lack of personnel	<ul style="list-style-type: none"> ▪ recruitment ▪ intern program 	<ul style="list-style-type: none"> ▪ hire additional, experienced staff ▪ contractors
7. lack of cross-communication with departments	<ul style="list-style-type: none"> ▪ quarterly budget meetings ▪ divisional budget representatives 	<ul style="list-style-type: none"> ▪ monitor ongoing expenses against budgeted estimates and identify changes needed for

BUDGET RISK REPORT

Risk Description	Mitigations	
	<ul style="list-style-type: none"> ▪ participatory budget process 	future budgets
8. not aligning budget plans with agency goals and objectives	<ul style="list-style-type: none"> ▪ clearly defined executive management priorities ▪ strong strategic planning process 	<ul style="list-style-type: none"> ▪ monitor ongoing expenses against budgeted estimates and identify changes needed for future budgets
9. failure to receive approval for adequate funding, or appropriate statutory authority to determine funding, from the legislature	<ul style="list-style-type: none"> ▪ follow state budget process ▪ pursue transparency with state leadership 	<ul style="list-style-type: none"> ▪ seek input as appropriate from all stakeholders

Action Item	Owner	Target Date	Revised	Status	Comments
Hiring additional, experienced personnel (Risk 3)	Budgeting	December 2013		Complete	Budget Team hired additional, experienced personnel and is now fully staffed.
Implement new financial system (Risk 5)	General Accounting	Pending Completion of Envision Phase		In Progress	The Financial System Replacement Project is part of the TEAM Program.

Monitoring Activities			
Key Mitigation	Monitored By	Monitoring Process	Comments
Policies and procedures (Risk 1)	Budgeting	Reviewed and updated annually.	Provided to the State Auditor's Office during CAFR audit.
Quality control processes (Risk 5)	Budgeting	Maintain up-to-date desk procedures. Ongoing supervisory review.	
Hiring additional, experienced personnel (Risk 6)	Budgeting	Job description review, qualifications screening, reference and background checks, and skills-based testing. Feedback during probationary period.	

CUSTOMER SERVICE RISK REPORT

RISK OWNER

Marianne Woods Wiley

REPORTING DATE

December 2013

GOAL

Deliver superior service to members and internal/ external customers.

OVERALL RISK

Inadequate customer service could result in dissatisfied members or customers and could lead to increased scrutiny and oversight.

OBJECTIVES

- Minimize amount of time members spend waiting to speak to a counselor.
- Maintain a Benefit Counseling Department quality average score at the “successful” rating.

SUMMARY

Mitigations are appropriate to address the level of risk for this risk category and the risk owner accepts a majority of the risks. One mitigation strategy is planned to further reduce the risk of employee staffing levels being inadequate or experiencing unexpected turnover. Key mitigations include the Quality Assurance Program, surveys, cross-training/training, and the verification process. A recent activity for this risk category includes implementing a callback feature for members to have the opportunity to receive a callback versus staying on hold.

RISK DETAILS

Risk Description	Mitigations	
1. employee staffing level inadequate or unexpected turnover	<ul style="list-style-type: none"> ▪ hiring process ▪ budget approved for additional staff 	<ul style="list-style-type: none"> ▪ streamline work processes ▪ cross-training
2. spikes in retirement or other service areas due to legislative changes create backlog	<ul style="list-style-type: none"> ▪ cross-training ▪ prioritize workload ▪ streamline work processes 	<ul style="list-style-type: none"> ▪ overtime pay ▪ proactive member communication
3. counseling staff giving out incorrect information	<ul style="list-style-type: none"> ▪ training ▪ Quality Assurance Program ▪ performance evaluations ▪ surveys 	<ul style="list-style-type: none"> ▪ ongoing feedback on accuracy and quality of counseling from members and retirees
4. conflicting priorities due to TEAM implementation	<ul style="list-style-type: none"> ▪ backfills approved ▪ streamline work processes 	<ul style="list-style-type: none"> ▪ cross-training ▪ prioritize workload

CUSTOMER SERVICE RISK REPORT

Risk Description	Mitigations
5. Benefit Services staff distributes incorrect information	<ul style="list-style-type: none"> ▪ training ▪ verification process ▪ performance evaluations ▪ processes and procedures <ul style="list-style-type: none"> ▪ periodic quality checks ▪ system edits and reports ▪ internal audits and quarterly testing

Action Item	Owner	Target Date	Revised	Status
Research skills-based testing for benefit counselors (Risk 1)	Benefit Counseling, Human Resources	9/2014		Planned

Monitoring Activities		
Key Mitigation	Monitored By	Monitoring Process
Quality Assurance Program (Risk 3)	Benefit Counseling	Monthly call reviews and coaching sessions.
Surveys (Risk 3)	Benefit Counseling, Communications	Review survey results and take action when necessary.
Verification Process (Risk 5)	Benefit Services	Ongoing secondary review.
Cross-Training/Training (All risks)	Benefit Services Management	Training with new staff and refresher and cross-training with existing staff; within and across departments.

FACILITIES PLANNING RISK REPORT

RISK OWNER

Don Green

REPORTING DATE

December 2013

GOAL

Develop a long-term space plan for TRS facilities.

OVERALL RISK

Inadequate facilities planning could result in less than desirable conditions for TRS members, visitors, and staff and could jeopardize our ability to continue providing an exemplary level of service to our members.

SUMMARY

Risks to facilities planning include inadequate planning process, unanticipated changes in space requirements, and inadequate funding for a spacing solution. Key mitigations include communicating issues, collaborating with management on spacing needs and identifying and monitoring spacing needs during the annual budget process. Planned actions to mitigate risks to an appropriate level include developing formal plans for short and long-range facility planning strategies and ensuring that funding is approved to implement the spacing solution. Two notable activities include the following:

- Space assessment completed by the Texas Facilities Commission in July 2011 identified underutilized space at the Red River campus.
- Engaged a space consultant to evaluate and identify options to better utilize space at the Red River campus.

RISK DETAILS

Risk Description	Mitigations	
1. planning process may be inadequate	<ul style="list-style-type: none"> ▪ communicating issues to board of trustees and state legislative leadership 	<ul style="list-style-type: none"> ▪ strategic planning process highlights physical facilities and capital improvements
2. unanticipated changes in space requirements create immediate and short-term challenges	<ul style="list-style-type: none"> ▪ collaborate with management on spacing needs for employees and contractors 	<ul style="list-style-type: none"> ▪ use consultant to evaluate space utilization
3. lack of planning could result in inadequate funding for spacing solution	<ul style="list-style-type: none"> ▪ during the budget process identify anticipated space needs and request funding 	<ul style="list-style-type: none"> ▪ monitor budget and identify available funds for immediate needs

FACILITIES PLANNING RISK REPORT

Action Item	Owner	Target Date	Revised	Status
Task force will be formed to study space utilization options (Risk 1)	Chief Financial Officer	12/2013		In Progress
Research and consider contracting with a master planning consultant (Risk 1)	Chief Financial Officer	12/2013		Planned
Develop formal plans for short and long-range facility planning strategies (Risk 1)	Chief Financial Officer	6/2014		Planned
Evaluate options provided by space utilization consultant and make recommendations to management (Risk 2)	Chief Financial Officer	Ongoing		In Progress
Work with state leadership to ensure that funding will be approved (Risk 3)	Chief Financial Officer	6/2015		Planned

Monitoring Activities		
Key Mitigation	Monitored By	Monitoring Process
Communicating issues to board of trustees and state legislative leadership (Risk 1)	Executive Management	Quarterly board meetings.

GOVERNMENTAL/ASSOCIATION RELATIONS & LEGISLATION RISK REPORT

RISK OWNER

Ray Spivey

REPORTING DATE

December 2013

GOAL

Maintain effective communications and positive relations with the Legislature, associations, and other public parties.

OVERALL RISK

Poor communications could lead to adverse relations, unfavorable legislation, and restricted funding.

SUMMARY

Two risks on inadequate communications and perception of lobbying were identified. Based on the mitigations in place, the risk owner accepts both risks. No additional mitigation strategies are planned at this time. Proactive communication is a key mitigation.

RISK DETAILS

Risk Description	Mitigations	
1. inadequate communications with Legislature and other external groups	<ul style="list-style-type: none"> ▪ coordinate releasable information with TRS directors, including notifying Governmental Relations of any communications to external groups by other TRS divisions 	<ul style="list-style-type: none"> ▪ plan key TRS meetings with external groups and continually update group contact lists ▪ follow-up with person-to-person communications ▪ proactive communication
2. perception of lobbying	<ul style="list-style-type: none"> ▪ presentation on statutes to the board ▪ proactive communication 	<ul style="list-style-type: none"> ▪ maintain constant awareness of no lobbying

Action Item	Owner	Target Date	Revised	Status	Comments
None at this time.					

Monitoring Activities		
Key Mitigation	Monitored By	Monitoring Process
Proactive communications	Governmental Relations	Maintain contact with our stakeholder groups and provide timely responses to requests or inquiries.

HEALTH CARE ADMINISTRATION RISK REPORT

RISK OWNER

Betsey Jones

REPORTING DATE

December 2013

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 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.

SUMMARY

Mitigations are appropriate to address the level of risk for this risk category and the risk owner accepts all risks. No additional mitigation strategies are planned at this time. One key mitigation for this risk category is contract/vendor monitoring.

RISK DETAILS

Risk Description	Mitigations	
1. change in legislative policy direction	<ul style="list-style-type: none"> ▪ proposed legislation reviewed by TRS analyst 	<ul style="list-style-type: none"> ▪ active communication with legislators ▪ fiscal notes prepared
2. inadequate information systems	<ul style="list-style-type: none"> ▪ rely on IT for solutions 	
3. reliance on external vendors (i.e., violation of contract terms, vendor/provider fraud, limited vendor competition)	<ul style="list-style-type: none"> ▪ financial performance penalties, suspension, termination ▪ independent healthcare consultants & auditors ▪ monthly reporting ▪ quarterly meetings ▪ vendor disaster recovery plan 	<ul style="list-style-type: none"> ▪ warnings/suspensions/termination of contract ▪ contractual performance penalties ▪ provider fraud risk for Medicare Advantage participants transferred to vendor ▪ replace vendor ▪ rely on vendor controls
4. unauthorized release of confidential information	<ul style="list-style-type: none"> ▪ business associate agreements under HIPAA ▪ require vendors to report monthly any unauthorized release of information 	<ul style="list-style-type: none"> ▪ utilize secure email ▪ documented policies and procedures ▪ confidentiality agreements/policy ▪ request changes in writing

HEALTH CARE ADMINISTRATION RISK REPORT

Risk Description	Mitigations	
	<ul style="list-style-type: none"> ▪ sign code of conduct statement ▪ limited disclosure of confidential information on documents ▪ unique member identifiers 	<ul style="list-style-type: none"> ▪ member notifications ▪ required annual training on HIPAA ▪ obtain TRS-628 (HIPAA) form
5. failure to comply with laws/rules/regulations/policies and procedures	<ul style="list-style-type: none"> ▪ departmental policies and procedures ▪ maintain & access copy of laws/rules ▪ weekly staff meeting ▪ periodic staff training ▪ ethics training ▪ risk for Medicare Advantage participants transferred to vendor 	<ul style="list-style-type: none"> ▪ access to vendors' policies/procedures ▪ annual compliance statement ▪ escalate issues ▪ consult with co-workers ▪ review laws ▪ mandatory confidentiality/HIPAA training
6. inadequate staffing and resources (i.e., succession planning)	<ul style="list-style-type: none"> ▪ departmental policies and procedures ▪ employee job descriptions ▪ cross-training ▪ share work 	<ul style="list-style-type: none"> ▪ prioritize workload/activities ▪ hire full-time staff or temps ▪ flexible project teams
7. ineligible participants due to reliance on districts to determine eligibility (TRS-ActiveCare)	<ul style="list-style-type: none"> ▪ designated district benefit administrators (BA) ▪ restricted/secure access by BAs to vendors enrollment systems ▪ BA must verify eligibility by signature for each enrollee 	<ul style="list-style-type: none"> ▪ districts have financial incentive to be accurate and timely ▪ TRS provides eligibility guidelines to BAs

Action Item	Owner	Target Date	Revised	Status	Comments
None at this time.					

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

INFORMATION SECURITY & CONFIDENTIALITY RISK REPORT

RISK OWNERS

Amy Morgan/Ken Welch

REPORTING DATE

December 2013

GOAL	OVERALL RISK	OBJECTIVE
Maintain the integrity, availability, and protection in the storage, use, and transfer of TRS information resources (in any form or medium).	Unauthorized or unintentional release/access of TRS confidential information could result in state or federal law violations, sanctions against TRS or its employees, and harm the best interests of TRS.	Comply with laws, rules, policies, and fiduciary duties regarding the security and confidentiality of information, including TRS participant records, personal health information, investment information, and other categories of information classified as high risk.

SUMMARY

Risks to information security and confidentiality include non-compliance with laws and regulations, accidental or intentional exposure or disclosure of confidential information to unauthorized parties, external parties gain unauthorized access, and inappropriate modification of critical information maintained by TRS. Key mitigations include policies and procedures, records retention program, system security, physical security, criminal history background checks, annual review of user access, training and awareness, and contract agreements. Planned actions to mitigate risks to an appropriate level include developing departmental specialized HIPAA training, researching onsite shredding service, implementing the state encryption rule when published, completing encryption of removable media, confirming vendors have mitigation/remediation plans for document recovery, and enhancing plans to respond to natural disasters or accidents. Recent activities include:

- The revised Confidentiality/HIPAA web-based training, incorporating recent changes to HIPAA, is complete and has been rolled out in phases TRS-wide beginning September 2013. Individual specialized departmental training for staff regularly accessing HIPAA information is under development.
- A web-based tool that sends an email confirmation of review to the trainee for policies issued to staff and contractors was implemented. Confirmations are stored in SharePoint to track compliance.

RISK DETAILS

Risk Description	Mitigations
1. non-compliance with federal or state laws and regulations result in civil or criminal penalties imposed on TRS or TRS	<ul style="list-style-type: none"> ▪ training and awareness ▪ policies and procedures ▪ audit and system security review ▪ physical security ▪ system security ▪ corrective action

INFORMATION SECURITY & CONFIDENTIALITY RISK REPORT

Risk Description	Mitigations	
employees	<ul style="list-style-type: none"> ▪ legal review 	<ul style="list-style-type: none"> ▪ Records Retention Schedule
2. employees or contract workers accidentally or intentionally expose or disclose confidential information to unauthorized parties (e.g., theft by contractor, kickback for disclosing)	<ul style="list-style-type: none"> ▪ training and awareness ▪ policies and procedures ▪ monitoring compliance ▪ corrective action ▪ physical security ▪ system security 	<ul style="list-style-type: none"> ▪ management/supervisor oversight/review ▪ employer reference checks ▪ criminal history background checks ▪ annual review of system access ▪ vendor contract agreements
3. vendors, business partners, or external parties expose or disclose confidential information to unauthorized parties	<ul style="list-style-type: none"> ▪ system security ▪ communication ▪ vendor contract agreements ▪ policies and procedures 	<ul style="list-style-type: none"> ▪ non-disclosure agreements ▪ business associate agreements ▪ physical security
4. vendors, business partners, or external parties gain unauthorized access to confidential information electronically or physically	<ul style="list-style-type: none"> ▪ system security ▪ vendor contract agreements ▪ non-disclosure agreements ▪ policies and procedures 	<ul style="list-style-type: none"> ▪ business associate agreements ▪ physical security ▪ communication
5. natural disaster or accident exposes hardcopy confidential information (onsite or in the vendor's possession)	<ul style="list-style-type: none"> ▪ vendor selection for disaster recovery services ▪ training and awareness 	<ul style="list-style-type: none"> ▪ vendor's mitigation/remediation plan ▪ vulnerability assessments ▪ policies and procedures
6. employees or external parties inappropriately (accidentally or intentionally) modify critical information maintained by TRS	<ul style="list-style-type: none"> ▪ restrict privileged access used for critical data files using owner-defined access criteria ▪ audit and system security review ▪ annual review of system access ▪ policies and procedures 	<ul style="list-style-type: none"> ▪ confirm appropriate use of systems and data ▪ control validity of work processes in system development (and during program changes) ▪ training and awareness

Action Item	Owner	Target Date	Revised	Status	Comments
Enhance the existing new employee orientation training and provide to current employees (Risk 1, 2, 6)	Health & Insurance Benefits, Human Resources, Information Technology, Legal	1/2013	9/2013	Complete	The new employee orientation training has been revised to include references to HIPAA (as revised by the Omnibus Rule), TRS' <i>Confidentiality Policy</i> and related procedures and standards, and updated definitions. This training was converted to a web-based

INFORMATION SECURITY & CONFIDENTIALITY RISK REPORT

Action Item	Owner	Target Date	Revised	Status	Comments
	Services, Risk Management	5/2013	5/2014	In Progress	<p>format and it includes questions related to Information Security since the topics are similar.</p> <p>An inventory of departments who handle PHI has been completed. Processes and procedures for conducting specialized departmental training will be requested 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 core-training elements. Since this training is specific to departments accessing HIPAA information, more time is required for development and review. The target date was revised to May 2014. Online HIPAA training options will also be researched.</p>
Research onsite shredding service (Risk 1, 2, 5)		12/2013		In Progress	Researching options and pricing for onsite shredding services.
Implement state encryption rule when published (Risk 2, 3)	Information Technology	12/2013		Planned	To date, the encryption rule has not been published.
Provide information inventory report to information owners for recertification (Risk 2, 6)	Risk Management	9/2012	11/2012	Complete	Collected recertified information inventories during the annual business impact analysis for fiscal year 2013. Newly formed departments also provided information inventories. This action item is complete and will be added to the list of ongoing mitigations for these risks.
System security enhancements (scanning, encryption, and monitoring) (Risk 1, 2, 3, 4)	Information Technology	1/2013	3/2014	<p>Complete</p> <p>Partially Complete</p>	<p><i>Encryption at Rest:</i></p> <ul style="list-style-type: none"> • Laptop drive encryption is complete. • Desktop PC drive encryption is complete. <p><i>Removable media encryption:</i></p> <ul style="list-style-type: none"> • Backup tape encryption is complete.

INFORMATION SECURITY & CONFIDENTIALITY RISK REPORT

Action Item	Owner	Target Date	Revised	Status	Comments
				Complete	<ul style="list-style-type: none"> Recommendations for USB drive encryption is in progress. Project was started to implement USB drive encryption. Target date is March 2014.
				Complete	<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>
				Complete	<p><i>Vulnerability Scanning:</i> 12/2013: Received final report and remediated or mitigated all exploitable vulnerabilities.</p> <p>12/2012: Vendor completed an internal vulnerability/security scan. Network Infrastructure & Support has received an initial vulnerability report. Next steps are to review the final report and build an action plan to remediate vulnerabilities.</p>
				Complete	<p><i>Security Monitoring:</i> A managed security services provider was selected in June and the monitoring systems and processes are in place. Network traffic and critical systems are being monitored 24 hours a day, 365 days a year for potential security threats. Threats are classified and alerting occurs based on criticality and risk.</p>
Confirm vendors selected for disaster recovery services have mitigation/ remediation plans to assist with document	Contract Management	Pending next Request For Offer (RFO)		Planned	Will review RFO contract requirements to include disaster recovery service vendors have plans in place for recovery after an incident.

INFORMATION SECURITY & CONFIDENTIALITY RISK REPORT

Action Item	Owner	Target Date	Revised	Status	Comments
recovery after an incident (Risk 5)		contract renewal			
Enhance disaster recovery plans to respond to natural disasters or vendor accidents (Risk 5)	Risk Management	12/2013		Planned	The business impact analysis process will begin October 2013 for fiscal year 2014. During this process, the Incident Management Team plan will be reviewed to include responding to natural disasters and vendor accidents.

Monitoring Activities			
Key Mitigation	Monitored By	Monitoring Process	Comments
Policies and procedures (All risks)	Management	Review/update policies and procedures according to the normal review cycle or update them if significant changes are needed.	TRS' <i>Confidentiality Policy</i> and related procedures and standards were approved in April 2012; the next review cycle is April 2017. The Information Security Policy was updated July 2013. The Information Security Manual was reviewed and updated on October 23, 2013.
Records Retention Program (Risk 1)	Records Management, 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 was 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 records.
System Security and Physical Security (Risk 1, 2, 3, 4)	Information Technology, Staff Services, Information Owners	<ul style="list-style-type: none"> ▪ Information Security Officer conducts annual: <ul style="list-style-type: none"> ○ Security risk assessments and makes recommendations. ○ Vulnerability assessments and 	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

INFORMATION SECURITY & CONFIDENTIALITY RISK REPORT

Monitoring Activities			
Key Mitigation	Monitored By	Monitoring Process	Comments
		<p style="text-align: center;">penetration testing.</p> <ul style="list-style-type: none"> ▪ Security staff monitors both West and East buildings 24 hours a day. Routine security patrols ensure critical areas are secured. ▪ 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. 	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 employees, applicants, consultants, contractors and workers. Employees are also responsible for self-reporting incidents.	This is a very thorough check that provides TRS with information to determine future employment or continued employment based on the type of incident.
Annual review of user access by managers and information owners (Risk 2, 3, 6)	Information Security	Access criteria are continually reviewed and adjusted to match changes/modifications in automated performance of job functions.	
Training and awareness (e.g., use of applications) (Risk 2, 3, 6)	Human Resources, Information Security, Management	<ul style="list-style-type: none"> ▪ Human Resources staff provides and documents training for confidentiality, HIPAA, information security, fraud, waste, and abuse prevention, and ethics. ▪ TRS staff is provided individual specialized departmental training and instruction on confidentiality/HIPAA 	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 was developed.

INFORMATION SECURITY & CONFIDENTIALITY RISK REPORT

Monitoring Activities			
Key Mitigation	Monitored By	Monitoring Process	Comments
		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. <ul style="list-style-type: none"> ▪ Information Security provides and documents annual training. ▪ Supervisory oversight by department manager. 	
Vendor contract agreements; non-disclosure agreements; and business associate agreements (Risk 3, 4)	Contract Management	Contract management staff requests non-disclosure and business associate agreements as part of the vendor contract agreement and RFO process.	Contract management follows a standard process to request completion of these agreements during contract negotiations.

INVESTMENTS RECORDS MANAGEMENT RISK REPORT

RISK OWNER

Sylvia Bell

REPORTING DATE

December 2013

GOAL

Preserve and destroy TRS records through adherence to laws and rules, and by applying TRS records management policies and practices.

OVERALL RISK

An ineffective records management program could result in loss or accidental release of records, loss of credibility, delays in accessing/destroying records, and increased scrutiny and oversight.

OBJECTIVE

Improve compliance with the retention schedules with respect to e-records.

SUMMARY

In collaboration with Records Management staff and Legal Services staff, the risk owner is mitigating a majority of the identified risks. Several action items are planned or in progress for those risks. Key mitigations include the annual purge process, training sessions with records liaisons and employees, and ongoing communication with records liaisons. Recent activities for this risk category include the following:

- Retention schedules for the Investment Management Division (IMD) have been consolidated into one schedule (previously seven).
- More active monitoring of email volumes.
- Conducted annual purge.
- File plans created for each IMD team.

RISK DETAILS

Risk Description	Mitigations	
1. noncompliance with retention schedule, policies and procedures	<ul style="list-style-type: none"> ▪ communication with employees regarding retention periods and purge process ▪ annual purge process 	<ul style="list-style-type: none"> ▪ training sessions with records liaisons and employees
2. lack of time and resources to properly manage records	<ul style="list-style-type: none"> ▪ streamline process ▪ file plans 	<ul style="list-style-type: none"> ▪ standardized folder structures
3. lack of understanding of retention schedule and policies	<ul style="list-style-type: none"> ▪ communication with employees regarding retention periods and purge process ▪ annual purge process 	<ul style="list-style-type: none"> ▪ training sessions with records liaisons and employees

INVESTMENTS RECORDS MANAGEMENT RISK REPORT

Risk Description	Mitigations	
4. records retention schedule is not updated or maintained and does not correlate with records actually maintained	<ul style="list-style-type: none"> ▪ training sessions with records liaisons and employees ▪ annual purge process 	<ul style="list-style-type: none"> ▪ review schedules periodically ▪ communication with records liaisons
5. rules are complex and not easily understood	<ul style="list-style-type: none"> ▪ streamline process ▪ standardized folder structures ▪ file plans 	<ul style="list-style-type: none"> ▪ training sessions with records liaisons and employees
6. legal holds are difficult to manage for compliance	<ul style="list-style-type: none"> ▪ send follow-up reminders ▪ standardized folder structures ▪ file plans 	<ul style="list-style-type: none"> ▪ researching automated open records, discovery and legal hold tools
7. lack of resources to manage and respond to open records requests and legal holds - research, response time, and hold time	<ul style="list-style-type: none"> ▪ researching automated open records, discovery and legal hold tools ▪ file plans 	<ul style="list-style-type: none"> ▪ standardized folder structures ▪ prioritizing workload ▪ additional staff
8. over-reliance on expanding IT resources to retain records (e.g., physical equipment, staff)	<ul style="list-style-type: none"> ▪ apply retention schedule ▪ file plans 	<ul style="list-style-type: none"> ▪ budget process
9. numerous repositories for records and data that require technical proficiency to operate for compliance	<ul style="list-style-type: none"> ▪ file plans ▪ standardized folder structures ▪ streamline process 	<ul style="list-style-type: none"> ▪ future planning for enterprise architecture for standardized repositories
10. numerous repositories for records and data that are difficult to manage for compliance	<ul style="list-style-type: none"> ▪ file plans ▪ standardized folder structures ▪ streamline process 	<ul style="list-style-type: none"> ▪ future planning for enterprise architecture for standardized repositories
11. IT resources are not reliable or available for accessing or managing records (e.g., old media, expired licenses)	<ul style="list-style-type: none"> ▪ up-to-date backup procedures ▪ emergency purchasing flexibility ▪ contract for services 	<ul style="list-style-type: none"> ▪ disaster recovery/business continuity exercises

Action Item	Owner	Target Date	Revised	Status	Comments
Annual refresher training for staff on records management policies and procedures (Risk 1, 3, 5)	Records Management	3/2014		Planned	
Complete file plans (Risk 2, 5, 8)	IMD	12/2013		In Progress	
Update retention schedule to correlate with records actually maintained (Risk 4)	IMD, Records Management	8/2014		Planned	

INVESTMENTS RECORDS MANAGEMENT RISK REPORT

Action Item	Owner	Target Date	Revised	Status	Comments
Advising on the handling of records currently on legal hold that have inadequate labeling or timing (Risk 6, 7)	IMD, Legal Services	3/2014		In Progress	Legal is reviewing legal holds to amend the deadlines or update entries to reflect new retention schedule.
Implement records retention schedule in repositories for records and data (Risk 9, 10)	IMD	12/2014		Planned	

Monitoring Activities			
Key Mitigation	Monitored By	Monitoring Process	Comments
Annual purge process (Risk 1, 3, 4)	Records Management	Analyze purge results.	Review volume and record series not purged.
Training sessions with records liaisons and employees (Risk 1, 3, 4, 5)	Records Management	Conduct annual training sessions.	Training sessions include review of the purge process and past history.
Ongoing communication with records liaisons (Risk 4)	Records Management	Communication with liaisons includes annual purge, training, retention schedule amendments, and other records management topics.	

LEGACY INFORMATION SYSTEMS RISK REPORT

RISK OWNER

Amy Morgan

REPORTING DATE

December 2013

GOAL

Provide information systems to meet TRS' business and customer service needs.

OVERALL RISK

Inability to provide adequate and consistent information in a timely fashion via the preferred delivery mechanism.

SUMMARY

Mitigations are appropriate to address the level of risk for this risk category and the risk owner accepts all risks. No additional mitigation strategies are planned at this time. Key mitigations include additional personnel and/or contractors, purchasing and implementing software tools to aid in modernization, focused project management, approving/disapproving and prioritizing work requests, and having open communication with stakeholders.

RISK DETAILS

Risk Description	Mitigations	
1. insufficient number of personnel with appropriate skill sets	<ul style="list-style-type: none"> ▪ justify additional personnel and/or contractors ▪ hire retirees with special skill sets ▪ cross-training ▪ workforce continuity plans 	<ul style="list-style-type: none"> ▪ seek solutions that do not require extensive staffing ▪ outsourcing ▪ prioritize work requests
2. inability to support aging application infrastructure	<ul style="list-style-type: none"> ▪ TEAM Program ▪ modernize applications where feasible within constraints posed by ongoing business demands for maintenance and enhancement of existing system 	<ul style="list-style-type: none"> ▪ replace software tools that have a limited number of vendor support staff ▪ purchase and implement software tools to aid in modernization
3. lack of strategic analysis and development of system due to too much focus on tactical changes	<ul style="list-style-type: none"> ▪ approve/disapprove and prioritize work requests ▪ freeze changes to existing systems unless critical to TRS' goals and objectives ▪ IT strategic plan 	<ul style="list-style-type: none"> ▪ strategic direction from the Board of Trustees, executive management, and Core Management TEAM (CMT)
4. legislative changes that require implementation on legacy information systems that will be retired	<ul style="list-style-type: none"> ▪ justify additional personnel and/or contractors ▪ hire retirees with special skill sets ▪ cross-training 	<ul style="list-style-type: none"> ▪ if possible, implement in TEAM ▪ influence timing of legislative changes

LEGACY INFORMATION SYSTEMS RISK REPORT

Risk Description	Mitigations	
5. decommissioning of legacy information systems	<ul style="list-style-type: none"> ▪ prioritize work requests ▪ focused project management ▪ open communication with stakeholders ▪ testing and quality assurance ▪ maintain buy-in for TEAM 	<ul style="list-style-type: none"> ▪ outsourcing ▪ create extensive inventory and system interdependencies ▪ TEAM governance
6. challenge of running the legacy information systems in parallel to TEAM	<ul style="list-style-type: none"> ▪ continue to actively manage the legacy information system infrastructure ▪ maintain appropriate capacity ▪ justify additional personnel and/or contractors ▪ open communication with stakeholders ▪ outsourcing 	<ul style="list-style-type: none"> ▪ implement automated solutions to verify consistent results ▪ focused project management ▪ leverage existing tools (e.g., Informatica) ▪ maintain buy-in for TEAM

Action Item	Owner	Target Date	Revised	Status	Comments
None at this time.					

Monitoring Activities			
Key Mitigation	Monitored By	Monitoring Process	Comments
Additional personnel and/or contractors (Risk 1, 4, 6)	Information Technology	Backfill positions as needed due to existing resources needed for TEAM.	Hired two Natural programmers to backfill key positions.
Purchase and implement software tools to aid in modernization (Risk 2)	Information Technology	Research and analyze solutions to facilitate modernization.	Proof-of-concept for Pension Line of Business project completed, currently in contract negotiations with a vendor.
Approve/disapprove and prioritize work requests (Risk 3, 4)	Information Technology	As part of the IT governance process, the Core Management Team (CMT) approves and disapproves work requests. CMT prioritization meetings are monthly.	
Focused project management (Risk 5, 6)	Information Technology	Assign experienced project managers to critical projects.	

LEGACY INFORMATION SYSTEMS RISK REPORT

Monitoring Activities			
Key Mitigation	Monitored By	Monitoring Process	Comments
Open communication with stakeholders (Risk 5, 6)	Information Technology	Maintain ongoing communication with stakeholders through status reports, meetings, and presentations.	Weekly status reports on TEAM projects and program, weekly executive briefings, board presentations, and ad hoc reports.

PENSION BENEFIT ADMINISTRATION RISK REPORT

RISK OWNER

Marianne Woods Wiley

REPORTING DATE

December 2013

GOAL	OVERALL RISK	OBJECTIVE
Accurate delivery of benefits to TRS members, retirees and beneficiaries, including systems monitoring and controls related to accurate calculations and benefit payments to others.	Ineffective delivery of benefits could lead to inaccurate information, inaccurate benefits/ payments, dissatisfied members, retirees, or beneficiaries, and loss of credibility, adverse public perception, increased scrutiny, and oversight.	Process 98% of initial annuity payments to TRS retirees when first due.

SUMMARY

Mitigations are appropriate to address the level of risk for this risk category and the risk owner accepts all risks. No additional mitigation strategies are planned at this time. Key mitigations include cross-training/training, verification process, quarterly testing, TRS Policy Decision Repository, and prioritizing the workload.

RISK DETAILS

Risk Description	Mitigations	
1. human error	<ul style="list-style-type: none"> ▪ system edits and reports ▪ processes and procedures ▪ verification process 	<ul style="list-style-type: none"> ▪ internal audits and quarterly testing ▪ performance evaluations ▪ periodic quality checks
2. complexity of the pension plan	<ul style="list-style-type: none"> ▪ policies and procedures ▪ review applicability of rules, policies, and procedures 	<ul style="list-style-type: none"> ▪ training ▪ TRS Policy Decision Repository ▪ automated systems
3. sustained reliance on legacy information systems (e.g., level of staff effort to maintain systems, performance issues)	<ul style="list-style-type: none"> ▪ TEAM implementation ▪ system performance monitoring and diagnostics 	<ul style="list-style-type: none"> ▪ regular maintenance of systems ▪ policies and procedures
4. conflicting priorities due to TEAM implementation	<ul style="list-style-type: none"> ▪ backfills approved ▪ streamline work processes 	<ul style="list-style-type: none"> ▪ cross-training ▪ prioritize workload

PENSION BENEFIT ADMINISTRATION RISK REPORT

Risk Description	Mitigations
5. spikes in retirement or other service areas due to legislative changes create backlog	<ul style="list-style-type: none"> ▪ cross-training ▪ prioritize workload ▪ streamline work processes ▪ overtime pay ▪ proactive member communication

Action Item	Owner	Target Date	Revised	Status	Comments
None at this time.					

Monitoring Activities		
Key Mitigation	Monitored By	Monitoring Process
Quarterly Testing (Risk 1)	Benefit Processing, Internal Audit	Ongoing quarterly testing of benefit payments and resolve any exceptions.
Verification Process (Risk 1)	Benefit Services	Ongoing secondary review.
TRS Policy Decision Repository (Risk 2)	Executive Management	Administrative decisions made to clarify application of laws and rules.
Cross-Training/Training (Risk 2, 4, 5)	Benefit Services Management	Training with new staff and refresher and cross-training with existing staff; within and across departments.
Prioritize Workload (Risk 4, 5)	Benefit Processing Management	Weekly management team meetings to review workload and age of documents in order to prioritize.

PENSION FUNDING RISK REPORT

RISK OWNER

Brian Guthrie

REPORTING DATE

December 2013

GOAL

Sustain a financially sound pension trust fund.

OVERALL RISK

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 rolling target 20-year annual 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

Mitigations are appropriate to address the level of risk for this risk category and the risk owner accepts all risks. No additional mitigation strategies are planned at this time. Key mitigations include:

- Reviewing liabilities annually and mid-year during legislative sessions to assess financial status of the fund.
- Conducting periodic experience studies.
- Reporting and monitoring investment performance on a quarterly basis.
- Performing asset allocation studies and asset liability modeling (ALM) studies at least every 5 years and positioning TRS' portfolio accordingly.
- Working with the Texas Legislature to obtain adequate contribution rates.

RISK DETAILS

Risk Description	Mitigations	
1. actual benefit payouts over the long-term exceed actuarial assumptions	<ul style="list-style-type: none"> ▪ review liabilities annually to assess financial status of the fund ▪ conduct periodic experience studies to ensure that assumptions are still reasonable 	<ul style="list-style-type: none"> ▪ ensure quality of actuary (Request for Offer process, board selection) ▪ ensure all new benefit changes are properly costed

PENSION FUNDING RISK REPORT

Risk Description	Mitigations	
	<ul style="list-style-type: none"> ▪ obtain actuarial audit every 5 years ▪ verify that actual benefit payments are accurate 	<ul style="list-style-type: none"> ▪ internal audit of COLA payments
2. long-term investment returns below 8.0%	<ul style="list-style-type: none"> ▪ report and monitor investment performance on a quarterly basis ▪ perform asset allocation studies and asset liability modeling (ALM) studies at least every 5 years and position portfolio accordingly ▪ actively manage fund assets both internally and externally to add value over passive benchmarks 	<ul style="list-style-type: none"> ▪ maintain a dedicated risk management and monitoring team within Investment Management Division ▪ independent general investment consultant verifies returns ▪ perform tactical allocation adjustments periodically for short-term changes to the market
3. inadequate contribution rate over the long-term	<ul style="list-style-type: none"> ▪ verify the “Actuarially Required Contribution” (ARC) rate annually ▪ state rates and member rates are set to increase between 2013 and 2017 ▪ school districts that don’t participate in OASDI will contribute to the pension fund starting in FY15 	<ul style="list-style-type: none"> ▪ communicate regularly with stakeholders regarding the contribution rates ▪ reductions in state rate automatically trigger reductions in member and district rates which guards against reductions ▪ work with the Texas Legislature to obtain adequate contribution rates
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"> ▪ educate and communicate with stakeholders regarding impact of potential changes ▪ participate in national dialogue on the value and risks of defined benefit plans and share TRS’ research and experience 	<ul style="list-style-type: none"> ▪ conducted benefit design study ▪ educate and communicate with stakeholders on actual impact of GASB 67 and 68

Action Item	Owner	Target Date	Revised	Status	Comments
Fiscal Year 12 Actuarial Valuation as of August 31, 2012 (Risk 1, 2, 3)	Executive Director	12/2012		Complete	Valuation reported to the Board December 2012.
Actuarial Valuation update (mid-year) as of February 28, 2013 (Risk 1, 2, 3)	Executive Director	3/2013		Complete	Valuation update reported to the Board April 2013.

PENSION FUNDING RISK REPORT

Monitoring Activities		
Key Mitigation	Monitored By	Monitoring Process
Review liabilities annually and mid-year during legislative sessions to assess financial status of the fund (Actuarial Valuation) (Risk 1, 2, 3)	Executive Director	FY13 Actuarial Valuation as of August 31, 2013; Valuation will be reported to the Board in December 2013.
Conduct periodic experience studies (Risk 1, 2, 3)	Executive Director	Reporting will be done in FY16 for five-year period ending August 31, 2015.
Report and monitor investment performance on a quarterly basis (Risk 2)	Chief Investment Officer	Reported to the Board on a quarterly basis including reports on individual investment units to the Investment Management Committee.
Perform asset allocation studies and asset liability modeling (ALM) studies at least every 5 years and position portfolio accordingly (Risk 2)	Chief Investment Officer	Asset allocation study to occur in FY14.
Work with the Texas Legislature to obtain adequate contribution rates (Risk 3)	Executive Director	

PURCHASING & CONTRACTS RISK REPORT

RISK OWNER

REPORTING DATE

Don Green

December 2013

GOAL	OVERALL RISK	OBJECTIVES
Maintain effective procurement and contract management systems.	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> Mitigate Procurement risk associated with processing purchases and contracts. Mitigate Contract Management risk through effective monitoring processes.

SUMMARY

Risks for this category include inadequate resources and loss of institutional knowledge, failure to receive timely information, unauthorized access to or release of confidential information, internal fraud, collusion, and competing priorities. Key mitigations include cross-training, team meetings, monitoring staff levels, documented processes and procedures, effective communication, review of procurements and contracts, cross-functional participation, and planning. An ongoing action item includes ensuring that sufficient resources exist throughout the TEAM Program initiative. Maintaining existing mitigations and separation of duties will be important during the transition to a new financial solution and over the course of the TEAM Program initiative.

RISK DETAILS

Risk Description	Mitigations	
1. inadequate resources and loss of institutional knowledge	<ul style="list-style-type: none"> succession planning cross-training and rotation of duties provide positive and pleasant work environment prioritize filling vacant positions one-on-one and team meetings 	<ul style="list-style-type: none"> generate opportunities for cross-training, team building and professional development to minimize turnover adequate funding for FTEs staff development monitor staffing levels
2. failure to receive information in a timely manner	<ul style="list-style-type: none"> effective communication planning monitor statute/rule changes and 	<ul style="list-style-type: none"> update TRS procurement policy and procedures inform staff of new requirements and convey existing procedures as opportunities arise

PURCHASING & CONTRACTS RISK REPORT

Risk Description	Mitigations	
	<ul style="list-style-type: none"> reporting requirements ▪ documented processes and procedures 	
3. unauthorized access to or release of confidential information	<ul style="list-style-type: none"> ▪ documented processes and procedures ▪ management oversight ▪ ensure appropriate forms are included in contractual agreements ▪ fraud training ▪ review procurements 	<ul style="list-style-type: none"> ▪ screen prospective employees ▪ obtain legal review on matters involving confidentiality ▪ maintain contract for fraud hotline ▪ contract review
4. internal fraud	<ul style="list-style-type: none"> ▪ documented processes and procedures ▪ management oversight ▪ review procurements 	<ul style="list-style-type: none"> ▪ segregation of duties ▪ screen prospective employees ▪ contract review
5. collusion with vendor/contractor on major contracts (Healthcare contracts)	<ul style="list-style-type: none"> ▪ cross-functional participation on major contracts ▪ management oversight 	<ul style="list-style-type: none"> ▪ segregation of duties ▪ documented processes and procedures ▪ contract review
6. competing priorities/heavy workload	<ul style="list-style-type: none"> ▪ plan and prioritize work ▪ management oversight ▪ contract administration tracking system (CATS) 	<ul style="list-style-type: none"> ▪ cross-training and rotation of duties ▪ effective communication

Action Item	Owner	Target Date	Revised	Status	Comments
Ensure sufficient resources exist throughout the TEAM Program development (Risk 6)	Purchasing & Contracts	Ongoing		In Progress	Two staff members are heavily involved in TEAM, so resource limitations still exist.

Monitoring Activities			
Key Mitigation	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.

PURCHASING & CONTRACTS RISK REPORT

Monitoring Activities			
Key Mitigation	Monitored By	Monitoring Process	Comments
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, 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, 6)	Purchasing & Contracts Team Leader, 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. Meet one-on-one or as a team to verify priorities and gauge workloads.	Daily communication via multiple methods. Discuss workload, priorities, and other procurement issues.
Review of procurements (Risk 3, 4)	Purchasing & Contracts Team Leader, Contract Administration Coordinator	Ensure all procurements are in accordance with established processes and procedures.	Standardized forms, checklists, and spreadsheets for contracts allows reviewer to easily identify missing or required information; pre-contract and post-contract reviews are conducted.
Contract review (Risk 3, 4, 5)	Purchasing & Contracts Team Leader, Contract Administration Coordinator	Perform periodic review of contracts to ensure that contract requirements, appropriate documentation, deliverables, and payments are in accordance with the terms of the contract and contained in the contract file.	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.

PURCHASING & CONTRACTS RISK REPORT

Monitoring Activities			
Key Mitigation	Monitored By	Monitoring Process	Comments
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 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.

RETIREE HEALTH CARE FUNDING RISK REPORT

RISK OWNER

Betsey Jones

REPORTING DATE

December 2013

GOAL

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

OVERALL RISK

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

OBJECTIVE

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

SUMMARY

Mitigations are appropriate to address the level of risk for this risk category and the risk owner accepts all risks. An action item to update the *TRS-Care Sustainability Study* is in progress, this will provide further education on alternatives and options. Key mitigations include the TRS board has the authority to change benefits and/or premiums at any time, continuous monitoring and analysis of actual experience and trends to ensure adequate funding for a minimum two-year cycle, and contract/vendor monitoring.

RISK DETAILS

Risk Description	Mitigations	
1. change in legislative policy direction	<ul style="list-style-type: none"> ▪ proposed legislation reviewed by TRS analyst ▪ alternatives identified in <i>TRS-Care Sustainability Study</i> update 	<ul style="list-style-type: none"> ▪ fiscal notes prepared ▪ active communication with legislators and stakeholders
2. changes in Medicare	<ul style="list-style-type: none"> ▪ monitor any changes and/or reductions ▪ change benefits 	<ul style="list-style-type: none"> ▪ adjust premiums ▪ seek emergency funding
3. changes in state funding	<ul style="list-style-type: none"> ▪ change benefits ▪ adjust premiums 	<ul style="list-style-type: none"> ▪ seek emergency funding
4. funding shortage	<ul style="list-style-type: none"> ▪ change benefits ▪ adjust premiums ▪ risk for Medicare Advantage participants transferred to vendor 	<ul style="list-style-type: none"> ▪ continuous monitoring to ensure adequate funding for a minimum two-year cycle ▪ seek emergency funding
5. incorrect assumptions for cost trends, population, payroll growth, etc.	<ul style="list-style-type: none"> ▪ continuous monitoring and analysis of actual experience and trends to ensure adequate 	<ul style="list-style-type: none"> ▪ continuous monitoring of Medicare Advantage and Part D participation

TRS Stoplight Report Category

RETIREE HEALTH CARE FUNDING RISK REPORT

Risk Description	Mitigations	
Underestimate liabilities when setting premium rates.	<ul style="list-style-type: none"> ▪ funding for a minimum two-year cycle ▪ adjust premiums ▪ change benefits 	<ul style="list-style-type: none"> ▪ maintaining contingency reserves ▪ seek emergency funding
6. catastrophic claims	<ul style="list-style-type: none"> ▪ request emergency appropriation from legislature 	<ul style="list-style-type: none"> ▪ seek provider discounts
7. legislative coverage mandates	<ul style="list-style-type: none"> ▪ monitor proposed legislation ▪ change benefits 	<ul style="list-style-type: none"> ▪ adjust premiums ▪ seek emergency funding
8. violation of contract terms by vendors, vendor/provider fraud, limited vendor competition	<ul style="list-style-type: none"> ▪ use reputable vendors ▪ robust procurement process ▪ external independent claims audits ▪ obtain/review SSAE 16 reports ▪ continuous vendor monitoring and monthly reporting ▪ performance guarantees and financial penalties, suspension, termination ▪ healthcare consultants vendor disaster recovery plan 	<ul style="list-style-type: none"> ▪ continuous claims monitoring to identify anomalies ▪ large \$ claims audited by internal staff ▪ third party verification (independent healthcare consultants & auditors) ▪ customer satisfaction surveys ▪ signed code of conduct statements ▪ alert management ▪ quarterly vendor meetings ▪ confidentiality agreements
9. internal fraud	<ul style="list-style-type: none"> ▪ management/supervisor oversight ▪ management/supervisor review ▪ restricted or limited file/system access ▪ secured storage ▪ attend fraud and/or ethics training ▪ documented policies and procedures ▪ audit trails ▪ separation of duties 	<ul style="list-style-type: none"> ▪ monthly review & audit of databases ▪ back-up data ▪ alert management ▪ criminal background checks ▪ make staff aware of issues/consequences ▪ secondary review/verification ▪ internal system controls ▪ fraud hotlines (SAO, internal)

Action Item	Owner	Target Date	Revised	Status	Comments
Update <i>TRS-Care Sustainability Study</i> (Risk 1)	Director of Health Care Policy & Administration	August 2014		In Progress	Initial study presented to the legislature in September 2012.

RETIREE HEALTH CARE FUNDING RISK REPORT

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

TEAM PROGRAM RISK REPORT

RISK OWNER

Ken Welch

REPORTING DATE

December 2013

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

Risks identified for the TEAM Program involve people, processes, project management, and change. Many of the risks are being appropriately mitigated and management has accepted those risks. Other risks need further mitigation and action items are in progress for those risks. A summary of activities since the last board reporting in June 2013 include the following:

- Transitioning TEAM Repository site to SharePoint 2010.
- Adjustments made to Core Management Team (CMT) and Executive Steering Committee (ESC) meeting schedules. New Executive Briefing weekly meeting initiated to replace the weekly ESC meetings. CMT/ESC will meet jointly on a monthly basis.
- Signed contract for Financial System Replacement (FSR) project Phase I as of August 30, 2013.
- Proof-of-Concept for Pension Line of Business (LOB) project and contract negotiations completed. LOB contract signed.
- Project Management Office (PMO) reorganized to include TRS project managers, which may also be assigned to TEAM projects, business process managers, and business process analysts.
- Project management training provided to ESC/CMT by TRS' PMO.
- Internal data conditioning teams formed.
- Additional FTEs were hired to assist with the Organizational Change Management (OCM) Project. The project may use a vendor(s) for specific deliverables as needed.
- OCM Roadmap was developed to define and outline major activities and milestones for the OCM project.

TEAM PROGRAM RISK REPORT

RISK DETAILS

Risk Description	Mitigations	
1. conflicting priorities between existing work and TEAM Program-related assignments	<ul style="list-style-type: none"> ▪ prioritize workload ▪ communication ▪ program management services from Provaliant ▪ more resources ▪ extend schedule ▪ willingness to negotiate ▪ Independent Program Assessment (IPA) vendor oversight 	<ul style="list-style-type: none"> ▪ reallocate workload ▪ approval to backfill positions ▪ weekly TEAM dashboard ▪ clear direction ▪ be aware of legislation and planning ▪ board/management support ▪ OCM project ▪ intern program
2. decisions not made timely and/or made at inappropriate level	<ul style="list-style-type: none"> ▪ program/project management action/decision logs ▪ weekly status updates ▪ ESC and CMT charters ▪ assign accountability for action items related to timely decisions ▪ standing agenda item on the weekly ESC meeting agenda to discuss TEAM project issues and decision due dates/milestones ▪ weekly TEAM dashboard 	<ul style="list-style-type: none"> ▪ escalate issues if needed ▪ program management services from Provaliant ▪ clear direction ▪ decision-making to the appropriate management level ▪ direct communication with CMT and ESC ▪ approval to backfill positions ▪ extend schedule ▪ willingness to negotiate ▪ IPA vendor oversight
3. lack of resources (people)	<ul style="list-style-type: none"> ▪ TRS/TEAM staffing plans ▪ prioritize workload ▪ approval to backfill positions ▪ extend schedule ▪ willingness to negotiate 	<ul style="list-style-type: none"> ▪ program/project milestones ▪ program management services from Provaliant ▪ weekly TEAM dashboard ▪ clear direction ▪ IPA vendor oversight
4. internal TEAM governance structure operating inefficiently	<ul style="list-style-type: none"> ▪ weekly CMT and ESC meetings ▪ committee assignments ▪ OCM project ▪ continue to review “lessons learned” from other pension systems ▪ IPA vendor oversight ▪ status reports 	<ul style="list-style-type: none"> ▪ action/decision logs ▪ effective communication ▪ risk assessments at program and project level ▪ program management services from Provaliant ▪ weekly TEAM dashboard ▪ clear direction

TEAM PROGRAM RISK REPORT

Risk Description	Mitigations	
5. inaccurate planning estimates	<ul style="list-style-type: none"> ▪ obtain estimates ▪ periodic reassessments and communication ▪ weekly status meetings 	<ul style="list-style-type: none"> ▪ research vendors and other pension funds ▪ vendor demonstrations
6. failure to manage change (e.g., scope, schedule, budget)	<ul style="list-style-type: none"> ▪ communicate, monitor, and enforce the change control process ▪ new project launch meetings with teams ▪ expectations communicated up front ▪ program management services from Provaliant ▪ weekly TEAM dashboard ▪ clear direction ▪ quarterly internal budget meetings 	<ul style="list-style-type: none"> ▪ all projects follow the same organizational structure ▪ quarterly Legislative Budget Board reporting ▪ status reports ▪ reduce scope ▪ more resources ▪ willingness to negotiate ▪ IPA vendor oversight
7. lack of staff acceptance	<ul style="list-style-type: none"> ▪ vendor demonstrations ▪ staff involvement ▪ planning ▪ research ▪ celebrate successes ▪ getting buy-in through involvement 	<ul style="list-style-type: none"> ▪ OCM project ▪ recognition ▪ effective execution of the Communications Plan ▪ personnel position changes ▪ training
8. excessive and time consuming Open Records requests	<ul style="list-style-type: none"> ▪ involve Attorney General's office if it becomes too burdensome 	
9. internal fraud (e.g., requirements favor a specific vendor that staff or a Board member may have a relationship with)	<ul style="list-style-type: none"> ▪ open evaluation process ▪ assessment and valuation by committee ▪ fraud hotline 	<ul style="list-style-type: none"> ▪ Ethics Policy and training ▪ open records process ▪ Open Meetings Act
10. external fraud (e.g., undue influence by vendor(s) to alter requirements in an attempt for a peer vendor to gain a contract)	<ul style="list-style-type: none"> ▪ open evaluation process ▪ assessment and valuation by committee ▪ fraud hotline ▪ Ethics Policy and training 	<ul style="list-style-type: none"> ▪ research vendor relationships ▪ competing vendors will speak out ▪ Open Meetings Act ▪ open records process
11. lack of staff with appropriate skill sets to replace or supplement current expertise	<ul style="list-style-type: none"> ▪ OCM project ▪ use contractors ▪ new FTEs ▪ on-the-job training 	<ul style="list-style-type: none"> ▪ train existing staff ▪ ability to obtain vendors/contractors/employees with expertise ▪ staffing plan
12. change in executive leadership/board resulting in different priorities	<ul style="list-style-type: none"> ▪ communicate to new leadership the importance of supporting program and projects 	<ul style="list-style-type: none"> ▪ communicate the value proposition ▪ solicit board support

TEAM PROGRAM RISK REPORT

Risk Description	Mitigations	
13. ineffective communication	<ul style="list-style-type: none"> ▪ effective execution of the Communications Plan ▪ TEAM repository ▪ recorded webinars ▪ training ▪ program manager involvement ▪ open meetings 	<ul style="list-style-type: none"> ▪ solicit employee feedback ▪ OCM project ▪ Reporting Entity Outreach project ▪ program manager liaison between TRS and vendors
14. legislative changes	<ul style="list-style-type: none"> ▪ be aware of legislation and planning ▪ board/management support 	<ul style="list-style-type: none"> ▪ communication of upcoming changes ▪ governmental relations

Action Item	Owner	Target Date	Revised	Status	Comments
Evaluate responses for the Pension Line of Business (LOB) vendor (Risk 1)	LOB Evaluation Team	6/2013		Complete	Proof-of-Concept for Pension Line of Business (LOB) project and contract negotiations completed. LOB contract signed.
Hire additional OCM project FTEs and select vendor for specific deliverables if needed (Risk 1, 4, 7, 11)	OCM Project Sponsor & Manager	3/2013	11/2013	In Progress	Action item changed to hiring three FTEs instead of contracting for a vendor. Two positions have been filled and currently seeking qualified applicants for the third position. The project may use a vendor(s) for specific deliverables as needed.
Consolidate individual project logs for issues, risks, actions, and decisions into global log (Risk 2)	PMO	10/2013		Complete	Individual project logs for Risks, Issues, Actions, and Decisions have been consolidated into global program-wide logs. This was completed by the end of October and they are now being used by all projects in the regular weekly status reporting process. In addition, Action and Decision logs for the various workgroups (ESC, CMT, etc.) have also

TEAM PROGRAM RISK REPORT

Action Item	Owner	Target Date	Revised	Status	Comments
					been consolidated into global program-wide Workgroup Action and Decision logs.
Hire TEAM FTEs as outlined in the staffing plan approved by the TRS Board of Trustees (Risk 3)	TEAM Project Sponsors & Managers	Ongoing		In Progress	TRS has filled several positions that were backfills for fiscal year 2013 and based on prioritization of positions, we have posted and are in the process of filling positions that were scheduled for fiscal year 2014. This will be an ongoing action item based on the staffing plan priorities.

Monitoring Activities			
Key Mitigation	Monitored By	Monitoring Process	Comments
Project management (Risk 1, 2, 3, 4, 6)	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 meets 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 tracked better.	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 (Risk 2, 4)	ESC, CMT, Program & Project Manager	Documented action and decisions are received and reviewed weekly by the ESC, CMT, and program and 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 (Risk 4, 5)	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.

TRS Stoplight Report Category

TEAM PROGRAM RISK REPORT

Monitoring Activities			
Key Mitigation	Monitored By	Monitoring Process	Comments
Weekly reviews (Risk 1, 2, 3, 4, 5, 6)	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 report 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.
Risk assessments (Risk 4)	ERM Team, Project Sponsor, Program & Project Manager	Risk assessments are conducted and tracked on the risk log. Results are shared with the ESC, CMT, project sponsor, and program and project manager.	As projects begin, initial risk assessments are conducted. In addition, the risks are reviewed every other month or more frequently if necessary. Team members review the risks and mitigations for addition to the risk log as well as reassessing impact and likelihood.
OCM project (Risk 1, 4, 7, 11, 13)	Project Sponsor, Program & Project Manager	Human Resources (HR) will solicit feedback and suggestions throughout the life of the TEAM Program through meetings, online surveys, advisory groups, focus groups, and one-on-one interviews. The project sponsor provides regular updates to the CMT and receives feedback. The executive sponsor provides updates to the ESC and receives feedback. Written weekly project status updates are provided to the TEAM program managers and are added to the weekly risk log/status summary. The IPA vendor also provides feedback regarding OCM efforts.	Two employee advisory groups meet monthly to provide employee input. Once the new HR FTEs are on board, focus groups will be conducted to gather input from all Red River employees. A plan for training employees and managers on OCM skills is being developed. In addition to annual all-hands meetings to update employees about the TEAM Program, the executive director, deputy director, and other designees will meet with employees 2-3 times a year during regular department meetings to answer questions and address concerns about TEAM. An internal website devoted to communications about the TEAM Program is being created. HR will continue to interview randomly selected employees of departments most impacted by the TEAM Program and adjust OCM plans as needed based on the input received.

WORKFORCE CONTINUITY RISK REPORT

RISK OWNER

Janet Bray

REPORTING DATE

December 2013

GOAL

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

OVERALL RISK

The delivery of member services and pension fund management could be negatively impacted by turnover, the inability to retain qualified staff, lack of a sufficient knowledge transfer program, and an inconsistent performance management process.

OBJECTIVE

- Collect and monitor workforce data, including employee feedback and surveys.
- Update and implement the TRS Leadership Development Program (LDP).
- Develop a template and process for divisional workforce continuity plans.
- Implement an agency-wide performance appraisal system.

SUMMARY

Risks to workforce continuity include turnover, the inability to retain qualified staff, lack of a formal knowledge transfer program, and an inconsistent performance management process. Key mitigations include:

- Monitoring turnover trends, employee engagement surveys and employee feedback to develop targeted action plans.
- Assessing departmental workforce continuity plans, career ladders and ongoing training needs to develop succession and knowledge transfer programs.
- Developing standardized processes and procedures for performance appraisals, and implementing an agency-wide performance evaluation system.
- Purchasing new system which includes modules for applicant tracking, onboarding and performance management.
- Implementing new system (as part of the Financial System Replacement project) to help track and maintain workforce and employee data.

RISK DETAILS

Risk Description	Mitigations	
1. staff turnover including retirements	<ul style="list-style-type: none"> ▪ TRS Leadership Development Program ▪ positive and rewarding work environment ▪ exploring formal knowledge transfer program ▪ collect and monitor employee feedback 	<ul style="list-style-type: none"> ▪ cross-training ▪ monitor and assess turnover and retirement trends ▪ executive management support and oversight

WORKFORCE CONTINUITY RISK REPORT

Risk Description	Mitigations	
	<ul style="list-style-type: none"> regarding areas of concern through surveys and discussion 	<ul style="list-style-type: none"> ▪ exploring succession planning options ▪ career ladders
2. lack of effective transfer of key institutional knowledge and skills	<ul style="list-style-type: none"> ▪ workforce continuity plans ▪ exploring options for a knowledge transfer program 	<ul style="list-style-type: none"> ▪ exploring succession planning ▪ TRS Leadership Development Program
3. lack of defined agency-wide performance appraisal system	<ul style="list-style-type: none"> ▪ training and coaching ▪ review current performance appraisal processes ▪ working toward consistency in performance appraisals across the agency 	<ul style="list-style-type: none"> ▪ automated performance appraisal system ▪ track and monitor performance appraisal data

Action Item	Owner	Target Date	Revised	Status	Comments
Develop template and process for workforce continuity plans (Risk 1, 2)	Human Resources	1/2014		Planned	
Coordinate with divisions to complete workforce continuity plans (Risk 1, 2)	Human Resources	Ongoing		Planned	The planning process to obtain workforce continuity plans will be linked to the strategic and workforce plan.
Recruit a performance management specialist (Risk 3)	Human Resources	12/2013		In Progress	Position is posted and interviews are scheduled.
Develop standardized processes and procedures for performance appraisals (Risk 3)	Human Resources	12/2014		In Progress	Standardized process will better enhance the agency's ability to track workforce and succession planning. In addition, it will allow better tracking of learning and development needs.

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

WORKFORCE CONTINUITY RISK REPORT

Monitoring Activities			
Key Mitigation	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.
Employee engagement surveys (Risk 1)	Human Resources	Analyze survey 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 actions recommended.
Evaluate career ladders (Risk 1)	Human Resources	Ongoing review of classification and career ladders.	Developing structure and process for evaluating classifications and career ladders.
Ongoing training needs assessments by departments (Risk 2, 3)	Human Resources and 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.