

July 2023

# ASSURANCE

## Audit, Compliance & Ethics Committee Meeting



**Teacher Retirement System of  
Texas**

1000 Red River Street  
Austin, Texas  
78701-2698

## **Minutes of the Audit, Compliance and Ethics Committee April 28, 2023**

The Audit, Compliance and Ethics Committee of the Board of Trustees of the Teacher Retirement System of Texas met on April 28, 2023, in the boardroom located on the Fifth Floor in the East Building of TRS' offices located at 1000 Red River Street, Austin, Texas, 78701.

### **Committee members present:**

Mr. Robert H. Walls, Jr., Chair  
Ms. Brittney Allred  
Mr. Michael Ball  
Ms. Nanette Sissney  
Mr. Elvis Williams

### **Other TRS Board Members present:**

Mr. James Dick Nance  
Mr. John Elliott

### **Others who participated:**

Brian Guthrie, TRS  
Andrew Roth, TRS  
Don Green, TRS  
Heather Traeger, TRS  
Amanda Jenami, TRS  
Katherine Farrell, TRS  
Julie Toler, TRS  
Neill Randall, TRS  
Chris Bowlin, TRS  
Monica Bernal, TRS  
Stephen Randall, TRS  
Kristi Glasgall, TRS  
Suzanne Dugan, Cohen Milstein

Audit, Compliance and Ethics Committee Chair, Mr. Walls, called the meeting to order at 9:00 a.m.

#### **1. Call roll of Committee members.**

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

#### **2. Consider the approval of the proposed minutes of the December 2022 Audit, Compliance and Ethics Committee meeting – Chair Robert H. Walls, Jr.**

On a motion by Ms. Sissney, seconded by Mr. Ball, the committee unanimously voted to approve the proposed minutes for the December 2022 Audit, Compliance and Ethics Committee meeting as presented.

**3. Receive an overview of the Audit, Compliance and Ethics Committee's Calendar Year 2023 Work Plan – Amanda Jenami.**

Ms. Amanda Jenami provided an overview of the work plan for the ACE Committee. She highlighted at the April meeting there is the revisions to the annual audit plan and in July the external auditors come back and report on the Pension and Other Post-Employment Benefit (OPEB) Liability Schedules. She noted September was the busiest meeting where the Committee considers the proposed internal audit plan along with any suggested revisions to the internal audit charter.

**4. Receive TRS Compliance reports including those related to ethics and fraud, conflicts of interest, and investment policies – Heather Traeger and Chris Bowlin.**

Mr. Chris Bowlin reported that there were no exceptions identified in the quarterly testing on board reporting requirements, the investment policy statement (IPS) as well as the proxy voting policy and security lending policies. He said for the quarter ending December 31, 2022 there was a focus on whether the Investment Integrity Questionnaires were properly obtained for each investment, that the restricted securities or divestment lists were updated and filed, investments were within policy limits and that hedge fund assessment was included for all relevant investments.

Ms. Heather Traeger noted there were four items for the hotline report. She said three were related to allegations of discrimination by managers. She said three of the allegations were investigated and determined to be unsubstantiated. The fourth matter she said was investigated and remedial measures were taken.

Ms. Traeger concluded by reporting there were two 541(c)s, conflicts reported by contracting entity, where law firms identifying a possible conflict which was resolved affirmatively. She reported there was one 541(e), employee conflict in a potential procurement where the employee was recused from that matter.

Mr. Walls announced, without objection, taking up Agenda Item 6.

**6. Receive Internal Audit reports:**

**A. Review of Private Equity Portfolio Operations - Julie Toler and Neill Randall.**

Ms. Julie Toler provided an overview of the review of portfolio management practices and supporting operations surrounding the Trust's private equity portfolio over the last two years. She said the private equity holdings represent a significant portion of the total Trust assets, at over \$31 billion in value. She reported that the private equity operations demonstrated sufficient processes and controls to accomplish the Board's goals for this area of the portfolio and in compliance with key policies and procedures. She said all the observations with this audit were positive ones.

Mr. Neill Randall provided the management response. He commented that 45 to 50 percent of the team is new since 2021 so it is a lot of new people performing a lot of key processes. He said it was gratifying to see a clean report come through.

**B. Status of Prior Audit Recommendations – Amanda Jenami.**

Ms. Jenami reported there are 70 audit recommendations from 19 different audit reports. She noted since the last quarter 15 recommendations have been implemented. She said the open recommendations are current i.e., within one to 12 months old.

Mr. Walls announced, without objection, taking up Agenda Items 6C, 6D and 5 together in executive session.

**C. Review of Dependent Eligibility for TRS-Care – Amanda Jenami and Monica Bernal.**

**D. Audit of Malware Protection and Ransomware Readiness – Stephen Randall and Kristi Glasgall.**

**5. Consider recommending to the Board of Trustees proposed revisions to the fiscal year 2023 Audit Plan – Amanda Jenami.**

At 10:10 a.m., Mr. Walls announced the Committee would go into executive session under the following agenda items and actions of the Government Code: Item No. 5 under Sections 825.115(d), 551.076, and 551.089 to discuss proposed revisions to the Fiscal Year 2023 Audit Plan, and under Section 551.071 to consult with legal counsel as needed. For Item 6C under Section 825.115(d) to discuss the review of dependent eligibility for TRS-Care, and under Section 551.071 to consult with legal counsel as needed. For Item 6D under Sections 825.115(d), 551.076, and 551.089 to discuss the audit of malware protection and ransomware readiness, and under Section 551.071 to consult with legal counsel as needed.

At 11:48 a.m., Mr. Walls reconvened the Committee in open meeting.

Ms. Jenami reviewed the proposed changes to the fiscal year 2023 Audit Plan. Her recommendations were to defer the audit of Cybersecurity Incident Response Program to fiscal year 2024 and replace it with an audit of MyTRS. She said it was good practice to review any new system or key systems within the first six to 12 months. The last revision she recommended was to cancel the reporting employer audit for there was coverage elsewhere with the automated tools in place.

On a motion by Mr. Ball, seconded by Mr. Williams, the Committee unanimously voted to approve the proposed revisions to the fiscal year 2023 Audit Plan as presented by staff.

**7. Discuss or consider Internal Audit and TRS Compliance administrative reports and matters related to governance, risk management, internal control, compliance violations, fraud, regulatory reviews or investigations, fraud risk areas, audits for the annual internal audit plan, or auditors' ability to perform duties – Robert H. Walls, Jr., Amanda Jenami and Heather Traeger.**

Ms. Jenami provided an update on Internal Audit's key performance indicators (KPIs). She noted in the past Internal Audit had not met Goal 3, to attract, develop and retain diverse and outstanding

talent. She reported that Internal Audit met the performance metric after lowering the target from 80 to 75 percent.

With no further business before the Committee, the meeting adjourned at 11:56 a.m.

Approved by the Audit, Compliance and Ethics Committee of the Board of Trustees of the Teacher Retirement System of Texas on July \_\_\_\_\_, 2023.

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Robert H. Walls, Jr.  
Chair, Audit, Compliance and Ethics Committee  
Board of Trustees  
Teacher Retirement System of Texas

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Date



## Internal Audit

## Audit, Compliance & Ethics Committee Meeting

July 14, 2023







Texas State Auditor's Office

# Presentation to the Teacher Retirement System Board of Trustees

*Fabienne Robin*, Managing Senior Auditor

*Michael Clayton*, Audit Manager



## OVERVIEW

The State Auditor's Office has audited the Pension and Other Post Employment Benefit Schedules (OPEB) of the Teacher Retirement System for the fiscal year ended August 31, 2022, and issued our opinion dated June 2, 2023.

We issued four reports as part of this project:

- Opinion on the Pension Liability Schedules
- Opinion on the OPEB Liability Schedules
- Report on Controls and Compliance and Other Matters
- Legislative Audit Committee report

*Fabienne Robin*, Managing Senior Auditor

*Michael Clayton*, Audit Manager





# Presentation to the Teacher Retirement System Board of Trustees

July 14, 2023

## Reported Results



### Unqualified Opinion

#### PENSION LIABILITY SCHEDULES

We concluded the System's Schedule of Employer's Proportionate Shares (Allocations) and the total for all entities of the columns titled net pension liability end of year, total deferred outflows of resources, total deferred inflows of resources, and total pension expense (specified column totals) included in the Schedule of Pension Amounts by Employer and the related notes as of August 31, 2022, were materially correct and presented in accordance with accounting principles generally accepted in the United States of America.



### Unqualified Opinion

#### OPEB LIABILITY SCHEDULES

We concluded the System's Schedule of Employer's Proportionate Shares (Allocations) of the Collective Net Other Post Employment Benefit (OPEB) Liability and the total for all entities of the columns titled net OPEB liability end of year, total deferred outflows of resources, total deferred inflows of resources, and total OPEB expense (specified column totals) included in the Schedule of OPEB Amounts by Employer and the related notes as of August 31, 2022, were materially correct and presented in accordance with accounting principles generally accepted in the United States of America.



#### REPORT ON INTERNAL CONTROLS OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

We did not identify any material weakness or significant deficiencies in controls.



#### LEGISLATIVE AUDIT COMMITTEE REPORT

Per our standard process, we issued a report to the legislature regarding our work at TRS.

*Fabienne Robin*, Managing Senior Auditor

*Michael Clayton*, Audit Manager



# Internal Audit

## Quarterly Compliance Testing



Heather Traeger & Chris Bowlin

July 14, 2023





Quarterly Investment Compliance Testing  
Investment Policy Statement (IPS), Securities Lending Policy (SLP), and Proxy Voting Policy  
Quarter ending March 31, 2023

Procedures Performed	Test Results
<b><u>Business Objective 1: Board Reports</u></b> All required information is reported to the TRS Board of Trustees	
<ul style="list-style-type: none"> <li>Obtain evidence that all requirements reported to Board of Trustees</li> <li>Trace sample information included in Board reports to supporting documentation</li> </ul>	<ul style="list-style-type: none"> <li>All reporting requirements were met</li> <li>Documentation provided supported information tested</li> </ul>
<b><u>Business Objective 2: Investment Selection and Approval</u></b> Investments made are within delegated limits and established selection criteria	
<ul style="list-style-type: none"> <li>Obtain evidence that (i) Investment Integrity Questionnaires (IIQs) were received prior to investment authorization and deal closing; (ii) IIQs were not stale (less than 90 days old) at the time of authorization and/or closing</li> <li>Obtain evidence from the investment teams that the CIO conditional upon approval was received after the IIC</li> <li>Obtain evidence of existence of IMD's prudent underwriting objectives for advisor's due diligence</li> <li>Obtain evidence that all counterparty requirements were met</li> <li>Obtain evidence that new investments in emerging managers met requirements</li> <li>Obtain evidence that approved investments were within policy limits</li> </ul>	<ul style="list-style-type: none"> <li>The disclosure of two violations related to an IIQ not being timely obtained prior to the investment deals authorization.</li> <li>The disclosure of a violation related to an IIQ not being updated prior to the deal closing.</li> <li>No CIO conditional approval was required for this period</li> <li>Prudence letters were provided (where required) for this period</li> <li>All counterparty tests met policy requirements for the tested period</li> <li>All investments met policy requirements for the tested period</li> <li>All investments made during the quarter were tested and found to be in compliance with approval limits</li> </ul>
<b><u>Business Objective 3: Other (IPS, SLP, other reporting)</u></b> Risk limits are followed for other investment and proxy voting policies and procedures were followed	
<ul style="list-style-type: none"> <li>Obtain senior management disclosure about known compliance violations</li> <li>Obtain evidence that TRS securities lending program complied with the guidelines</li> <li>Contractual Allowances &amp; Commission Credits Tracking</li> </ul>	<ul style="list-style-type: none"> <li>Obtained quarterly compliance certification from IMD IIC and Legal</li> <li>No security lending violations were identified</li> <li>All Contractual Allowances &amp; Commission Credits Tracking requirements were met and supporting documents were provided</li> </ul>

Legend:



Significant to TRS



Significant to Business Objectives



Other Reportable Exception



Positive Test Result/ No Exception



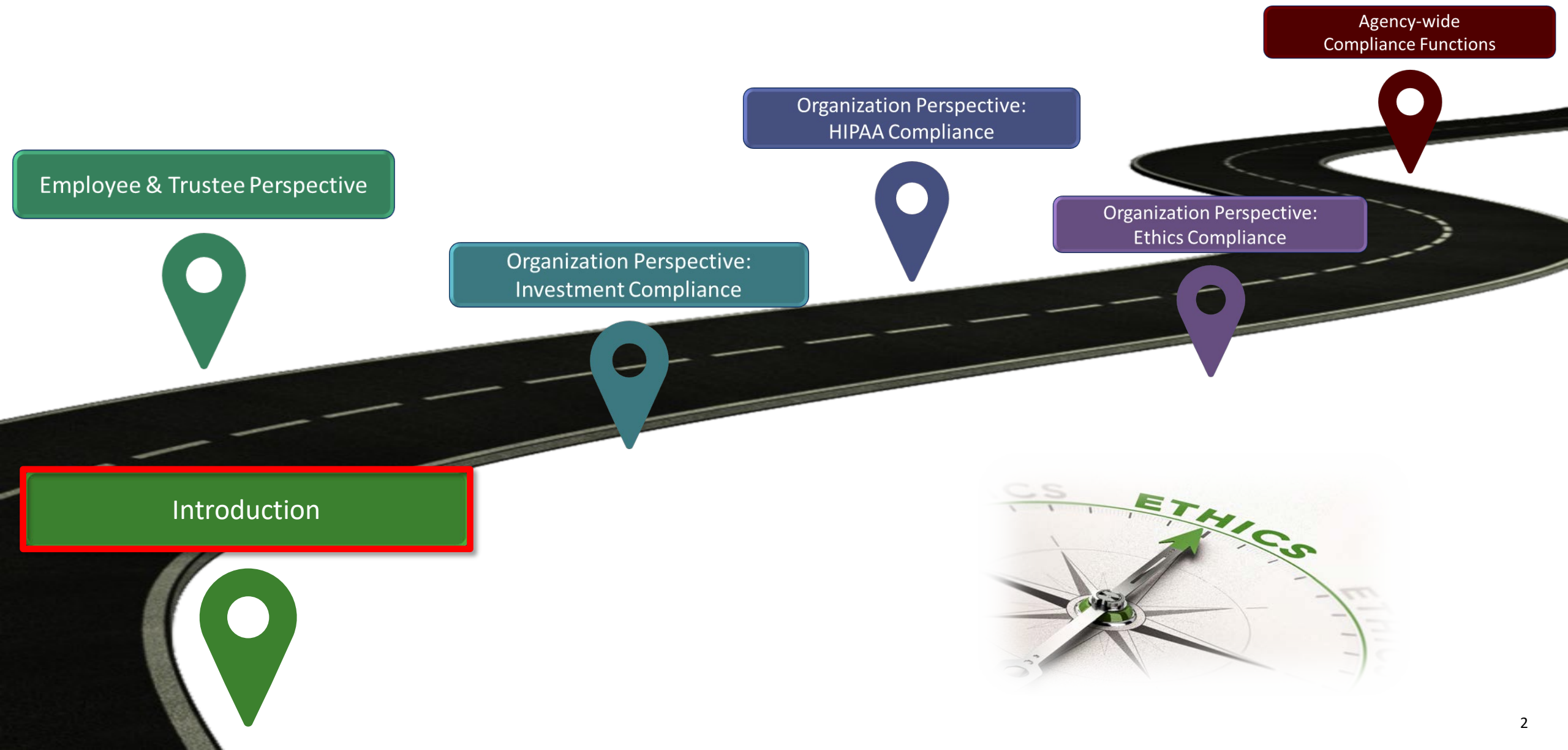
# TRS Compliance & Ethics Overview



**TRS Compliance**  
July 2023



# TRS Compliance & Ethics – Information Session Roadmap



# Compliance Charter – Culture of Compliance

The TRS Compliance function is an independent monitoring, advisory, review, and reporting activity established within TRS Legal & Compliance to assist TRS in fulfilling its mission and fiduciary responsibilities by complying with laws, regulations, and TRS policies.

- Seeks to promote and support an organizational culture that builds compliance awareness into the daily business processes for TRS.
- Pursues mission by:
  - Monitoring business activities, policies and procedures
  - Providing an open-door for guidance
  - Establishing an infrastructure that provides additional assurance to management that program areas are in compliance.



# Compliance Contribution to TRS Mission Success

PROVIDES guidance to maintain TRS' reputation and brand value to differentiate it in the marketplace and obtain favorable contract terms, investment and growth opportunities.

PROVIDES confidence to business units to innovate and operate in high-risk markets or in areas outside of the “usual” activities.

PROVIDES a centralized resource to employees, TRS, and trustees to achieve “best-in-class” compliance mindset/culture/skills.

BUILDS compliance awareness into TRS' daily business processes.

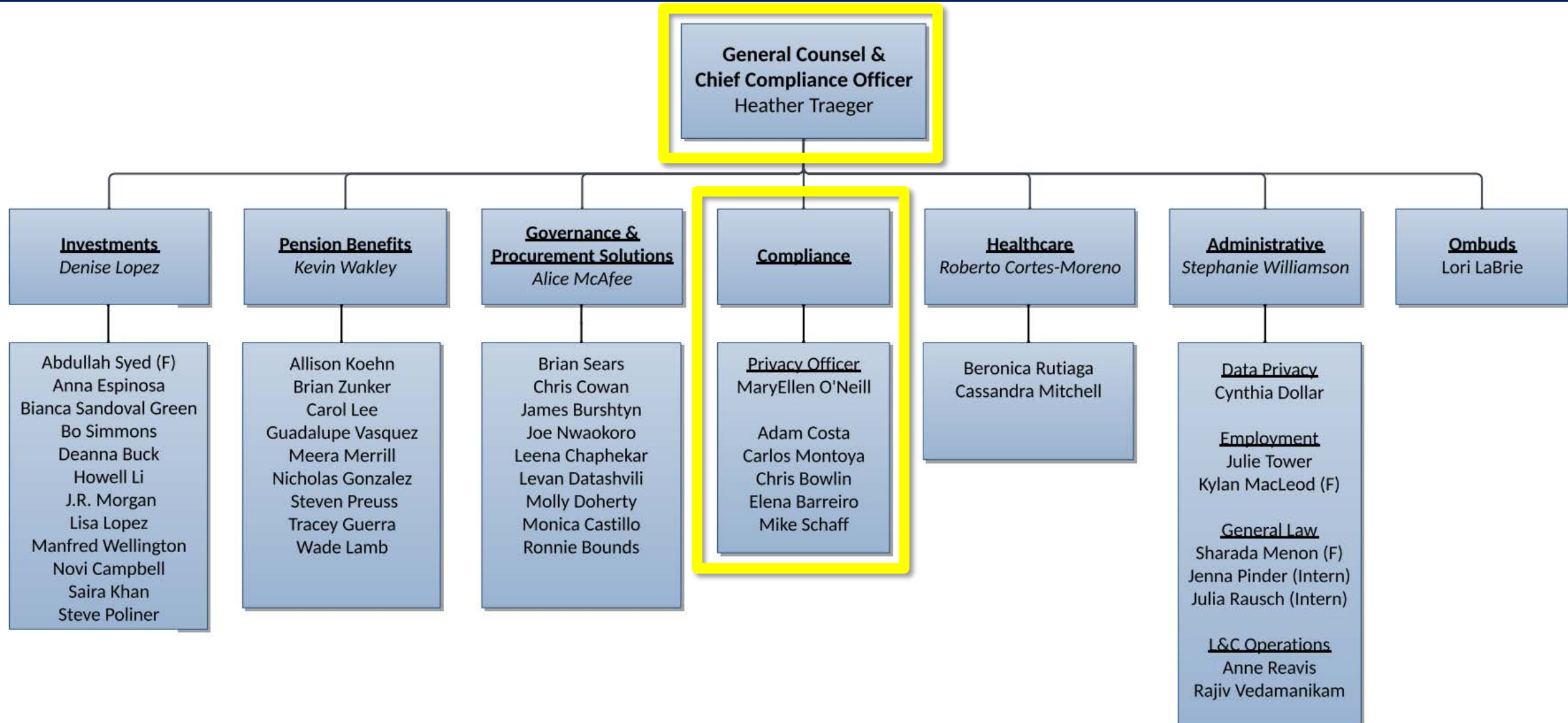
COLLABORATES in TRS' projects, programs, and initiatives.

ASSISTS TRS in fulfilling its mission by providing independent monitoring, advisory, review, and reporting guidance.

COORDINATES with internal audit, enterprise risk management, information security, and other TRS “lines of defense” for identifying and addressing emerging risks and mitigating agency liability.

PARTICIPATES in professional organizations and conferences to foster innovative thinking and bring knowledge back to TRS to ensure a highly-competent Compliance function.

# L&C Organization





# Compliance Team



**Heather Traeger**  
General Counsel &  
Chief Compliance  
Officer



**Elena Barreiro**  
Compliance  
Officer



**Chris Bowlin**  
Sr. Compliance  
Counsel



**Adam Costa**  
Sr. Compliance  
Officer



**Carlos Montoya**  
Compliance  
Officer



**MaryEllen O'Neill**  
Privacy Officer &  
Compliance Counsel



**Michael Schaff**  
Compliance  
Counsel

## Team Experience

- 80 Combined Years Legal Experience
- 52 Combined Years Industry Experience

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# Appendix

# TRS Policies

Policies that TRS Compliance reviews or assists with the review:

- Ethics Policies:

- Employee Ethics Policy
- Code of Ethics for Contractors
- Fraud, Waste & Abuse Policy
- Key Employee Determination Resolution
- TRS Personal Trading Policy
- Confidential Information Procedures & Standards
- Confidentiality Policy

- Investment Compliance Policies:

- Investment Policy Statement
- Securities Lending Policy
- Commission Credit Policy
- Proxy Voting Policy
- General Authority Resolution

- Trustee Policies:

- Board Procurement Policy
- Board Training Policy
- Board of Trustees Ethics Policy
- Board of Trustees External Communications
- Bylaws of the Board of Trustees

- Other Agency-Wide Policies:

- Incident Response Plan (IRP)
- Information Security Procedures & Standards (ISPS)
- Resolution Regarding Correction of Errors & Other Edits
- Social Media Policy
- TRICOT Policies

- HIPAA Policies:

- HIPAA Privacy Rule Policies & Procedures
- HIPAA Security Rule Policies & Procedures



# Internal Audit

## Summary of New and OS Complaints



Heather Traeger & Chris Bowlin

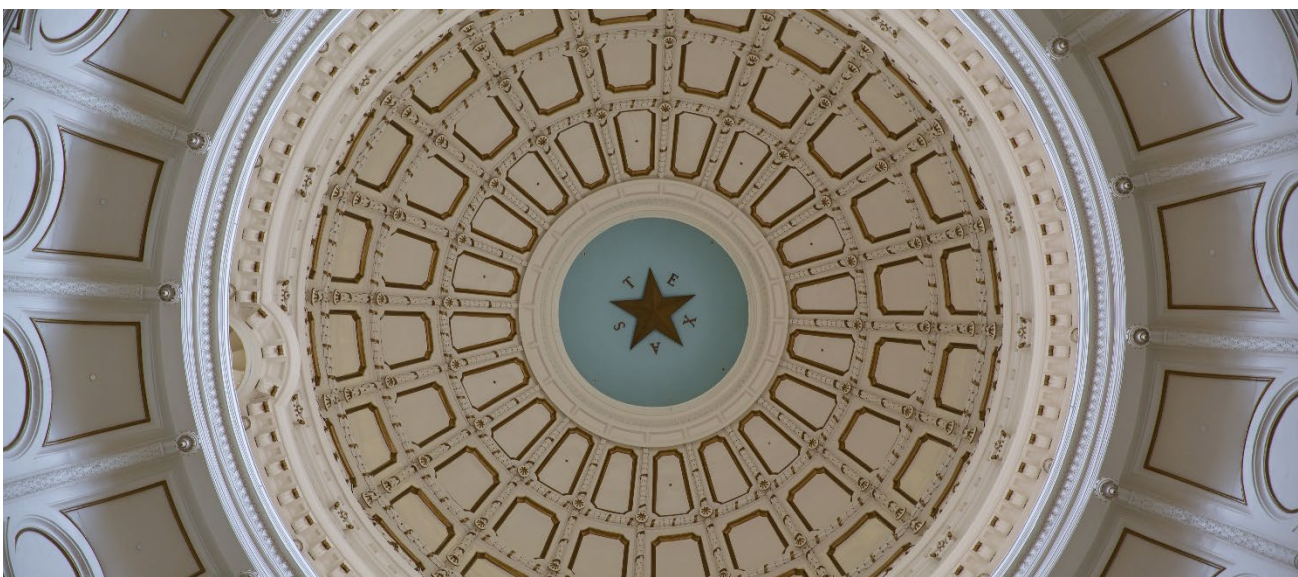
July 14, 2023







# Internal Audit Review of Employer Reporting Processes



Amanda Jenami, Falguni Sampat, and  
Mark Chi

July 14, 2023



## Background: Reporting Employers (REs)

TRS requires REs to submit accurate information about TRS members to ensure their benefits are calculated accurately.

### RE Population



1,350 Total

### RE Size



1 - 25,301  
Employees

### Key Reports



**Payroll Report (RP)**  
(Due 6<sup>th</sup> of the month)



**Employment After Retirement (ER)**  
(Due 10<sup>th</sup> of the month)



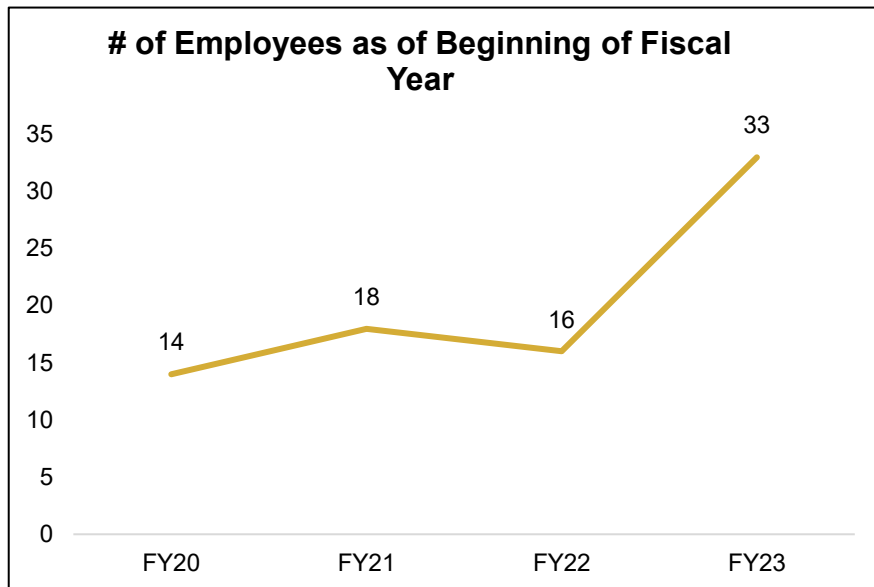
**Employee Demographic Report (ED)**  
(Submitted multiple times a month)

# Background: TRS Benefit Reporting Team

TRS Benefit Reporting team supports REs in their endeavor to provide timely and accurate information about TRS members

## Team Makeup

- Benefit Reporting Manager
- 3 Consultants
- 20 Coaches
- 10 Specialists



## Key Activities

- Coaching
- Reporting Support
- System Overrides
- Reporting Exception Resolution
- Penalty and Fee Waivers

Audit Scope: Activities during FY2022

## AUDIT CONCLUSION

Overall, the Teacher Retirement System (TRS) has sufficient processes in place to provide reasonable assurance that the Reporting Employer (RE) reports are submitted accurately and in compliance with relevant regulations, policies, and procedures.

The audit identified positive results and opportunities to strengthen operations, as discussed next.






- ✓ Documented rules, policies, procedures, manuals
- ✓ Improved accuracy in RE reporting
- ✓ High average RE satisfaction scores (69% - 74%)
- ✓ 52% of survey respondents received a response from their coach within 24 hours (Target: 48 hours)
- ✓ Significant increase in staffing levels over last 4 years
- ✓ Robust new hire on-boarding process
- ✓ New live chat feature (effective April 2023)
- ✓ Fee waiver process






# Results: Observations, Recommendations and Management Action Plan

## 1. Ensure reports submitted by REs are accurate and timely.

 <b>Observations</b>	 <b>Recommendations</b>	 <b>Management Action Plan &amp; Target Date</b>
1. An average of 46% of RP reports were submitted late (FY2020 – FY2022)	Consider adjusting system requirements to allow more flexibility in the reporting	Will continue analysis of system validations for potential enhancements (12/2023)
2. Reliance on manual processes (for exception resolution, overrides, fee waivers)	Make enhancement to TRUST to reduce manual processes	Completed a system review for validations and the error messages; Have begun identifying potential validations to reduce overrides and continue our analysis (12/2023)
3. Processes include manual ‘workarounds’ to system issues	Develop a plan to quickly resolve the backlog of relevant high priority defects and enhancements in the TRUST System	Having weekly meetings with the business analysts to review backlog tickets. Completion will depend on availability of IT resources (1/2024)
4. REs consider coach response target (48 hours) as an area requiring improvement	<ul style="list-style-type: none"> <li>• Develop key performance indicators (KPIs) and a mechanism to track the coaches’ response time</li> <li>• Consider revising coach response target to 24 hours</li> </ul>	<ul style="list-style-type: none"> <li>• In the process of developing KPIs and working with TRS IT and the PMO on options to track email response times (6/2024)</li> <li>• Management agrees and will work with TRS Communications to develop a plan to notify the REs about performance target changes (8/2023)</li> </ul>

# Results: Observations, Recommendations and Management Action Plan

## 2. Ensure reports submitted by REs comply with regulations, policies and procedures.

 <b>Observations</b>	 <b>Recommendations</b>	 <b>Management Action Plan &amp; Target Date</b>
1. Majority of coach interactions are with 24% of REs	Develop opportunities for proactive interaction with the rest (76%) of the REs	Hired and trained additional coaches, will continue to review assignment of the REs; expect the coaches be more proactive with RE communications (8/2023)
2. Opportunities exist to obtain more feedback from REs	Continue current efforts to develop transactional-type surveys to measure satisfaction with specific customer touchpoint, interaction, or transaction	Will continue to work with TRS Strategy Office to develop and implement Point of Service Surveys (POSS) (7/2023)
3. 23% decline in training attendance since the COVID-19 pandemic	Develop targeted training for REs with higher error rates	Will work to identify REs with higher error rates and new payroll personnel to provide targeted training sessions (8/2023)
4. Training materials could be enhanced	Improve organization of training materials on the TRS website	Work with TRS Communications to improve the organization of the training materials on the TRS website (1/2024)

### Internal Audit Team



Falguni Sampat  
Auditor



Mary Presley, CISA  
Senior Business Intelligence Analyst

## Appendix: Audit Objective, Scope, and Methodology



### **Audit Objective**

Determine whether internal controls are in place and working effectively to provide reasonable assurance that reports submitted by REs are accurate and timely, in compliance with regulations, policies, and procedures, and business unit develops and retains talent for consistent RE processes.



### **Methodology**

- Reviewed internal controls
- Reviewed reports, records, information systems, and databases (where applicable)
- Conducted interviews
- Performed data analytic tests as deemed appropriate



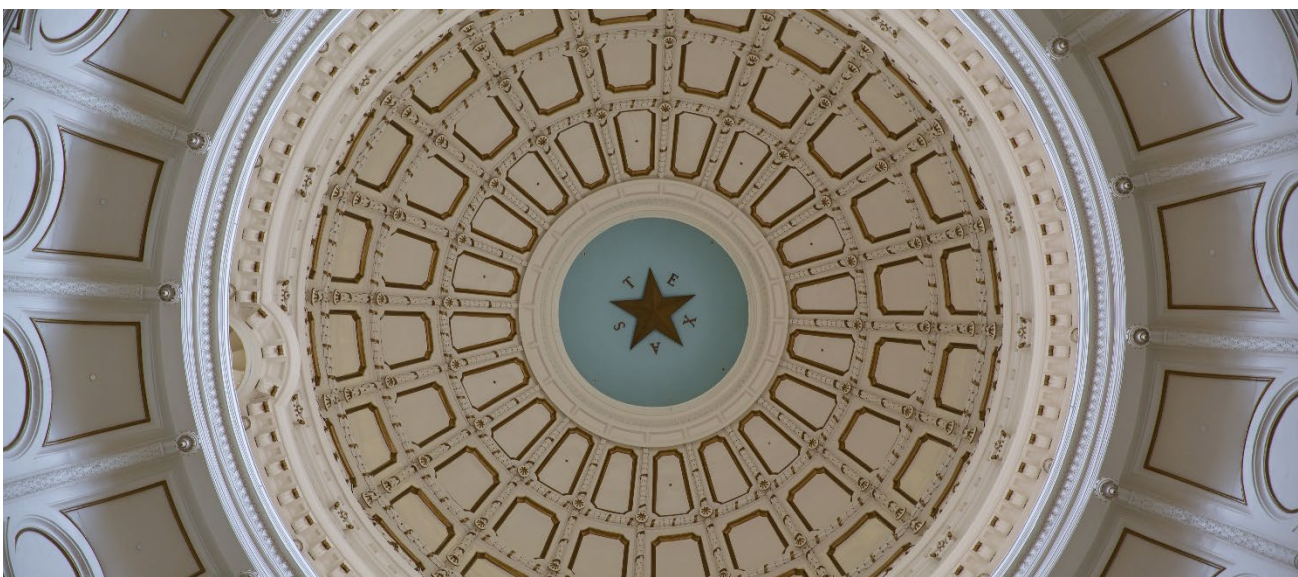
### **Audit Scope**

The scope of this audit included Benefit Reporting operations activities during the period of September 2021 – August 2022.





# Internal Audit Review of External Public Markets Portfolio Operations



Nathan Ward and Brad Gilbert

July 14, 2023





# Review of External Public Markets Portfolio Operations

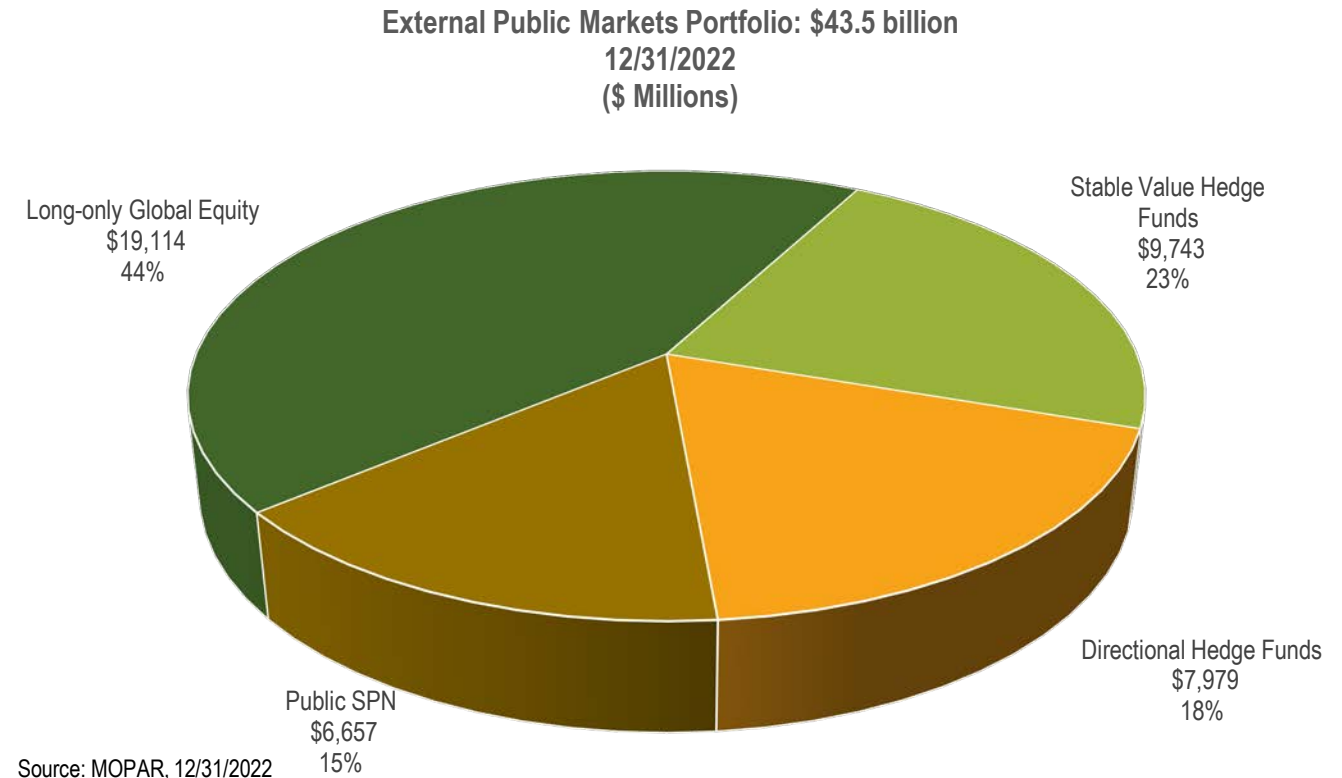


## External Public Markets Portfolio

- ✓ \$43.5 Billion
- ✓ 24% of Trust

## Audit Scope

- ✓ January 2021 – December 2022
- ✓ Activities and reporting related to external public markets portfolio operations and controls





## **AUDIT CONCLUSION**

The Teacher Retirement System's (TRS) External Public Markets (EPU) operations include sufficient controls to provide reasonable assurance that EPU portfolio objectives are accomplished effectively, efficiently and in compliance with TRS Investment Policy Statement and relevant procedures.

Key controls include:

- Investment Policy Statement
- Internal Investment Committee (IIC) guidelines & procedures
- Investment due diligence & monitoring procedures
- Risk & Compliance monitoring activities

### External Public Markets Business Objectives:

1. Identify & invest in top- tier external managers to provide superior risk-adjusted returns
2. Generate alpha through mutually aligned relationships between TRS and external managers

<u>Positive Results</u>	<u>Issues</u>	<u>Management Response</u>
<ul style="list-style-type: none"><li>• New investment diligence documentation</li><li>• Risk signal &amp; IMA breach responses</li><li>• Compliance monitoring coverage</li><li>• Adherence to external manager monitoring procedures</li><li>• Documented completion of termination checklist tasks</li><li>• Timely communication of restricted securities revisions to external managers</li></ul>	<ul style="list-style-type: none"><li>• Documented Multi-Asset Trade Operations procedures do not align with current practices</li></ul> <p><u>Recommendation:</u></p> <ul style="list-style-type: none"><li>• Update Internal Asset Transfer procedures to align with current practice.</li></ul>	<ul style="list-style-type: none"><li>• Investment Operations' Internal Asset Transfer procedures were updated on May 30, 2023, and formally reviewed by management on June 20, 2023.</li></ul>

## Investment Audit Services Team



Nathan Ward  
Senior Investment Auditor



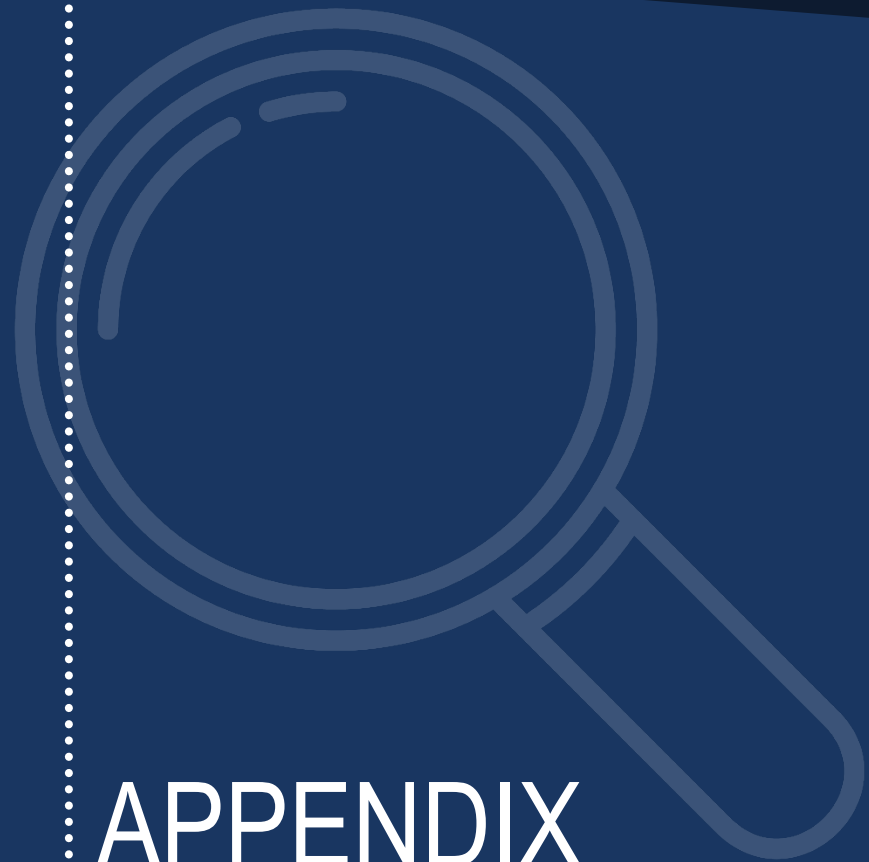
Syed Israr  
Senior Investment Auditor



Julie Toler, CFA, CFP®, CIA, CRMA  
Investment Audit Services Director



Katie Linczer, CPA, CIA, CRMA  
Senior Investment Auditor



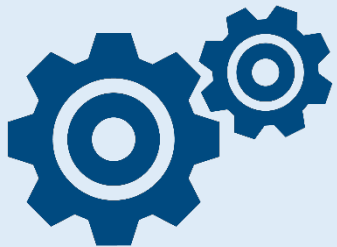
# APPENDIX





### **AUDIT OBJECTIVE**

Determine whether External Public Markets portfolio operations include sufficient controls to ensure investments are made and managed effectively, efficiently and in compliance with relevant policies, guidelines and procedures.



### **METHODOLOGY**

- ✓ Identify key risks and controls
- ✓ Review Investment Policy Statement
- ✓ Interview management and staff
- ✓ Review TRS processes and documents
- ✓ Review data accuracy and integrity



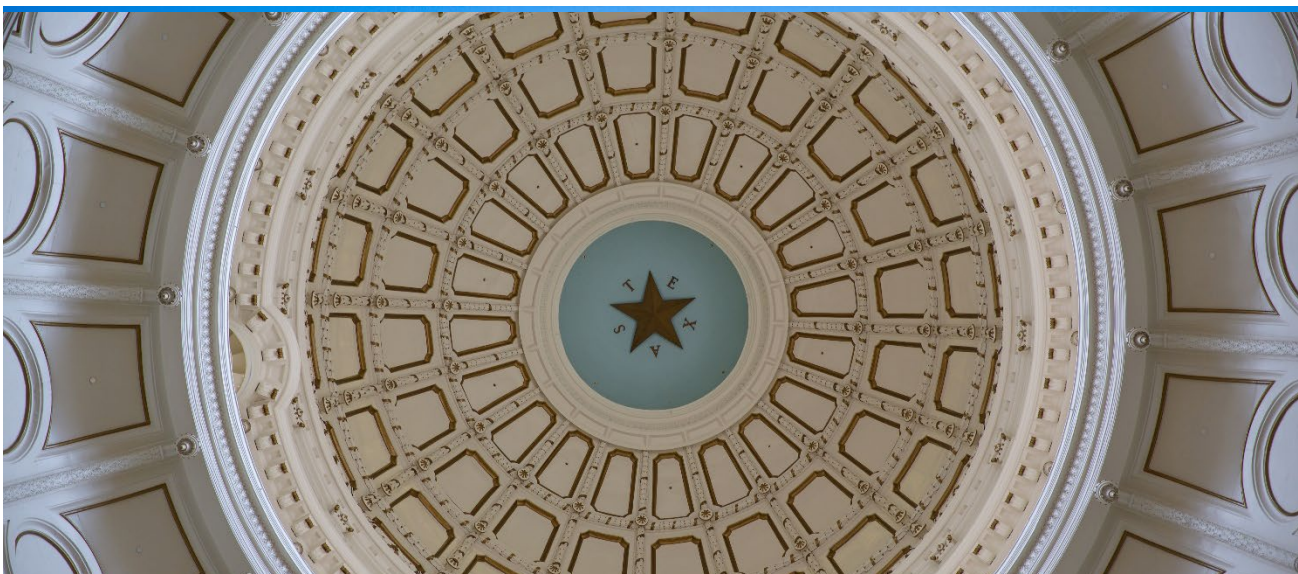
### **AUDIT SCOPE**

- ✓ January 2021 – December 2022
- ✓ Activities and reporting related to external public markets portfolio operations



## Internal Audit

# Summary of Audit Recommendations As of June 26, 2023



Amanda Jenami, CPA, CIA,  
CISA, CIDA, CFSA

July 14, 2023



# Highlights

**71**

Recommendations  
(Total)

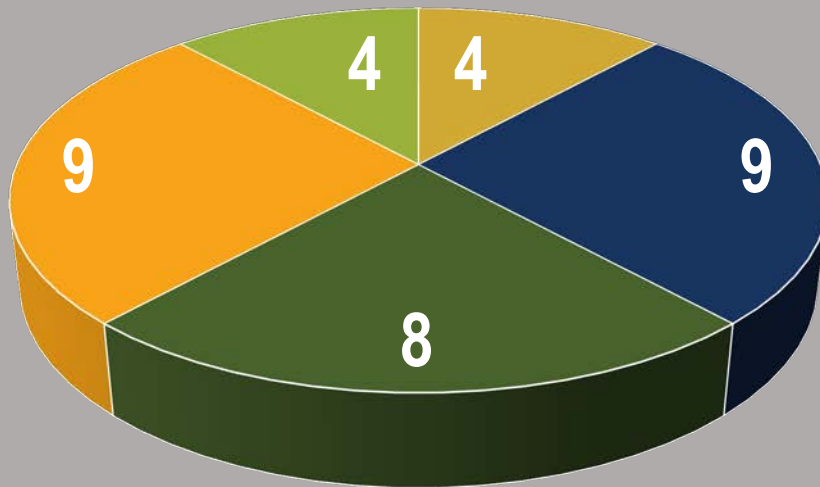
**18**

Audit Reports

**50**

Recommendations  
rated significant

## Ownership of Pending Recommendations



■ HD ■ Business Admin ■ IMD ■ IT ■ ISO

## Implementation Status

**34**<sup>7+</sup>

Pending

**2**<sup>2-</sup>

Satisfactorily  
Implemented

**35**<sup>4-</sup>

Implemented,  
pending IA  
validation

## Age of Recommendations

**26**

1-12  
months

**8**

13-24  
months

**0**

25-36  
months

**0**

37-48  
months

**TRS Internal Audit  
Summary of Audit Recommendations Status  
As of June 26, 2023**

Recommendation	Status	Issue Type	Issue Date	Estimated Date	Revised / Actual Date
<b>19-601 Talent Management and Culture Audit</b>					
2. Strengthen shared services alignment - (c) Performance metrics	Implemented	Significant	4/2019	12/2020	5/2022
<b>20-104 Review of Collections</b>					
1.1 Strengthen death claim-related collection process	Implemented	Significant	7/2020	8/2020	11/2020
1.2 Develop procedures for death claim-related payments and update death notification procedures	Implemented	Significant	7/2020	3/2020	8/2020
1.3 Document and implement procedures for writing off post-death overpayments	Implemented	Significant	7/2020	3/2020	12/2020

**Significant to Business Objectives**

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

**Other Reportable**

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



**TRS Internal Audit**  
**Summary of Audit Recommendations Status**  
**As of June 26, 2023**

Recommendation	Status	Issue Type	Issue Date	Estimated Date	Revised / Actual Date
<b>20-105 Review of 1099-R Processes</b>					
1.1 Identify and Implement Improvements to Address System Defects	Implemented	Significant	10/2020	9/2021	12/2021
2.2 Strengthen Controls for Oversight of Vendor Performance	Implemented	Significant	10/2020	12/2020	12/2020
<b>20-401 Review of Accounting Operations</b>					
3.1.i Accrual and Reporting Accuracy: ACFR - Receivables	Implemented	Significant	7/2020	9/2020	3/2021
3.1.ii Accrual and Reporting Accuracy: ACFR - Payables	Implemented	Significant	7/2020	9/2020	3/2021
<b>21-202 Review of Contract Oversight (HIB)</b>					
1.1 Strengthen contract monitoring efforts	Implemented	Significant	9/2021	2/2023	2/2023
1.2 Assist contract managers in setting up PAVES deliverables	Implemented	Significant	9/2021	10/2021	10/2021
1.3 Strengthen invoice review processes	Implemented	Significant	9/2021	2/2023	2/2023
1.5 Establish and implement criteria for using SOWs	Implemented	Significant	9/2021	2/2023	2/2023
2.1 Strengthen change control processes	Implemented	Significant	9/2021	2/2023	2/2023
2.2 Ensure sufficient involvement of P&C	Implemented	Significant	9/2021	2/2023	2/2023
3.1 Complete risk assessments for executed contracts	Implemented	Significant	9/2021	2/2023	2/2023
3.2 Document the risk assessment process	Implemented	Significant	9/2021	2/2023	2/2023

**TRS Internal Audit**  
**Summary of Audit Recommendations Status**  
**As of June 26, 2023**

Recommendation	Status	Issue Type	Issue Date	Estimated Date	Revised / Actual Date
<b>21-402 Review of the HUB Program</b>					
1.1 Implement TRS HUB Policy	Implemented	Significant	5/2021	9/2021	9/2021
1.2 Finalize HUB Program Manual	Implemented	Significant	5/2021	9/2021	9/2021
1.3 Develop a HUB Strategic Plan	Implemented	Significant	5/2021	9/2021	9/2021
1.4 Implement documentation, tracking, and effective reviews of outreach activities	Implemented	Significant	5/2021	9/2021	9/2021
1.5 Implement HUB Program Tools for TRS Staff	Implemented	Significant	5/2021	12/2021	12/2021
1.6 Increase Number of HUB Vendor Outreach Tools	Implemented	Significant	5/2021	9/2021	9/2021
1.7 Increase the HUB Program Resources	Implemented	Significant	5/2021	9/2021	9/2021
1.8 Enhance TRS HUB Webpage	Implemented	Significant	5/2021	9/2021	9/2021
<b>22-302 Review of Strategic Asset Allocation Procedures and Governance</b>					
1.4.1 Alignment with SAA target allocations	In Progress	Other Reportable	6/2022	12/2024	
<b>22-303 Review of Investment Performance Measurement</b>					
1.1.1 Internal Control Assurance for Third-Party Service Provider	Implemented	Other Reportable	8/2022	8/2022	6/2023
2.2.2 Reliance on Excel Workbooks / Scalability	In Progress	Other Reportable	8/2022	8/2023	

**TRS Internal Audit**  
**Summary of Audit Recommendations Status**  
**As of June 26, 2023**

<b>22-304 Review of Internal Fundamental Public Equity Portfolio Operations</b>					
<b>Recommendation</b>	<b>Status</b>	<b>Issue Type</b>	<b>Issue Date</b>	<b>Estimated Date</b>	<b>Revised / Actual Date</b>
2.1.1 Consultation between Legal & Compliance and IFM	In Progress	Other Reportable	1/2023	9/2023	
2.2.1 Compliance of monitoring alert resolution with IPMA Compliance Testing Procedure	In Progress	Other Reportable	1/2023	6/2023	
2.3.1 Establish research documentation criteria	In Progress	Other Reportable	1/2023	6/2023	
<b>22-401 Review of Records Management</b>					
1.1 Assist business units in weighing benefits against risks of longer retention timeframes	In Progress	Other Reportable	6/2022	2/2023	2/2024
1.2 Require written justification and executive management approval for longer retention timeframes	In Progress	Other Reportable	6/2022	2/2023	2/2024
3.1 Continue efforts to implement record management automated features	In Progress	Other Reportable	6/2022	3/2023	1/2024
3.2 Include shared and personal drives to Microsoft project	In Progress	Other Reportable	6/2022	5/2025	
<b>22-402 Follow-Up of Procurement Audit</b>					
1.2.1 Implement enhancement feature to tie IMD payments to their relevant contracts	In Progress	Other Reportable	11/2022	9/2023	
1.2.2 P&C management should separate invoice creation from the review and approval steps within PAVES	In Progress	Other Reportable	11/2022	9/2023	
1.2.3 P&C management should implement enhancements to limit the number of instances users have to manually enter data in key fields	In Progress	Other Reportable	11/2022	9/2024	
1.2.4 P&C management should improve quality assurance reviews to ensure accuracy and completeness of data.	In Progress	Other Reportable	11/2022	9/2023	
2.1 TRS management should assist P&C in bringing a cultural shift to comply with P&C's lead times	In Progress	Other Reportable	11/2022	9/2023	

**TRS Internal Audit**  
**Summary of Audit Recommendations Status**  
**As of June 26, 2023**

<b>22-502 IT Contract Oversight</b>					
<b>Recommendation</b>	<b>Status</b>	<b>Issue Type</b>	<b>Issue Date</b>	<b>Estimated Date</b>	<b>Revised / Actual Date</b>
1.1 Implement contract monitoring policies and procedures	Implemented	Significant	1/2023	2/2023	1/2023
1.2 Align contract monitoring efforts with key contract requirements	Implemented	Significant	1/2023	2/2023	2/2023
1.3 Strengthen invoice review processes	Implemented	Significant	1/2023	2/2023	2/2023
2.2 Perform risk assessment for executed contracts	Implemented	Significant	1/2023	2/2023	2/2023

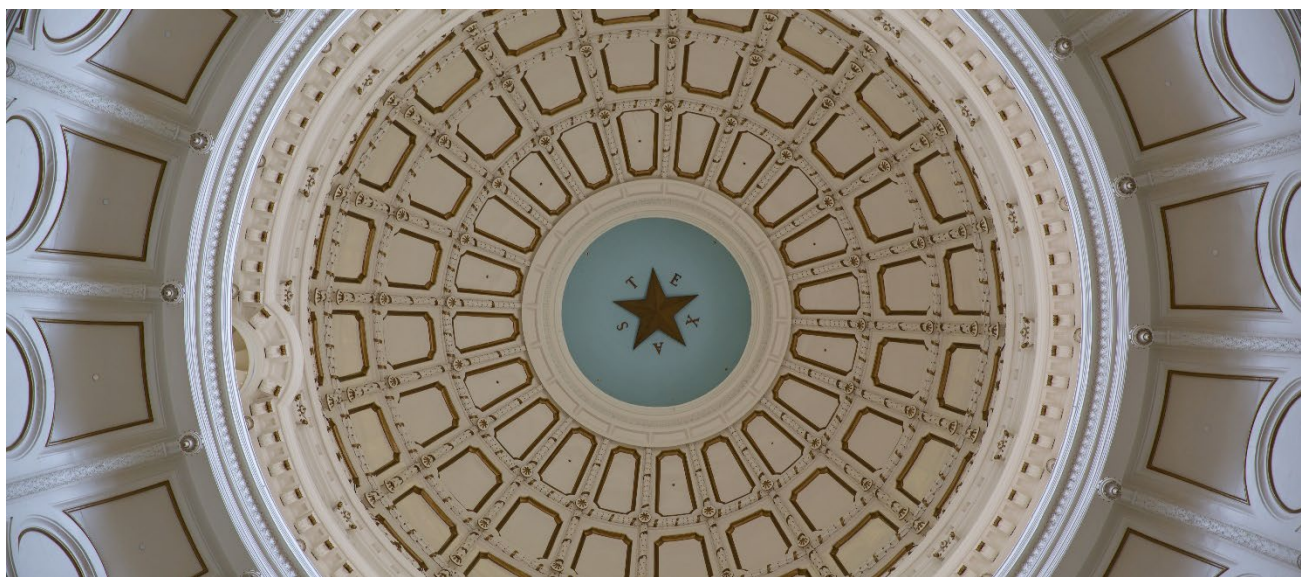




## Internal Audit

# Data Analysis of Healthcare Services Covered Outside of Eligibility Period

**CONFIDENTIAL**



Jonathan O'Reilly and Monica Bernal

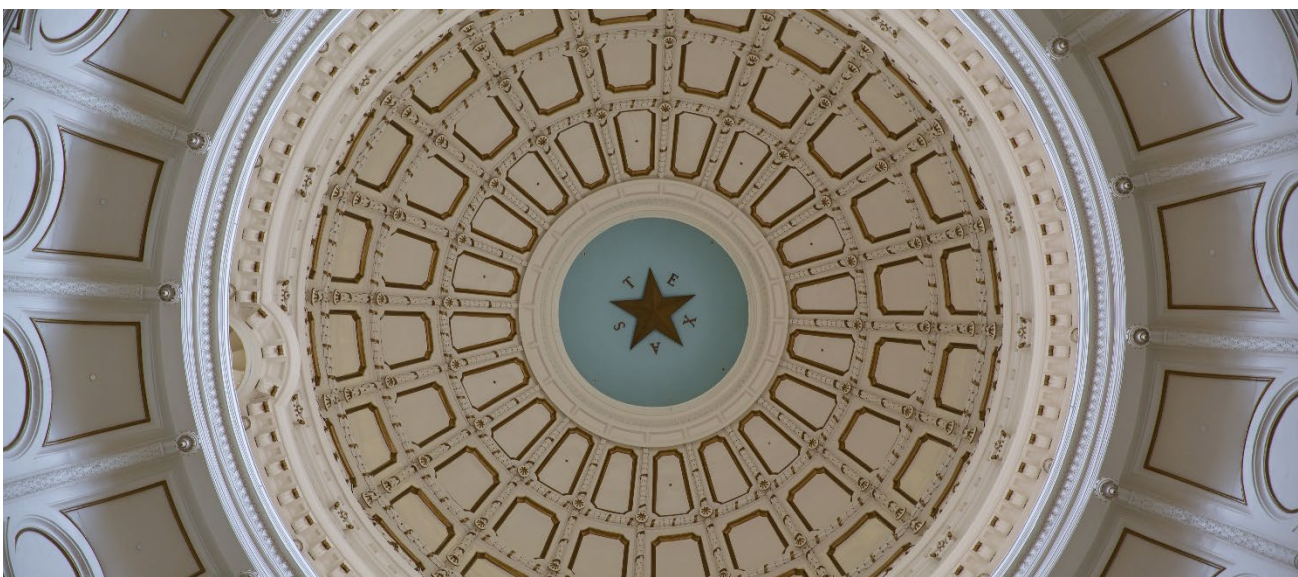
July 14, 2023








# Internal Audit Administrative Reports 3rd Quarter 2023



Amanda Jenami, CPA, CIA, CISA, CFE,  
CGAP, CRMA, CHIAP

July 14, 2023





# Internal Audit Performance Measures 3rd Quarter 2023

## **FY2023 Strategic Plan**

**Goal 1:** Provide assurance to the Board of Trustees and Senior Management (3 KPIs)

**Goal 2:** Serve as trusted advisor to the Board of Trustees and Management (4 KPIs)

**Goal 3:** Attract, develop and retain diverse and outstanding talent (7 KPIs)

**Goal 4:** Leverage technology (1 KPI)

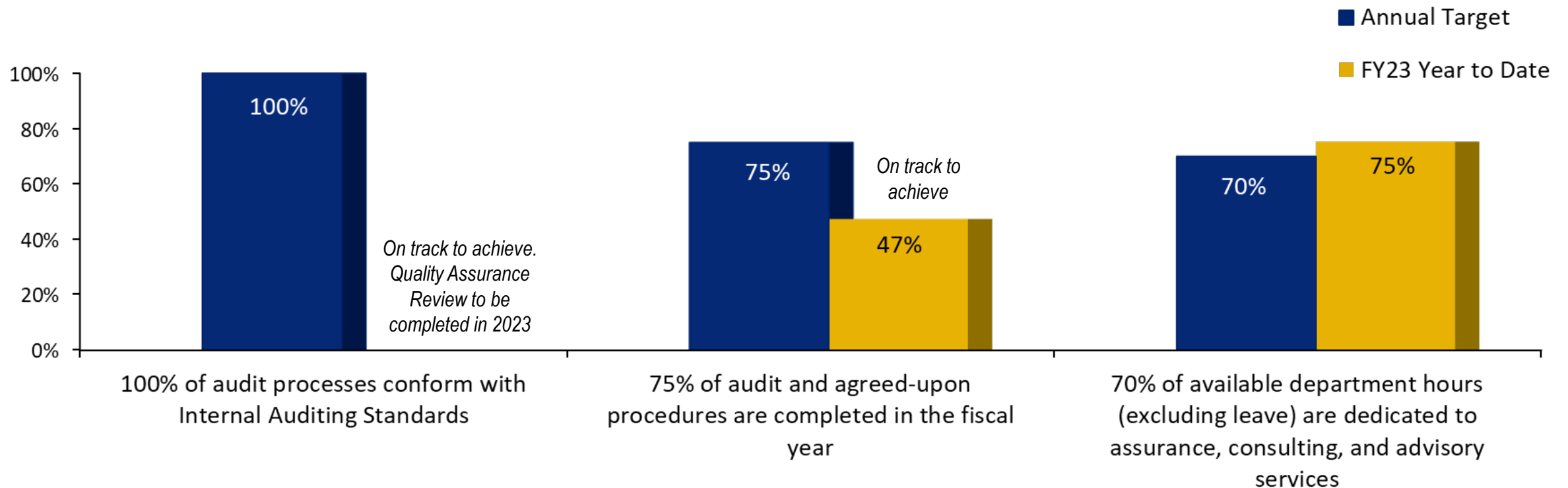
## **FY2023 Key Performance Indicators (KPIs)**

Internal Audit either exceeded or was on track to achieve 93% (14 out of 15) of its annual performance targets in the first quarter.



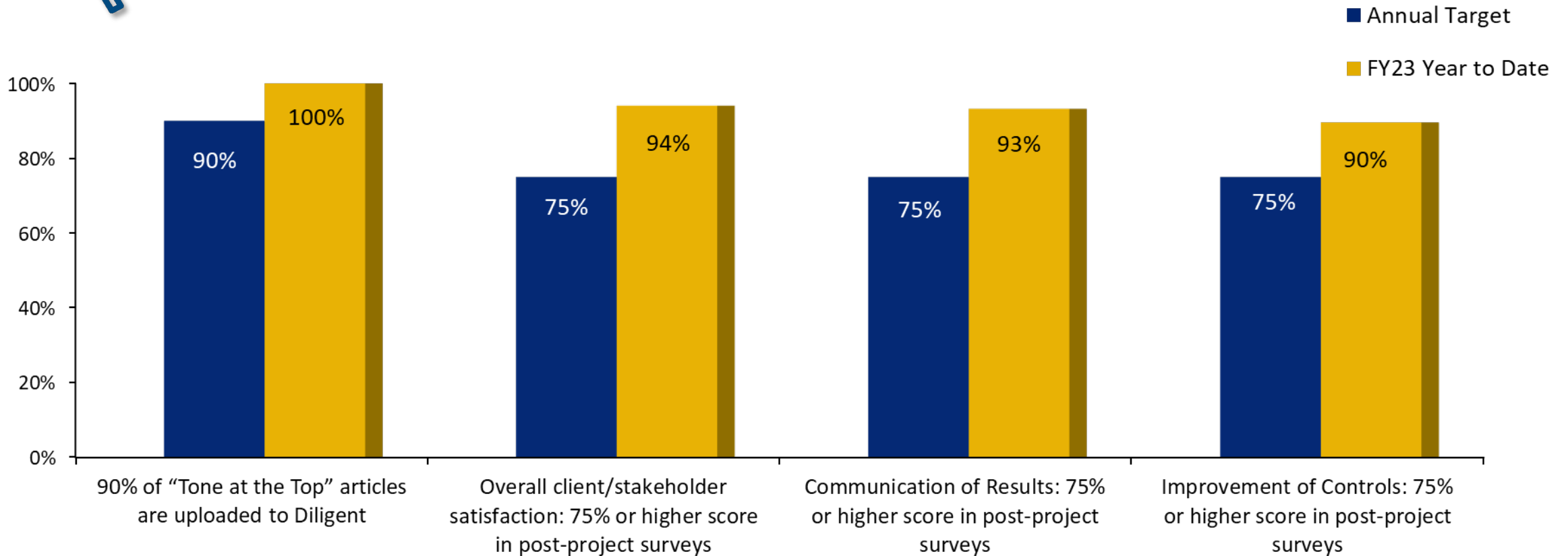


## Goal 1: Provide Assurance to the Board of Trustees & Senior Management



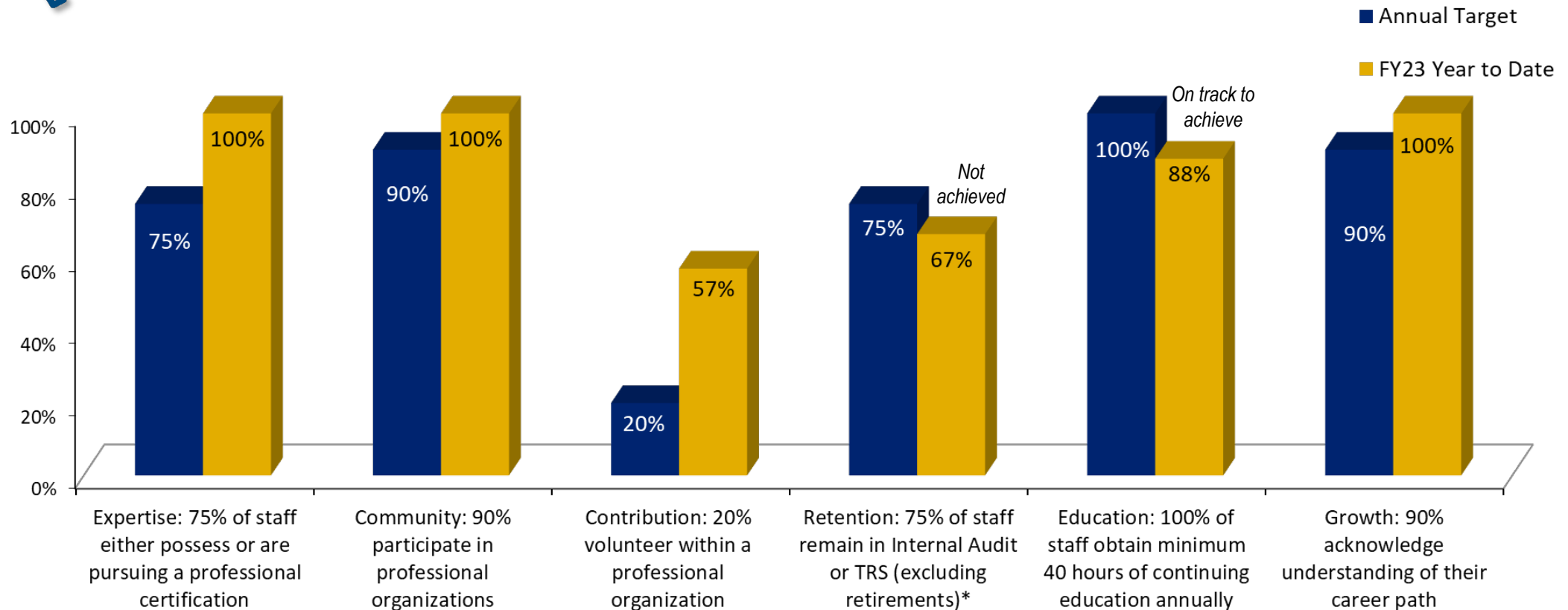


## Goal 2: Serve as trusted advisor to the Board of Trustees & Management



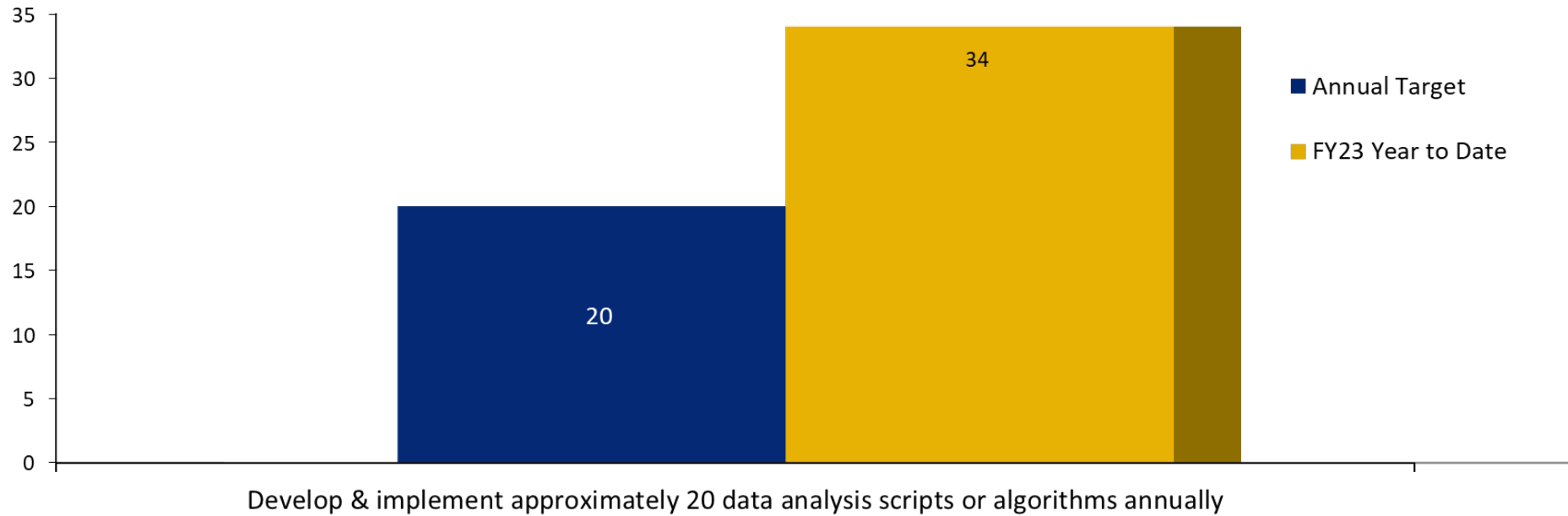


## Goal 3: Attract, develop & retain diverse & outstanding talent





## Goal 4: Leverage Technology



# Advisory Services FY2023



# Internal Audit Advisory Services

## EXECUTIVE

- Facilitated external audits of the Annual Comprehensive Financial Report, TRICOT Annual Financial Report, and FY22 Other Post-Employee Benefits (OPEB)
- Served on the Risk Oversight Committee
- Served on the ERM Maturity Project Team
- Served on the Enterprise Data Governance Council
- Participated in Enterprise Projects Oversight Committee (EPOC)

## INVESTMENT MANAGEMENT DIVISION (IMD)

- Attended Internal Investment Committee (IIC) meetings
- Attended monthly Securities Lending monitoring calls
- Held quarterly collaboration meetings with Investment Compliance and Investment Risk
- Held quarterly collaboration meetings with IMD management

## INFORMATION TECHNOLOGY

- Attended Information Security Advisory Team (ISAT) meetings
- Attended Change Management Team (CMT) meetings
- Coordinated IPA (TEAM) activities
- Held collaboration meetings with Chief Information Officer (CIO) and Chief Information Security Officer

## BENEFIT SERVICES

- Attended Quarterly Employer Advisory Group meetings
- Performed RE data integrity tests via data analytics

## FINANCIAL SERVICES

- Performed independent testing and reconciliation of wire activity

## HEALTH INSURANCE BENEFITS (HIB)

- Performed independent TEAM testing and reconciliation



# Staff Highlights

## New Team Member

### **Tammie Wells** **Director of Operations Audit Services**

Tammie brings more than ten years of state government audit experience, seven of which were with the State Auditor's Office. Tammie joins us from the Texas Health and Human Services Office of Inspector General, where she has served as one of the Audit Directors for the last three years.

Tammie is a Certified Internal Auditor (CIA) as well as a Certified Fraud Examiner (CFE). She holds a Master of Business Administration from Texas A&M University (Central Texas) and a Bachelor of Science in Business Administration/ Finance from Troy University in Alabama.



# Association of Pension Plan Fund Auditors (APPFA)

TRS Internal Audit presenters:

- Katie Linczer
- Stephen Randall
- Julie Toler
- Amanda Jenami



June 6-9, 2023  
Madison, WI

33 Public Pensions  
represented





# Internal Audit Awareness Month

## \* Internal Audit Knowledge \*

- ACE Committee
- Internal Audit Charter
- IA Mission
- Core Processes
- Consulting Services
- Analytics & Innovation

## \* Internal Audit Fun \*

- Contests:
  - Audit "Dad" Jokes
  - 2 Truths & a Fraud
- "Audit selfie" photo booth



Audit, Compliance & Ethics Committee Meeting, July 2023





# Questions?