

July 2024

ASSURANCE

Audit, Compliance & Ethics Committee Meeting



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

**TEACHER RETIREMENT SYSTEM OF TEXAS
BOARD OF TRUSTEES
AND
AUDIT, COMPLIANCE AND ETHICS COMMITTEE**

*All or part of the July 18, 2024, meeting of the TRS Audit, Compliance and Ethics Committee and Board of Trustees may be held by telephone or video conference call as authorized under Sections 551.130 and 551.127 of the Texas Government Code. The Board intends to have a quorum and the presiding officer of the meeting physically present at the following location, which will be open to the public during the open portions of the meeting: **1000 Red River, Austin, Texas 78701 in the TRS East Building, 5th Floor, Boardroom.***

AGENDA

July 18, 2024 – 2:00 p.m.

TRS East Building, 5th Floor, Boardroom

1. Call roll of Committee members.
2. Approve minutes of May 2024 Audit, Compliance and Ethics Committee meeting
– Chair
3. Receive TRS Compliance reports including those related to ethics and fraud, conflicts of interest, and investment policies – Heather Traeger, Chris Bowlin, and MaryEllen O’Neill.
4. Receive Internal Audit reports including Review Prior Audit Recommendations – Jonathan O’Reilly.
5. 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 – Chair, Amanda Jenami and Heather Traeger.

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

Minutes of the Audit, Compliance and Ethics Committee May 3, 2024

The Audit, Compliance and Ethics Committee of the Board of Trustees of the Teacher Retirement System of Texas met on May 3, 2024, 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. Brittny Allred
Mr. Michael Ball
Ms. Nanette Sissney
Mr. Elvis Williams

Other TRS Board Members present:

Mr. Jarvis V. Hollingsworth
Mr. James Dick Nance

Others who participated:

Brian Guthrie, TRS
Andrew Roth, TRS
Don Green, TRS
Heather Traeger, TRS
Amanda Jenami, TRS
Chris Bowlin, TRS
Adam Costa, TRS
Carlos Montoya, TRS
Katie Linczer, TRS
Kerry Skehan, TRS
Tammy Wells, TRS
Chad Nichols, TRS
Falguni Sampat, TRS
Nathan Ward, TRS
Chris Cutler, TRS
Frank Williams, TRS
Kristi Glasgall, TRS
Katherine Farrell, TRS
Suzanne Dugan, Cohen Milstein

Audit, Compliance and Ethics Committee Chair, Mr. Walls, called the meeting to order at 8:00 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 2023 Audit, Compliance and Ethics Committee meeting – Mr. Robert H. Walls, Jr.

On a motion by Mr. Ball, seconded by Mr. Walls, the committee unanimously voted to approve the proposed minutes for the December 2023 Audit, Compliance and Ethics Committee meeting as presented.

3. Receive an overview of the Audit, Compliance and Ethics Committee’s Calendar Year 2024 Work Plan – Amanda Jenami.

Ms. Amanda Jenami provided an overview of the work plan for the ACE Committee. She noted the plan was the same as last year’s highlighting that in September the proposed Audit Plan for fiscal year 2025 will be brought before the committee along with any proposed changes 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 was one exception identified in the quarterly testing on board reporting requirements, the investment policy statement (IPS). He said for the quarter ending December 31, 2023, there was a focus on whether the approved investments were within policy limits; whether each investment was subject to a hedge fund testing; and whether the restricted securities list were updated accordingly, throughout the process within Investment Compliance. He said the exception was within the category of the investment integrity questionnaires (IIQ). He said an IIQ is required for each individual fund. The Special Opportunities group had simultaneously invested in two funds at the same time, for the same sponsor, and unfortunately one fund did not have an IIQ at the time of closing. He said this error has since been remedied and an additional check in the process was implemented to ensure it does not happen again.

Ms. Heather Traeger noted there were six items for the hotline report. She said these items were investigated and remedial measures were taken.

Ms. Traeger concluded by reporting there were two 541(e), employee conflicts and two 541(c)s, conflicts reported by contracting entity. She said the two 541(c)s related to law firms identifying a possible conflict, which were addressed consistently with ethics policy.

Mr. Bowlin provided an overview of the risk mitigation framework to protect material non-public information relating to investments at TRS. He said the Investment Compliance team implemented a number of protocols seeking to mitigate or insulate the organization, compartmentalize that information, and enforce a need-to-know framework for handling that information. Mr. Carlos Montoya provided a high-level introduction to MNPI and why it is important to TRS to safeguard this information. Mr. Adam Costa reviewed the best practices TRS implements to avoid risk such as system restrictions and numerous technologies implemented both on the pre-trade restrictive basis and on post-trade monitoring, personal trading surveillance and information barrier workflow. Mr. Bowlin concluded with how the division reinforces these through annual training and policy reviews.

5. Consider recommending to the Board of Trustees proposed revisions to the Fiscal Year 2024 Audit Plan – Amanda Jenami.

Ms. Jenami stated all changes to the Audit Plan must be brought before the Board for approval. She noted one proposed change to the fiscal year 2024 audit plan. She said Internal Audit no longer had the resources to perform the Innovation Portfolio program audit and proposed to defer it to fiscal year 2025. She said the Innovation Portfolio program is a small program and has the lowest risk of the four audits currently planned for IMD.

On a motion by Ms. Sissney, seconded by Ms. Allred, the committee voted to recommend to the Board proposed revisions to the fiscal year 2024 audit plan as presented by staff.

6. Discuss the use of Integrated Auditing for improved efficiency and enhanced audit coverage – Amanda Jenami.

Ms. Jenami reviewed integrated auditing noting it was an innovative approach that will be applied to some of the audits going forward. She said this was the next step in continuously improving processes and building a world-class Internal Audit function. She said an integrated approach provides a more comprehensive way to perform an audit by considering the relationship between IT, financial and operational controls. She noted that not every audit is a good candidate for integrated auditing and provided examples. She also noted that integrated auditing provides an opportunity for cross training and collaboration between Internal Audit teams, as a team is built around the expertise required for the audit. In response to Ms. Sissney's inquiry, Ms. Jenami stated that while the new way is more comprehensive, it does not omit the old way of auditing.

7. Receive Internal Audit reports:

A. Review of Multi-Asset Trade Operations – Katie Linczer and Kerry Skehan.

Ms. Katie Linczer provided a background on the multi-asset trade operations (MATO) role within the Trust. She said MATO supported Trust movement of assets totaling up to almost \$1 trillion through almost 150,000 transactions. She said each time there is a new strategy rolled out or a change in regulatory requirement, MATO has to be ready to support the effective implementation and execution of Trust strategies to continue to generate returns for our members. She noted that the audit concluded that the MATO group has sufficient processes in place to provide reasonable assurance that the processing and settlement of investment trades and the management of cash margin and collateral are conducted effectively, efficiently and in compliance with relevant policies, guidelines and procedures.

Ms. Kerry Skehan provided the management response noting that she was thrilled with the positive audit. She noted that she was proud of the MATO team of eleven, who move \$3.7 billion on an average day..

B. Status of Prior Audit Recommendations – Amanda Jenami.

Ms. Jenami reported there are 27 outstanding recommendations, down from 30 last quarter.

Mr. Walls announced, without objection, taking up Agenda Item 8.

8. Discuss or consider Internal Audit and TRS Compliance administrative reports and matters related to governance, risk management, internal control, compliance violations, 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 that several of the performance targets are annual targets. and that Internal Audit is currently on track to achieve or exceed all of its performance targets. She concluded the item by reviewing staff accomplishments.

Mr. Walls then announced, without objection, taking up agenda items 7(c).

C. Review of Pension Fund Processes – Tammie Wells, Netza Gonzalez, Chand Nichols, Chris Cutler, and Frank Williams.

Ms. Tammy Wells provided an overview of the audit noting it was one of the first integrated audit approaches. She said the scope of the audit was to look at refund applications and refunds completed in fiscal year 2023 including relevant automated controls. She reported there were about 75,000 refunds processed totaling almost \$700 million. She said over half of the applications were submitted online via the MyTRS application and over half of the disbursements were sent out via check. She noted that the audit concluded that there are sufficient processes in place to provide reasonable assurance that pension refunds are disbursed timely and accurately in accordance with the applicable requirements. In response to Mr. Nance's inquiry, Mr. Chad Nichols stated that the \$700 million was higher than usual, noting that 30,000 out of the 77,000 were a result of the inactive account project. Ms. Wells stated that the audit found some opportunities for improvement, including regarding underpayments related to the interest earned calculation for 4 percent of the refunds.

Mr. Nichols provided the management response agreeing with the recommendations related to the accuracy of refunds.

Mr. Walls announced, without objection, recessing into executive session to take up agenda items 7(c) and 7(d).

D. Audit of Vulnerability Remediation and Patch Management – Brian Browder, Chris Cutler, and Frank Williams.

At 9:09 a.m., Mr. Walls announced the Committee would go into executive session to discuss agenda items 7(c) and 7(d) under the following sections of the Government Code: Item No. 7(c) under Sections 825.115(d), and 551.089 to discuss review of pension fund processes and under 551.071 to consult with legal counsel as needed. For Item 7(d) under Sections 825.115(d), 551.076 and 551.089 to discuss the audit vulnerability remediation and patch management. And under Section 551.071 to consult with legal counsel as needed.

At 9:47 a.m., Mr. Walls reconvened the Committee in open meeting.

With no further business before the Committee, the meeting adjourned at 9:47 a.m.

Approved by the Audit, Compliance and Ethics Committee of the Board of Trustees of the Teacher Retirement System of Texas on July _____, 2024.

Brittney Allred
Chair, Audit, Compliance and Ethics Committee
Board of Trustees
Teacher Retirement System of Texas

Date



Internal Audit

Presentation Date: July 18, 2024

Presented By: **Heather Traeger & Chris Bowlin**



Quarterly Investment Compliance Testing
Investment Policy Statement (IPS), Securities Lending Policy (SLP), and Proxy Voting Policy
Quarter ending March 31, 2024

Procedures Performed	Test Results
<u>Business Objective 1: Board Reports</u> All required information is reported to the TRS Board of Trustees	
<ul style="list-style-type: none"> Obtain evidence that all requirements reported to Board of Trustees Trace sample information included in Board reports to supporting documentation 	<ul style="list-style-type: none"> All reporting requirements were met Documentation provided supported information tested
<u>Business Objective 2: Investment Selection and Approval</u> Investments made are within delegated limits and established selection criteria	
<ul style="list-style-type: none"> 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 Obtain evidence from the investment teams that the CIO conditional upon approval was received after the IIC Obtain evidence of existence of IMD's prudent underwriting objectives for advisor's due diligence Obtain evidence that all counterparty requirements were met Obtain evidence that new investments in emerging managers met requirements Obtain evidence that approved investments were within policy limits 	<ul style="list-style-type: none"> Each investment tested had a completed questionnaire prior to IIC date CIO conditional approvals during this period were documented in the IIC minutes and the required actions were completed after the IIC Prudence letters were provided (where required) for this period All counterparty tests met policy requirements for the tested period All investments met policy requirements for the tested period All investments tested met policy limits for the tested period
<u>Business Objective 3: Other (IPS, SLP, other reporting)</u> Risk limits are followed for other investment and proxy voting policies and procedures were followed	
<ul style="list-style-type: none"> Obtain senior management disclosure about known compliance violations Obtain evidence that TRS securities lending program complied with the guidelines Contractual Allowances & Commission Credits Tracking 	<ul style="list-style-type: none"> Obtained quarterly compliance certification from IMD IIC and Legal No security lending violations were identified All Contractual Allowances & Commission Credits Tracking requirements were met and supporting documents were provided

Legend:



Significant to TRS



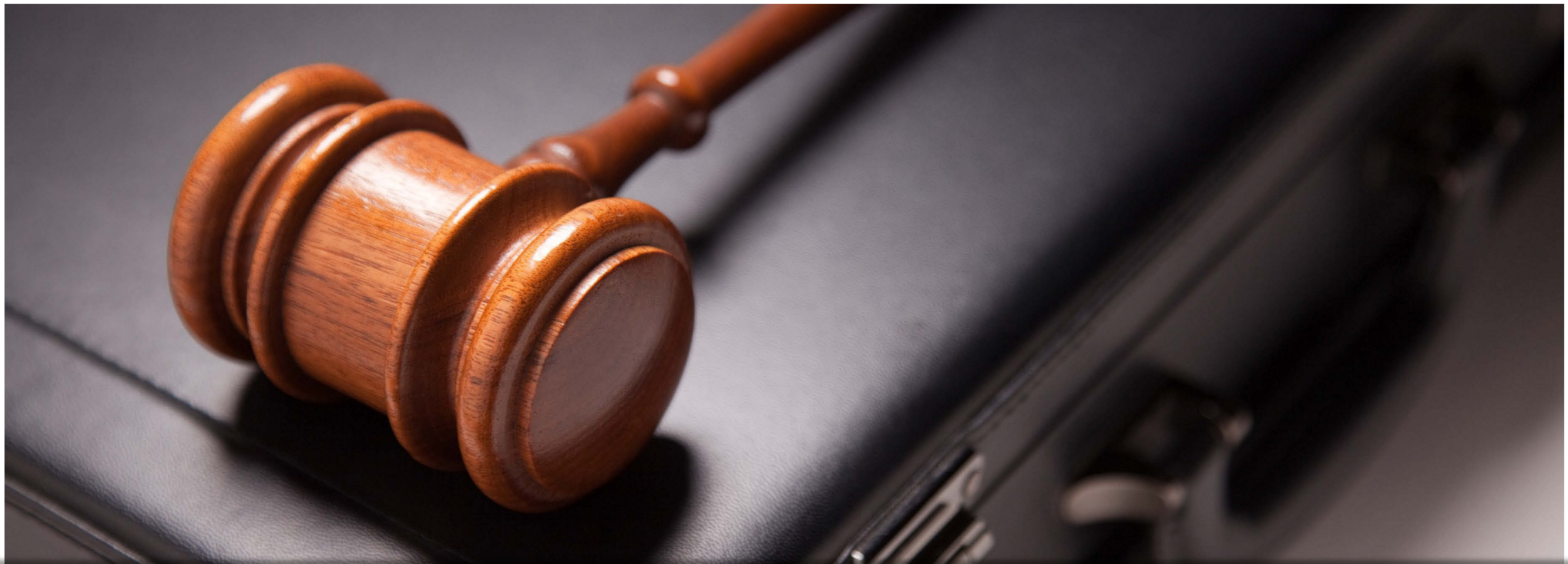
Significant to Business Objectives



Other Reportable Exception



Positive Test Result/ No Exception



TRS Compliance & Ethics Overview: HIPAA Compliance

Presented By:
**MaryEllen O'Neill, Heather Traeger and
Chris Bowlin**

July 2024



Agenda



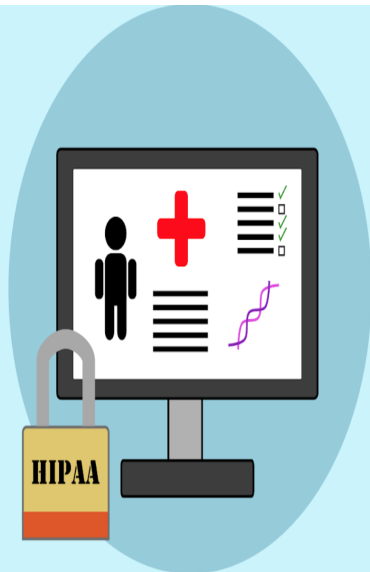
- Health Data Privacy Brief Overview
- Proactive Actions
- Responsive Actions
- Year-Round Activities





Compliance from the Organizational Perspective: HIPAA Covered Entity

Health Data Privacy



Pursuant to the Health Insurance Portability and Accountability Act (HIPAA) a

Covered Entity (CE) is:

(1) health plans; (2) health care clearinghouses; and (3) health care providers who electronically transmit any health information in connection with transactions for which HHS has adopted standards.

The HIPAA requirements a Covered Entity must comply with to protect patient health information are set forth in 3 rules:

- The Privacy Rule;
- The Breach Notification Rule; and
- The Security Rule.



Compliance from the Organizational Perspective: HIPAA (Daily/Business as Usual)

Proactive Preventive Actions

Work with employees and vendors to address questions on HIPAA generally, new functionality, processes, solutions.

Review internal disclosure requests.

Review third-party request for member health information, including law enforcement and provide guidance.

- Power of Attorney, (statutory, durable, medical, instate/out-of-state), Guardianships, Letters of Testamentary, Divorce Decrees.

Member Confidential/ Restricted Communication Requests.

- Review, facilitate with internal team, meet with vendor, reply to participant.

Review vendor access to member information, HIPAA Risk Reviews, Business Associate Agreements, contract terms and any proposed changes.





Compliance from the Organizational Perspective: HIPAA (Daily/Business as Usual)

Responsive Activities



Conduct investigations of TRS data breaches

- Investigate, notify participants, regulatory, and legal authorities, as necessary.
- Conduct risk evaluation.
- Identify and implement mitigation measures to reduce risk of future breaches.

Review and interrogate breaches of Protected Health Information by vendors and ensure appropriate notifications are made to members, regulatory, and legal authorities, as necessary.



Compliance from the Organizational Perspective – HIPAA (Throughout Year)

Monthly

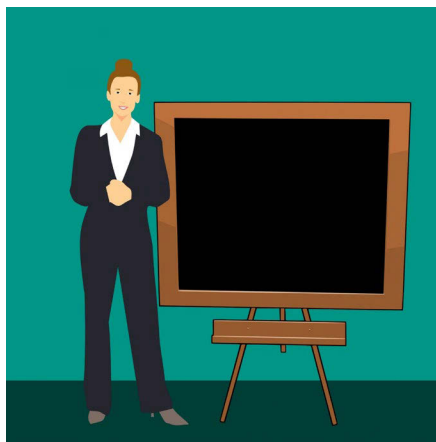
- Publish HIPAA Newsletter sharing relevant new case law, government actions, etc.
- Share Health Care Compliance Association's *Report on Patient Privacy*.
- Share updates on laws and regulations.

Quarterly

- Maintain logs: shred confirmation, TRS and vendor breach, summary disclosure report, POAs.

Annually

- Update the two versions of employee HIPAA training.
- Maintain, update, and issue Notice of Privacy Practices.
- Policy reviews and updates.



As Needed

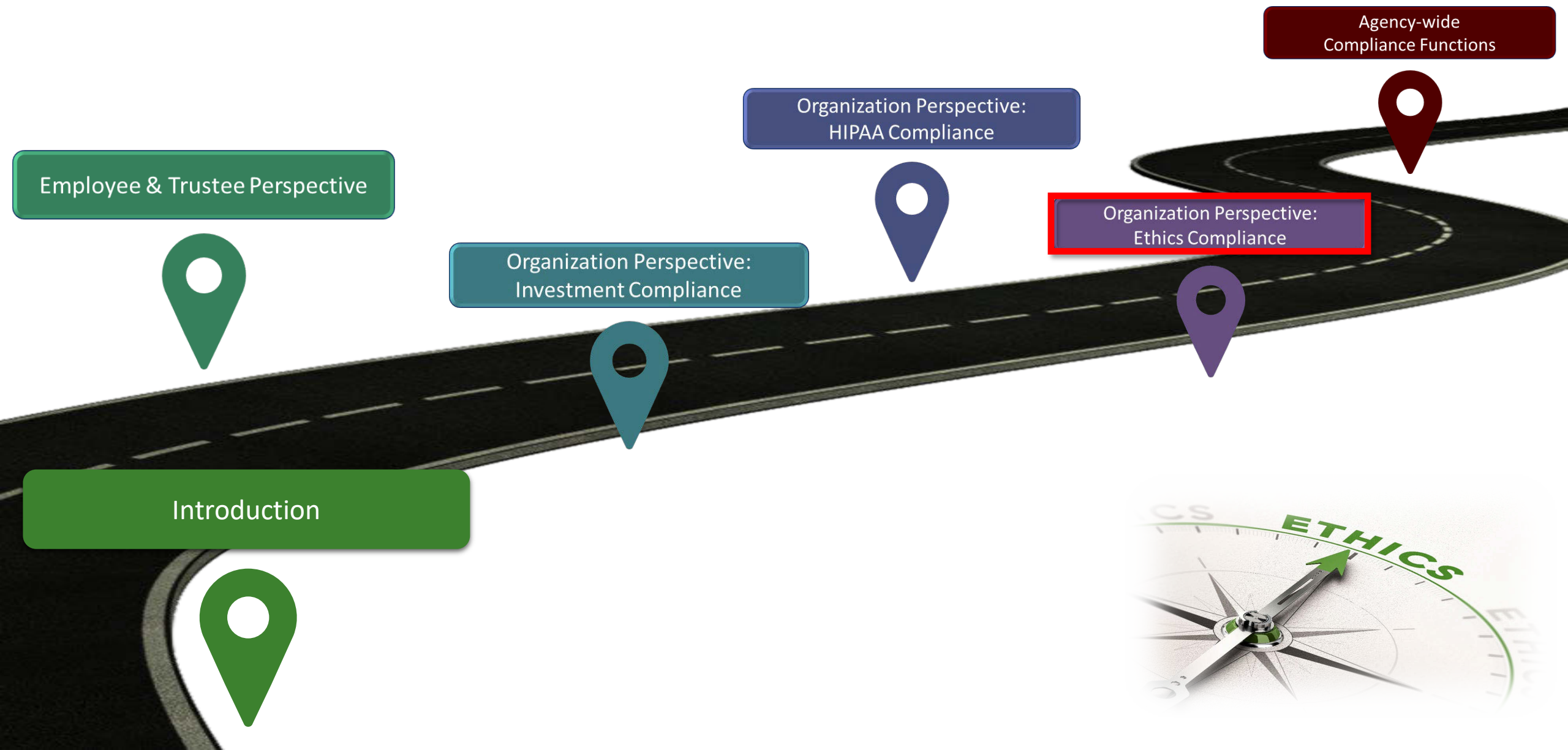
- Training: POA, Confidentiality, HIPAA specific topics.
- Monitor changes to Federal and Texas laws and regulations applicable to HIPAA, and implement and educate, as necessary.
- Perform legislation reviews touching upon HIPAA.
- Update and create new forms, reports, intranet page, and processes to improve compliance.



Questions?



TRS Compliance & Ethics – Information Session Roadmap



Agency-wide
Compliance Functions

Organization Perspective:
HIPAA Compliance

Employee & Trustee Perspective

Organization Perspective:
Investment Compliance

Organization Perspective:
Ethics Compliance

Introduction





Internal Audit

Summary of Audit Recommendations as
of July 9, 2024

July 18, 2024

Presented By:
Jonathan O'Reilly, Director of Business Intelligence





Highlights



64

Recommendations
(Total)

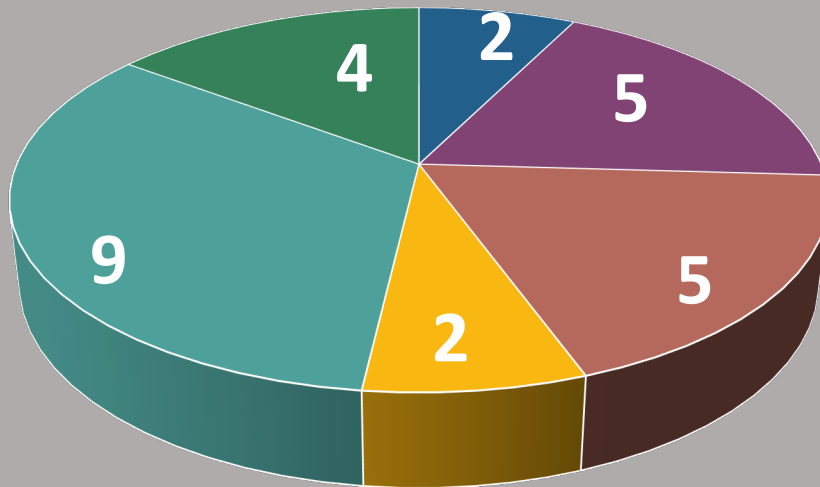
22

Audit Reports

36

Recommendations
rated significant

Ownership of Pending Recommendations

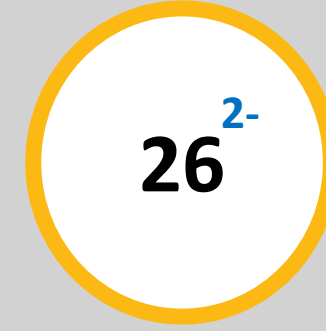


■ Benefit Services ■ Business Admin ■ HD ■ IMD ■ IT ■ ISO

Implementation Status



Pending



Satisfactorily
Implemented



Implemented,
pending IA
validation

Age of Recommendations





Internal Audit Administrative Reports

July 19, 2024

Presented By:
Amanda Jenami, CPA, CISA, CIA, CIDA, CFSA, CRMA, CFE





Internal Audit Performance Measures, 3rd Quarter 2024



Executive Summary



FY2024 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 (6 KPIs)

Goal 4: Leverage technology (1 KPI)

FY2024 Key Performance Indicators (KPIs)

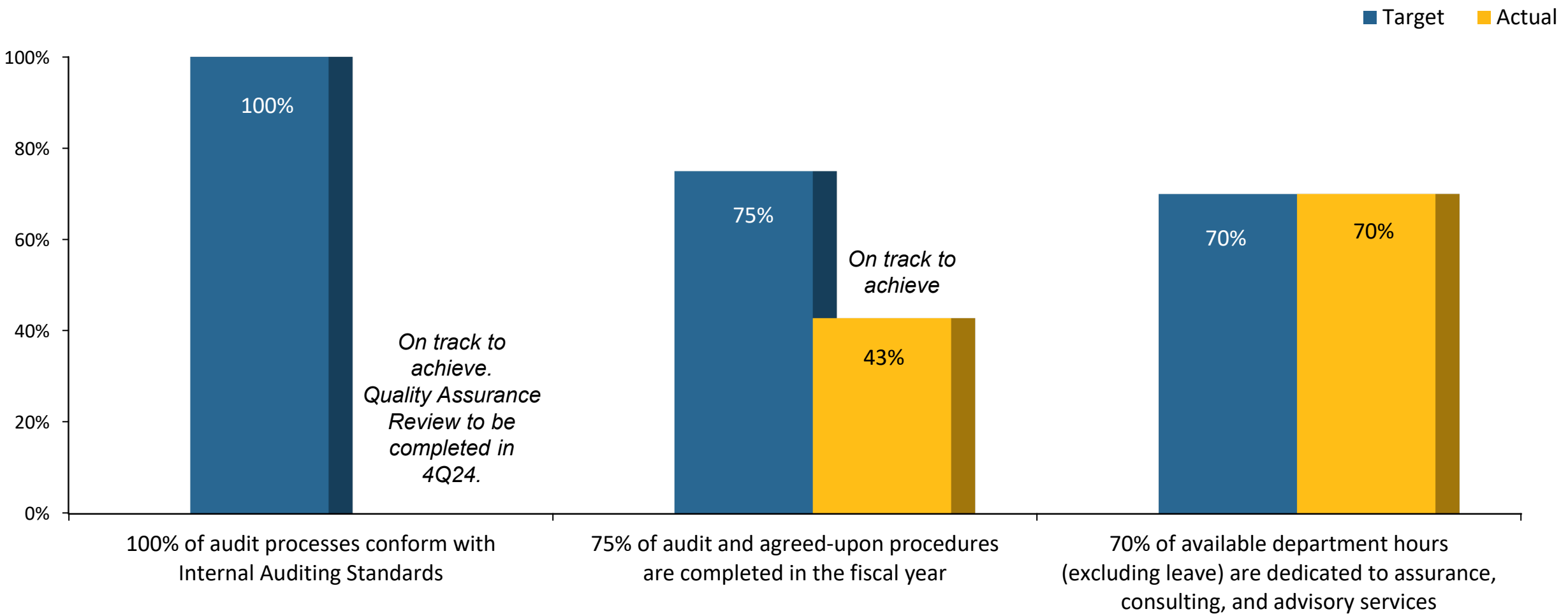
Internal Audit either exceeded or was on track to achieve 100% (14 out of 14) of its annual performance targets at the end of the quarter.



KPI Results



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

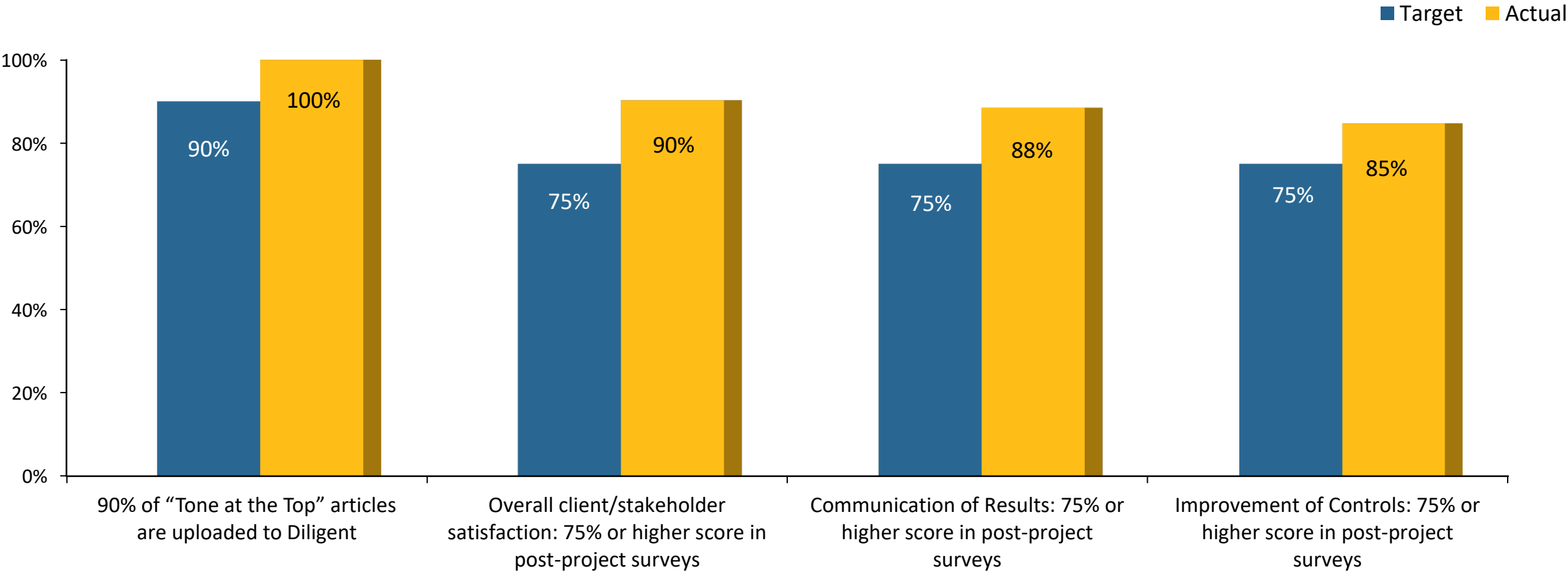




KPI Results



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

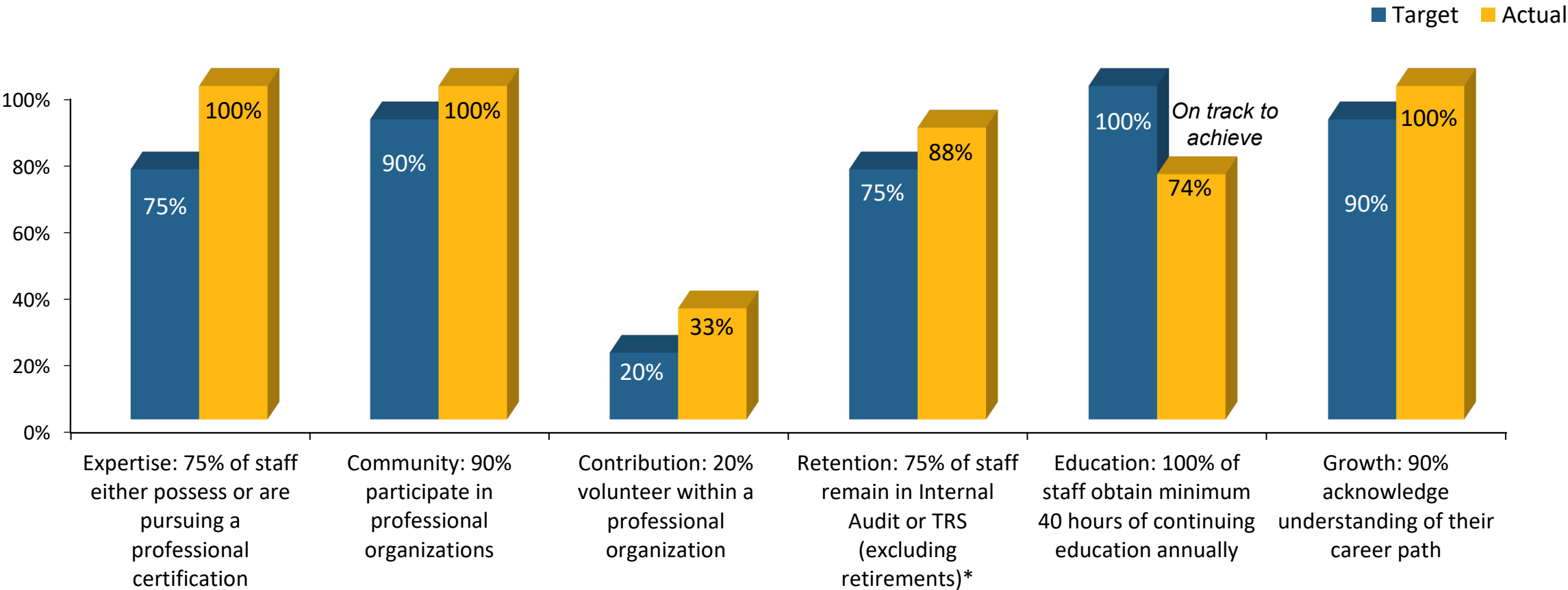




KPI Results

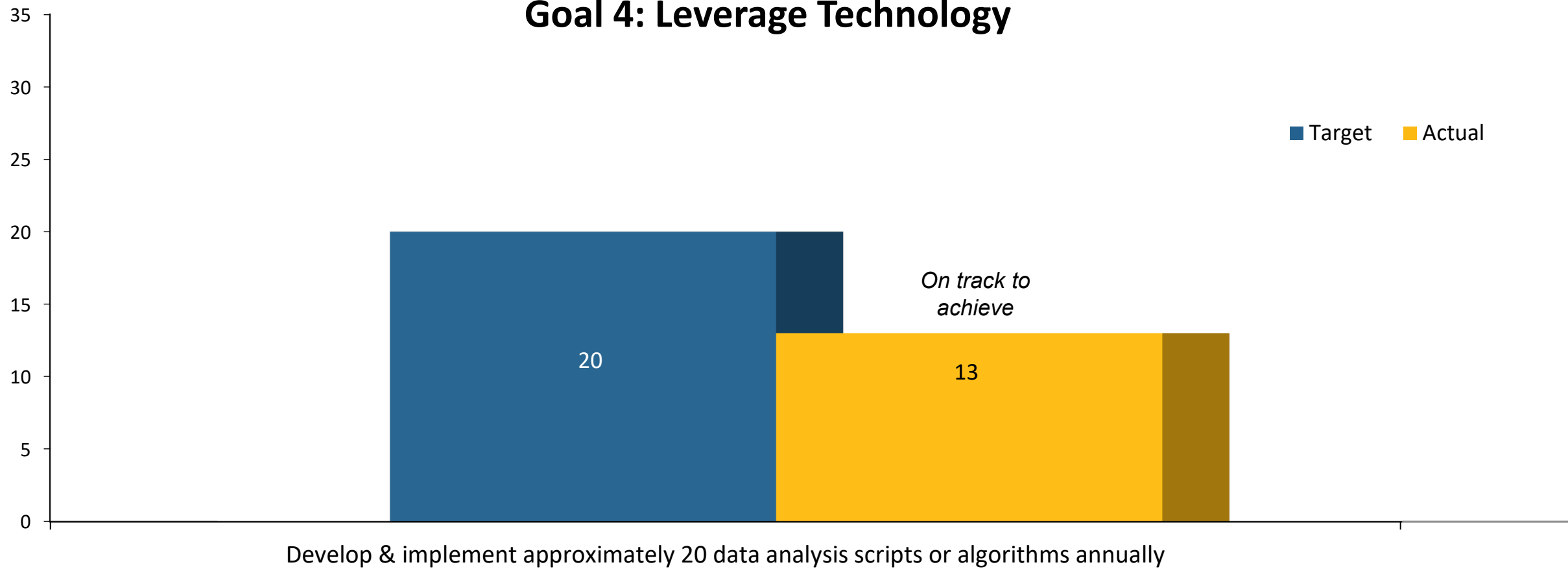


Goal 3: Attract, develop & retain diverse and outstanding talent





Goal 4: Leverage Technology





Advisory Services, 3rd Quarter 2024



Internal Audit Advisory Services



EXECUTIVE

- Facilitated external audits of the Annual Comprehensive Financial Report (ACFR), TRICOT Annual Financial Report, and FY23 Other Post-Employee Benefits (OPEB)
- Served on the Risk Oversight Committee
- Served on the Enterprise Data Governance Council
- Participated in Enterprise Projects Oversight Committee (EPOC)
- Served on Artificial Intelligence Review Team

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
- Served on Enterprise Risk Management (ERM) Cybersecurity Team
- Performed review of the TRS Cybersecurity Incident Response Plan

INVESTMENT MANAGEMENT DIVISION (IMD)

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

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 DIVISION (HD)

- Performed health plan program integrity tests via data analytics
- Performed independent HILOB June release testing



Staff Accomplishments



Staff Accomplishments



Our newest Certified Cloud Security Professional (CCSP):



Brian Browder, CISSP, CCSK, CCSP
Senior IT Auditor
IT Audit Services



Questions