

**AUDIT COMMITTEE MEETING MINUTES
OF TENNESSEE CONSOLIDATED RETIREMENT SYSTEM (TCRS)
June 26, 2015**

The Audit Committee of the Board of Trustees of the Tennessee Consolidated Retirement System met on Friday, June 26, 2015, at 8:00 a.m. The meeting was held in the Legislative Plaza, Room LP 30 with Chairman Michael Barker presiding.

The following members were present: Chairman Michael Barker; Mayor Ken Wilber, Tennessee Municipal League; Mr. Tre Hargett, Secretary of State; Mr. Charles Archer, Tennessee Department of Revenue.

Others present were: Mr. David Lillard, Jr., State Treasurer; Ms. Gail Moses, Auditor, Tennessee Comptroller of the Treasury, Division of State Audit; Ms. Jill Bachus, Director of TCRS; Ms. Britt Wood, Internal Auditor, Tennessee Department of Treasury; Mr. Shane Rector, Internal Auditor, Tennessee Department of Treasury; and Mr. Andy McArthur, Internal Auditor, Tennessee Department of Treasury.

Call Meeting to Order

Chairman Barker called the meeting to order. Chairman Barker asked if any changes were needed to the minutes of the prior meeting. No changes were suggested. Secretary Hargett motioned to accept the minutes and Mr. Archer seconded the motion. The minutes of the TCRS Audit Committee meeting held on March 27, 2015 were unanimously approved.

Review the Audit Committee Charter

Mr. McArthur stated the Audit Committee Charter is included in the meeting packet for the Committee to review and recommend any necessary changes. Mr. Archer asked if the charter has always been in effect or if it is a new document for this year. Mr. McArthur stated the document has not been significantly changed since at least 2008.

Secretary Hargett asked if the Committee needed a motion for approval. Chairman Barker stated that the charter was included in the meeting packet for review and will be approved at a later committee meeting. Chairman Barker asked the Committee to forward any recommended changes to himself or Mr. McArthur.

Discuss the Scope of the Annual Audit Performed by the Comptroller of the Treasury

Mr. McArthur stated that the Treasury Department had received the 2015 audit engagement letter from the Comptroller's office. There were no substantive changes from the engagement letter TCRS received the FY 2014 audit. Chairman Barker asked the Committee if there were any questions regarding the engagement letter. No questions were raised and the Chairman moved to the next item on the agenda.

Discuss the Comptroller's Hotline

Mr. McArthur stated that the Comptroller's hotline was established for state employees and the public to report suspected fraud, waste, and abuse. The hotline is available via telephone and online on both the Comptroller's website and the Treasury's website.

Internal Audit Update

LEA Census Data Testing and Concord Data Analysis Update

Mr. McArthur stated that census data analysis reports had been sent to all 214 LEAs earlier in the week. The reports conveyed the results of each LEA's census data tests that were requested by the plan actuary. Ms. Wood stated that the Internal Audit Division has been testing data for all of the political subdivisions participating in TCRS, which includes the LEAs. Tests are being conducted on the active actuarial and retired actuarial files.

The Internal Audit Division has also traced the business process from Concord to the active and retired actuarial data. There were no significant errors detected during testing. Data being tested originated in TRACS and was uploaded into Concord during system conversion. The Internal Audit Division has tested the data elements used by the plan actuary to calculate the reporting entities' net pension liabilities and the average final compensation (AFC) calculations used to establish the benefit received by retirees.

Mr. Rector stated that ACL software has been used to recalculate the benefits currently being received by retirees. Recalculations have been completed for roughly 95% of the retirees. No significant errors have been identified during the recalculation test work.

Ms. Bachus stated that the recalculation test work is being conducted at the request of State Audit. Chairman Barker stated that he is impressed with the TCRS staff's accuracy in calculating the benefits being disbursed.

Concord Update

Ms. Bachus provided the Committee with a Concord update. The conversion team continues to address PIRs. The number of PIRs is declining. The team is beginning to focus on improving efficiency by tweaking functional areas of Concord and TCRS processes.

Ms. Bachus stated that the learning process of implementing the Concord system has led to the identification and correction of issues that were previously not recognized. The Concord team is also attempting to address issues presented by certain types of TCRS members. Teachers often accrue service credits in a manner different than other members. The team's goal is to implement a code that will automatically make any

necessary adjustments to service credit and calculate the benefit due in such cases without TCRS staff intervention.

The Concord team is also developing processes for absorbing plan assets from previously non-TCRS members. Last year's legislation, PC 990, calls for a review of funding policies for plans outside of TCRS. PC 990 states that the assets of plans in existence when an employer joins TCRS may be administered by TCRS going forward. In essence, a scaled back version of Concord is being created to administer those plan assets.

The Concord team has employed Dynetics to test the system for security weaknesses. The results of the security tests are expected to be available in the next few weeks.

Chairman Barker asked about the overall implementation of Concord. Ms. Bachus responded by stating that Concord has been a successful system for the state. The implementation process has highlighted some areas that could have been approached differently. However, the system is functioning as intended and issues are still being addressed. Chairman Barker stated that many of the foreseeable problems were addressed prior to implementation thereby avoiding problems within the live system.

Treasurer Lillard commended the TCRS and Treasury staffs for diligently working to make Concord a success. Every section of the Treasury Department has contributed to the successful implementation of Concord. The Treasurer stated that there are two main areas of concern presently. The team is focused on automating the calculation of the AFC and the collection of data that is used in the calculation. Additionally, the team is striving to fully open the "self-service" section of Concord to allow employers and members the ability to submit all data and forms electronically to avoid keying errors expected with hardcopy submissions.

Treasurer Lillard stated that the entire department has undergone some change with the implementation of Concord. Records Management is now the starting point for workflows. Previously, Records Management converted documents to microfilm at the end of workflows. Now, incoming documents are scanned into the system by Records Management when they are received. Scanned documents then proceed through the department electronically, thereby improving operational efficiency.

The Internal Audit Division has also made advancements toward becoming more efficient. The division has increased its use of Audit Command Language (ACL) software for data analytics. ACL allows the audit staff to perform more thorough audits in less time. The use of ACL enables the division to perform more efficiently while conducting test work consistent with large private sector bank internal audit divisions.

Treasurer Lillard commended the Treasury staff for going beyond expectations to implement Concord and the many other recent system changes within the department. Many of the operational changes have come to fruition because of the staff's dedication to willingness to contribute to the advancement of the department.

Private Equity Disclosure

Chairman Barker stated the Private Equity Disclosure was available in the meeting packet. The Chairman opened the floor for discussion and questions concerning the disclosures. No one in attendance commented or raised any questions. Chairman Barker then proceeded to the next item on the agenda.

Other Business

Chairman Barker asked Treasurer Lillard if he had any comments for the Committee to consider. Treasurer Lillard mentioned the Treasury Department's effort to convert its documents to an electronic format. Conversion to electronic documents has increased efficiency, improved security, and provided a stronger audit trail. Documents previously maintained on microfilm have been imaged into an electronic format that is more searchable. Paper files have also been imaged as part of the imaging project. The project has enabled staff to access documents from any location with internet access, thereby allowing Treasury operations to continue should the Andrew Jackson Building become inaccessible.

Chairman Barker mentioned the IRS payment discussed in the previous audit committee meeting. Treasurer Lillard stated that the procedures related to the payment in question have been updated to include additional controls intended to assure the timely remittance of taxes due to the IRS. Staffing changes were also made in response to the incident. The Treasury has also hired outside legal counsel to assist with appealing the penalty associated with the late IRS payment.

Chairman Barker mentioned the additional positions included in the Treasury Department's operating budget for maintaining compliance with new GASB standards. Treasurer Lillard stated the new positions were approved as part of the new budget. The Internal Audit Division is currently conducting test work and data analysis to assure compliance with GASB standards.

Mr. McArthur mentioned the test work currently being conducted by the Internal Audit Division for GASB compliance. Ms. Gail Moses stated that the Comptroller's Office could not yet comment on the test work. Treasurer Lillard stated that Mr. Steve Curry, TCRS management, and the Internal Audit Division have been working together to design and conduct data tests to assure Treasury operations are in compliance with the new GASB requirements. Ms. Bachus stated that TCRS is in the process of providing auditors with the necessary documents and data to facilitate the Treasury's compliance efforts.

Treasurer Lillard stated that the volume of new regulations that have come out in the past ten years exceeds new regulations introduced in the twenty prior years. The new

regulations will give users of financial statements a better understanding of the entity's true liability. Treasury employees from several divisions are working diligently to address all of the new regulatory requirements.

Chairman Barker asked about the new hybrid system. Ms. Bachus stated that there are roughly 6000 teachers in the hybrid plan and considerably less state employees in the plan. TCRS staff is currently working on the details for employer reporting under the hybrid plan. Ms. Bachus stated that TCRS is also reaching out to educate new members about the importance of saving for retirement. The new options available within TCRS give members the ability to more directly control their accounts. The hybrid plan is developing well.

Adjournment

Chairman Barker stated that if there were no additional items to be discussed, the meeting could be adjourned. Secretary Hargett made a motion to adjourn the meeting. The motion was properly seconded by Mr. Charles Archer. The Committee unanimously voted to adjourn the meeting.

Respectfully Submitted,



Andy McArthur

Internal Auditor, Tennessee Department of Treasury

Approved:



Michael Barker

Chairman of the Audit Committee