

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM**  
**AUDIT COMMITTEE MEETING MINUTES**  
**March 18, 2016**

The Tennessee Consolidated Retirement System (TCRS) Audit Committee for the Board of Trustees met on Friday, March 18, 2016. The meeting began at 8:10 a.m. in Room LP 30 of the Legislative Plaza.

The following members were present:

- Chairman Michael Barker
- Commissioner Rebecca Hunter, TN Department of Human Resources
- Mayor Ken Wilber, TN Municipal League

Others present were:

- Mr. David H. Lillard, Jr., State Treasurer
- Mr. Earle Pierce, Director of Internal Audit, TN Department of Treasury
- Mr. Shane Rector, Internal Auditor, TN Department of Treasury
- Ms. Jill Bachus, Director of TCRS
- Mr. Andy McArthur, Internal Auditor, TN Department of Treasury

**Call Meeting to Order**

Chairman Barker called the meeting to order and presented the minutes from the June 26, 2015 Audit Committee meeting for approval. Commissioner Hunter requested the word “actuary”, used in the prior meeting’s minutes, be changed to “actuarial” when referring to testing of actuarial data. Chairman Barker agreed to the requested revision and Jill Bachus concurred. There were no other recommended changes. Commissioner Hunter motioned to accept the minutes as amended and Mayor Wilber seconded the motion. The minutes were unanimously approved from the June 2015 Audit Committee meeting.

**Approval of the TCRS Audit Committee Charter**

Chairman Barker presented the TCRS Audit Committee Charter and asked for any recommended changes to the charter. Commissioner Hunter inquired about the provision in the charter allowing committee members to teleconference in to committee meetings. Treasurer Lillard responded by discussing the Open Meetings Act which governs TCRS Audit Committee meetings. After discussion, Mr. Pierce asked if the provision in the charter needed

revision for clarity. Commissioner Hunter and Treasurer Lillard stated no revision was necessary. Commissioner Hunter motioned to accept the charter as presented and Mayor Wilber seconded the motion. The TCRS Audit Committee Charter was unanimously approved.

Chairman Barker introduced Earle Pierce as the new Director of Internal Audit for the Tennessee Treasury Department. Treasurer Lillard commented the Department was glad to have Mr. Pierce as part of the Department Internal Audit staff.

### **Review the Treasury Department's Standards of Professional Conduct**

The Treasury Department Professional Conduct Standards included in the Treasury Employee Guidebook were discussed by Mr. McArthur. The Standards include the Treasury's expectations of employees and guidance for conflicts of interest disclosures as well as nondiscriminatory policies and policies on receiving gifts from vendors. Chairman Barker asked if there were any questions or comments related to the Standards. Mayor Wilber asked if there had been any changes made since the last time it was brought before the Committee. Mr. McArthur indicated there were no major changes.

### **Review the Investment Division Code of Ethics**

Mr. McArthur discussed the Investment Division's code of ethics. This Division's code outlines their unique operations, providing more detail and strictly defined conduct policies. Chairman Barker mentioned the same standards in the Code should be applied to members of the Board of Trustees as well as Audit Committee members who are privy to confidential information. There were no further comments or questions.

### **Concord Analytics Update**

Mr. Pierce discussed the analytics developed by the Internal Audit staff for auditing the new Concord system transition including investigative tools, tools used to validate the information stored in Concord, and analytics to ensure only authorized employers are participating in TCRS. Ms. Bachus provided some explanation on what constitutes authorized employers. Additional discussion regarding authorized employers and legally separate entities occurred among Committee members, Treasurer Lillard, and Ms. Bachus.

Mr. Pierce discussed other analytics Internal Audit has either developed or is in the process of developing for use on a continuous basis. Chairman Barker stated it is helpful to have a list of

ongoing projects being developed by the Internal Audit staff since the Committee does not meet often.

Commissioner Hunter asked about the 120 day temporary re-employment provisions, and asked if Treasury does a comparison between payroll files sent from employing agencies and Concord retired payroll files. Ms. Bachus said TCRS performs this comparison and employers should be reporting retirees returning to work temporarily as "Nonparticipating" employees with TCRS staff ensuring proper forms are on file. TCRS staff is working to improve tests to correctly calculate service. Additionally, the Concord system automatically stops all payments to retired members on the payroll being reported as a full time employee. Treasurer Lillard asked if it is the responsibility of the employer to ensure compliance with the 120 day temporary employment contract, and Ms. Bachus confirmed it is the employer's responsibility.

Ms. Bachus commented not all of the analytics described were directly related to Concord and noted the analytics developed for the Concord system have been helpful for the TCRS and Concord staff.

#### **Concord Update**

Ms. Bachus provided the Committee with a Concord system update and noted this may be the final update on the Concord system since Concord staff has changed their focus from project implementation to an administrative/operational focus.

Per Ms. Bachus, the rules engine used in Concord will be converted from ILOG to InRule. Concord is also being modified to handle unique third party administration performed for other entities, and to examine how funding is being received in TCRS through contributions.

Ms. Bachus discussed efforts to modify Concord in order to handle Qualified Domestic Relations Orders (QDROs). These items are the focus in addition to the normal workload of system corrections and enhancements. The final integration in Concord is the call center. Empower, third party defined contribution administrator will be taking a larger role in staffing the TCRS call center starting April 4th. This includes scheduling appointments and presentations in an effort to fully integrate Concord into Empower.

Ms. Bachus mentioned TCRS staff members are still resolving Problem Incident Reports (PIRs) and data cleanup which is part of the normal workload.

Additional TCRS operations discussed included the following:

- a) Volume of retirement applications, waiting periods and efficiencies achieved in reduced waiting periods
- b) Employer Reporting and the new employer reporting unit
- c) Update provided electronic records, document conversion and offsite storage

### **Internal Audit Update**

Mr. Pierce discussed the following final Internal Audit reports with the Committee:

#### ***Cash Management Risk Assessment Review Report***

Mr. Pierce discussed Internal Audit's risk assessment review of the Treasury's Cash Management Division. The objectives of the review determined if the risks related to Treasury's Cash Management Division were defined in the Financial Integrity Act risk assessment; the internal controls in place adequately mitigated those risks, and if there were any unmitigated risks to communicate to management. The period under review was June 2012 through June 2015. Internal Audit noted risks specific to cash management were identified in the FIA assessment, and controls specific to cash management were also defined for departmental procedures. These controls appeared to adequately mitigate identified risks. The report included one recommendation to link identified internal controls to the FIA risk assessment. The goal was to have this recommendation implemented for the 2015 FIA process.

#### ***TBI Contribution Exclusions***

Mr. Pierce discussed the exclusion of TBI employee contributions from the file upload process in October 2014. Treasury management contacted Internal Audit after receiving notice from TBI employees who were missing contributions for October 2014. Internal Audit was asked by Management to determine if any other agencies had been excluded from this file in error. The review included analyzing reports to locate any other posting exceptions of monthly contributions in October 2014. The review identified no other posting exceptions.

#### ***Review of Actuary File Process***

Mr. Pierce discussed the Actuarial File Process review performed by Treasury Internal Audit at the request of State Audit in order to verify compliance with GASB Standard 67. Internal Audit's review focused on Political Subdivisions (i.e. – Poli-sub) participating in TCRS. The objectives of

the review determined whether the active and retired actuarial files were generated in compliance with the established processes and accurately reflected system data at the time the files were created as well as verify substantially correct census data. Internal Audit recalculated retired actuarial data for initial benefit amounts and any related COLAs.

Internal Audit noted the data files were created as planned by TCRS with record counts substantially matched for both files. Internal Audit concluded the files were reasonably complete and accurate in all significant respects. The report included one recommendation to management about revising retiree service credit reporting processes for those retirees returning to work.

#### ***Cost-Sharing Plan Census Data Testing***

Mr. Pierce discussed the report issued for the Cost-Sharing plan census data testing performed to support the issuance of GASB 67 and 68. The new GASB standards resulted in changes in the presentation of public pension plan financial statements, with net pension liability now being reported on the face of the financial statements. The standards require stronger controls over the collection of plan member information. Internal Audit conducted independent testwork on census data used by actuaries to compute net pension liability. The objectives established the population of members enrolled in the cost sharing plan, identified any inaccurate data in the actuarial file, and notified employers of any missing or inaccurate data. Additional data testing was performed for a sample of LEAs through direct visits to selected schools. Internal Audit concluded the data appeared reasonably complete and accurate with one recommendation to improve the efficiency of the census data testing process.

#### **Current & Future Audit Projects**

Mr. Pierce reviewed a schedule of current and future projects for the Internal Audit Division. The schedule included projects for continuing data analytics of the Concord system, audits in the planning stage, one currently under review, and two investigation reports pending release.

#### **Private Equity Disclosure**

Chairman Barker stated the Private Equity Disclosure was available in the meeting packet. There were no comments or questions.

**Tone at the Top**

Chairman Barker discussed two recent Institute of Internal Auditors (IIA) articles included in the meeting packet. The importance of the culture within an organization as set by top management was the focus in both articles.

**Other Business**

No other business was discussed during today's meeting.

**Adjournment**

Chairman Barker entertained a motion to adjourn. Commissioner Hunter motioned to adjourn and Mayor Wilber seconded the motion. The meeting adjourned at 9:00 a.m.

**Meeting minutes documented by**

Earle Pierce, CPA, CIA, CRMA  
Director of Internal Audit  
Tennessee Department of Treasury

**Approved by:**

Michael Barker  
Chairman of the Audit Committee