

**AUDIT COMMITTEE MEETING MINUTES
OF TENNESSEE CONSOLIDATED RETIREMENT SYSTEM (TCRS)
June 24, 2016**

The Tennessee Consolidated Retirement System (TCRS) Audit Committee for the Board of Trustees met on Friday, June 24, 2016. The meeting began at 8:00 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
- Tre Hargett, Secretary of State
- Mayor Ken Wilber, TN Municipal League
- Chief Tony Crisp, Maryville Police Department

Others present were:

- David H. Lillard, Jr., State Treasurer
- Earle Pierce, Director of Internal Audit, TN Department of Treasury
- Shane Rector, Internal Auditor, TN Department of Treasury
- Jill Bachus, Director of TCRS
- Andy McArthur, Internal Auditor, TN Department of Treasury
- Gail Moses, Legislative Auditor, TN Comptroller of the Treasury, Division of State Audit

Call Meeting to Order

Chairman Barker called the meeting to order and presented the minutes from the March 18, 2016 Audit Committee meeting for approval. Commissioner Hunter motioned to accept the minutes as presented and Mayor Wilbur seconded the motion. The minutes were unanimously approved from the March 2016 Audit Committee meeting.

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

Mr. Pierce discussed the scope of upcoming audits to be performed by the Comptroller of the Treasury. Four special engagements will be performed in the spring pertaining to census data and employer pension schedules following implementation of GASB 67 and 68. Ms. Moses discussed these engagements with the committee and presented the engagement letters. Ms. Bachus then clarified the difference between the audits being performed in the spring, and the TCRS financial statement audit to be performed in the fall. As of the meeting date, the engagement letter for the fall financial statement audit had not yet been signed by the Director

of State Audit. Ms. Bachus stated we are expecting to receive this engagement letter in July and it should be presented at the September meeting.

Internal Audit Update

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

Comptroller's Fraud, Waste, and Abuse Hotline Submission

Mr. Pierce discussed Internal Audit's investigation of a submission to the Comptroller's Fraud, Waste, and Abuse Hotline. The submission alleged an employee of a local school system returned to full time employment while receiving full retirement benefits from the TCRS. Internal Audit's investigation found no evidence supporting the allegations, and found all appropriately approved paperwork on file authorizing a return to full time employment under the 120 day temporary re-employment rule. Minor recommendations were noted regarding monitoring retiree and employer records for compliance with the 120 day temporary re-employment rule.

Retiree Complaint Submission

Mr. Pierce discussed Internal Audit's review of a complaint received from a retiree who had not received timely retirement benefits. Internal Audit's discussion with TCRS management revealed the retiree had submitted a request to change their planned retirement date to an earlier date, which contributed to the delay. Additionally, communication issues between the retiree, their employer, and TCRS were identified as also contributing to the delay. Recommendations were noted for potential improvements to the communication processes between retirees, employers, and TCRS, as well as the monitoring processes to escalate retirement applications due to changes in retirement dates.

TCRS Financial Services Death Benefits Audit

Mr. Pierce discussed the audit of TCRS Death Benefits performed by Treasury Internal Audit. The audit tested for accuracy of Concord death dates compared to independent third party services, recovery of payments made incorrectly to deceased members, accuracy of active death refunds and verification of authority, and compliance with state laws and TCRS policies. The audit results confirmed existing controls, processes, and procedures are operating effectively to mitigate risks in this area. Opportunities for improvement were identified

regarding user access and data security, and enhancements to Concord system reports related to death activity.

Current & Future Audit Projects

Mr. Pierce reviewed a schedule of current and future projects for the Internal Audit Division. The schedule included two audits currently in progress, one follow up audit with a final report pending, and continuing Concord analytics projects. Additionally, Internal Audit received a complaint from a local government employer regarding the status of their employees in TCRS. Ms. Bachus explained the entity in question is a joint venture, and therefore must participate in TCRS independently of the county government with whom they are associated. This complaint is being reviewed in conjunction with the Employer Reporting Unit of the Financial Empowerment Division. Treasurer Lillard mentioned the importance of appropriate employer reporting resulting from GASB 67 and 68, and described some of the challenges being faced relating to employer communication and education.

Concord Analytics Update

Mr. Pierce discussed the updates to Concord system analytics developed by Internal Audit. As of the meeting date, the data analytics being developed primarily focus on preparing data extracts for the State Auditors. Mr. Pierce stated Internal Audit will continue to develop more analytics in the future and will seek out more opportunities for continuous monitoring in future audits. Additionally, Internal Audit will continue to discuss opportunities for new analytics with TCRS management, as well as evaluate the continuing usefulness of analytics created during the Concord conversion process.

Private Equity Disclosure

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

Discuss Comptroller's Hotline

Mr. Pierce discussed the Comptroller's Hotline. This hotline exists for citizens and state employees to report suspected cases of fraud, waste, and/or abuse. Treasurer Lillard commented the Treasury Department is in the process of updating all external correspondence and publications to include this hotline number. Mr. Pierce added there were no pending hotline submissions regarding TCRS at this time.

Tone at the Top

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

Other Business

Mr. Pierce discussed an update to the IRS deposit issue pending since January 2015. Treasury external legal counsel and TCRS staff were able to provide sufficient evidence to the IRS explaining the error was based on reasonable cause, and the IRS has waived all penalties related to this issue. Additionally, TCRS Accounting management has implemented controls to prevent this issue from occurring in the future. No subsequent issues have been noted.

Chairman Barker entertained a motion to add the IRS deposit issue update to the meeting minutes. Secretary Hargett motioned to accept and Commissioner Hunter seconded the motion. The minutes update was unanimously approved.

Ms. Bachus provided the committee with a TCRS update. Member Services has seen a notable increase in the efficiency of processing retirement applications after implementation of Concord. Opportunities for further improvement have been identified through educating employers on providing correct retirement data in contribution files reducing the need for manual adjustments by TCRS employees.

Treasurer Lillard mentioned the customer service improvements implemented through restructuring the TCRS call center. By consolidating the TCRS call center with the call center operated by Empower, the state's defined contribution plan contractor, TCRS employees have been able to increase their focus on processing retirement applications and other documents. This has contributed to the increased processing efficiency, and resulted in improved customer service for members and retirees who make phone requests.

Chairman Barker asked about the progress of the member self-service online system. Ms. Bachus responded by explaining portions of member self-service are functional, but online submission of retirement applications is not yet possible. TCRS management is working on developing a process to include both retirement applications and retirement approvals from employers in member self-service.

Mayor Wilbur mentioned the Internal Document Control initiative from the Comptroller's Office which all local governments must comply with by the end of June, and asked if state agencies also had to comply. This requires local government agencies to document their internal controls, and documentation must be approved by the legislative body. Treasurer Lillard agreed to look into whether any comparable requirements existed for state agencies.

Mr. Pierce stated the Comptroller requires all fiscal year 2017 audit plans be submitted to the Comptroller's Office by July 8, 2016. The Treasury audit plan is expected to be submitted before this deadline.

Adjournment

Chairman Barker entertained a motion to adjourn. Mayor Wilbur motioned to adjourn and Commissioner Hunter seconded the motion. The meeting adjourned at 8:45 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

