

**MINUTES OF THE  
TEXAS MUNICIPAL RETIREMENT SYSTEM  
Finance & Audit Committee of the Board of Trustees**

**March 28, 2008**

On March 28, 2008, the Finance & Audit Committee (Committee) of the Board of Trustees of the Texas Municipal Retirement System (TMRS) convened for a meeting at 8:35 a.m. at TMRS Headquarters, located at 1200 North IH 35, Austin, Texas, with the following members present:

**Finance & Audit Committee**

Roel 'Roy' Rodriguez, PE, Chair  
Carolyn Linér  
April Nixon

Present also were:

Eric Henry, Executive Director & CIO  
Eric Davis, Deputy Executive Director  
Ian Allan, Director of Internal Auditing  
Rhonda Covarrubias, Director of Finance  
Bernie Eldridge, Director of Human Resources  
David Gavia, General Counsel  
Nancy Goerdel, Investment Officer  
Leslee Hardy, Staff Actuary  
Michelle Mellon-Werch, Associate General Counsel  
Debbie Muñoz, Director of Member Services  
Eddie Solis, Director of Government Relations  
Bill Wallace, Director of Communications  
Scott Willrich, Director of Information Resources  
Patricia Brown, Executive Assistant  
Terrence Kendall, Legal Counsel  
Bob Klausner, Klausner & Kaufman, PA  
Steve Harding, Independent Fiduciary Services  
Russ Kuhns, R.V. Kuhns & Associates, Inc.  
Pete Madsen, R.V. Kuhns & Associates, Inc.  
Sandra Traub, KPMG  
Susan Warren, KPMG

Guests:

Michael Dane, City of San Angelo  
Natalie Foerster, Governor's Office  
Dean Frigo, City of Amarillo  
Mike Higgins, TSAFF  
Jim Moore, City of Mesquite  
Jim Parrish, City of Amarillo  
Bob Scott, City of Carrollton

The meeting was called to order at 8:35 a.m. and Mr. Henry gave the invocation.

## **Consider and Act on Adoption of Minutes of December 7, 2007 Board of Trustees Finance & Audit Committee Meeting**

Mr. Rodriguez announced that he had no corrections to the minutes of the December 7, 2007 meeting, and asked for comment. There were no questions or comments.

Ms. Nixon moved to adopt the minutes of the December 7, 2007 Finance & Audit Committee meeting; Mr. Rodriguez seconded the motion, which carried unanimously.

### **External Auditor Presentation**

Ms. Warren stated that this Statement of Auditing Standards 114 discussion would begin an open dialog between the auditor and the Committee regarding the audit scope, the audit approach, and the audit process. Ms. Warren reported that KPMG will deliver an audit of the TMRS financial statements with a review (but not separate opinion) of internal controls, under generally accepted auditing standards. Ms. Warren discussed what 'materiality' means with regard to an audit, and then gave an overview of KPMG's audit methodology. Mr. Harding asked who the preliminary review of the management comments would be with. Ms. Warren stated that the review would first be with staff, and then, as to anything significant, with the Committee Chair. Ms. Warren then discussed each of the following matters in order to obtain the views of each Committee member:

- Appropriate persons(s) to whom matters should be communicated during the audit process;
- Allocation of responsibilities between the Committee and management;
- TMRS' objectives and strategies and any business risks that might result in material misstatements in the financial statements;
- Matters that the Committee considers warrant particular attention during the audit, including any specific areas where additional procedures may be deemed necessary;
- Significant communication with third parties or consultants; and
- Importance of internal controls to TMRS and how such controls would detect any possible fraud.

Ms. Warren then outlined the items that will be discussed with the Board at the conclusion of the audit at the June Board meeting.

### **Quarterly Review of Financial Information/Operating Budget Status**

Ms. Covarrubias described the differences between the projected and actual budgets, stating that the System ended the year \$1.5 million under budget due largely to unfilled positions, postponed Information Resources projects, and budgeted training courses that were not attended due to scheduling conflicts or staffing constraints.

Mr. Rodriguez stated that he was pleased with most of the numbers in the report. Ms. Nixon was appreciative of the clarity of the explanations.

### **Discuss RFP Timeline for Depository Services as Recommended**

Mr. Henry introduced this item and then asked Ms. Covarrubias to summarize the process. She discussed the outline and the timeline for the depository services RFP process; the Committee approved the timeline. Mr. Harding asked if the Investment Department would be involved in

the cash mobilization process; Ms. Covarrubias and Mr. Henry responded that the Investment Department would be involved, as necessary, as well as someone from the Information Resources Department, due to the significant interactions between Information Resources and the depository bank.

### **Presentation on Enterprise Risk Management and Control Self Assessment/Update on Work to Date in Those Areas**

Mr. Allan began this discussion by outlining the three areas on which he has focused his efforts:

- enterprise risk management (ERM);
- control self assessment (CSA); and
- education of management and staff.

Mr. Allan then discussed each of these areas. He described the three-dimensional focus of the ERM activities: strategic objectives, risk components, and the interrelatedness of risks. He stated that the result of this process should be better information to aid in the decision-making process. He told the Committee that the CSA is a supplemental audit technique used to evaluate the effectiveness of internal controls; and he concluded his report by mentioning his efforts to educate staff on the benefits of risk assessment and the steps that will need to be taken to mitigate risk and remain vigilant with regard to potential risk to the organization.

The Committee then discussed how these activities tie into the development of the audit plan; Mr. Rodriguez asked if the plan would be available to the Committee in the Fall, and Mr. Allan responded affirmatively, stating that it would be presented to the Committee at its September meeting.

### **Status Report on Legal Compliance Issues**

Mr. Gavia provided a memorandum to the Committee that summarized TMRS' compliance efforts with regard to state and federal law changes. Mr. Rodriguez asked about the issues surrounding the IRS regulations dealing with the definition of 'normal retirement age.'

Mr. Gavia gave an overview of this issue and how it relates to possible return-to-work provisions. Mr. Klausner added that he and Mr. Gavia have been working with national groups to resolve these issues with regard to public plans. The final resolution may require a legislative change to the TMRS Act.

### **Update on Actuarial Services RFP**

Mr. Henry started the discussion on this item by explaining the proposed timeline set forth in the Committee meeting material. Mr. Davis reported that TMRS has received eight out of ten possible letters of interest. If all goes according to plan, final candidates will be interviewed by the Committee at its April 24 meeting; then the Committee will take its recommendation to the full Board at its April 25 meeting.

### **Final Report on Annual IT Security Audit**

Mr. Henry summarized the final report of the security audit. TMRS shows no significant weaknesses, and is in the process of correcting any minor infractions that were found.

There being no further business to come before the Committee, the meeting was adjourned at 9:44 a.m.