

Employer Responsibilities – (Page 8 of the Agent Whitepaper and Page 8 of the Cost-Sharing Whitepaper) –

Audit Plan – Step 4

*“Local Government Audit will prepare template memos that should be **edited** to cover the employer responsibilities listed on page 8. The template memo will be posted on Local Government Audit’s website.”*

The following memo, or other audit evidence that serves the same purpose, should be included in the workpapers for all employers that have pension plans. This memo is what the Division of Local Government Audit will utilize as documentation of the Employer Responsibility Whitepaper Requirements. This memo is considered minimum documentation. CPA Firms should utilize their own judgment as to whether these memos provide satisfactory audit evidence for their audits. The memo should be changed or edited to suit your Firm’s judgment and requirements. This memo should not be considered boiler plate language and the use of this particular memo or format is **not required**. In addition, management of each employer government should read the Actuarial Certification Letter and the Actuarial Report and then read and understand the information presented in the memos below.

Agent Plan:

Employer Responsibilities Memo:

The Actuary for the TCRS Plans has adhered to the Standards of Actuarial Practice promulgated by the Actuarial Standards Board. The Comptroller of the Treasury, Division of State Audit (Plan Auditor) has determined that the Actuary was professionally competent and independent to perform Actuarial services on behalf of Local Governments. The Actuary is considered the government’s Management’s Specialist.

The Actuary has prepared an Actuarial Certification Letter and Actuarial Report that is specific to each government and each Agent Plan in which the government participates. The specific nature of the Actuarial Report combined with the competency and independence of the Actuary provides a significant level of credibility to each element and assumption included in the Actuarial Report (i.e. third party evidence). Management has reviewed the elements and assumptions in the Actuarial Report for reasonableness and believes the Actuarial Report to be materially accurate with regard to the government’s pension plans.

Management has provided auditors with audit evidence related to the accuracy and reliability of Census Data. The Census Data provided by the government and used by the Actuary to determine the Net Pension Asset/Liability, Deferred Inflows and Outflows related to the Pension Asset/Liability, and Pension Expense has been demonstrated by audit procedures to be materially correct.

The discount rate appears to be reasonable based on historical data published in TCRS Plan Notes to the Audited Financial Statements for the year ended June 30, 2014. The discount rate utilized is 7.5%. Local governments may not invest in publicly traded securities or private equity type investments that are allowed for TCRS investment

purposes. State statutes authorize local governments to make direct investments in bonds, notes, or treasury bills of the U.S. government and obligations guaranteed by the U.S. government or any of its agencies; deposit accounts at state and federal chartered banks and savings and loan associations; repurchase agreements; the State Treasurer's Investment Pool; bonds of any state or political subdivision rated A or higher by any nationally recognized rating service; nonconvertible debt securities of certain federal government sponsored enterprises; and the county's own legally issued bonds or notes. Therefore, the rate of interest for local government investments is not comparable to TCRS rates of return. The 7.5% discount rate appears reasonable based on historical evidence as published in the June 30, 2014 Audit Financial Statements for the Plan:

Rate of Return - For the year ended June 30, 2014, the money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 16.5 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested. The TCRS plan financial statements and historical rates of return can be found at the following website http://www.treasury.state.tn.us/TCRS_Report/2014/Investment%20Section.pdf . The historical rates of return support the 7.5% discount rate.

Management considers the underlying Census Data and the Discount Rate to be the most crucial elements in determining pension costs. Management makes decisions about COLAs and Employee contribution rates.

I have read the above memo, the Actuarial Certification Letter, and the Actuarial Report for the Pension Plans in which our government participates. I understand the memo and agree with the conclusions formed within the memo.

Management Designee:

Signature _____

Date _____

Cost-Sharing Plan:

Employer Responsibilities Memo:

The Actuary for the TCRS Plans has adhered to the Standards of Actuarial Practice promulgated by the Actuarial Standards Board. The Comptroller of the Treasury, Division of State Audit (Plan Auditor) has determined that the Actuary was professionally competent and independent to perform Actuarial services on behalf of State and Local Governments.

The Actuary has prepared an Actuarial Certification Letter and Actuarial Report that is relates to the Teacher Cost-Sharing plan in total. All participants in the plan are Teachers. Retirement options are regulated by the State Statute for all Teachers in all jurisdictions. COLAs are regulated by the TCRS Funding Board for all teachers in all jurisdictions. These facts, when considered in combination with the competency and independence of the Actuary, provide a significant level of credibility that the elements and assumptions in the Actuarial Report relate directly to each local government. Management has reviewed the elements and assumptions in the Actuarial Report for reasonableness and believes the

Actuarial Report to be materially accurate with regard to the local government's allocations through the Cost-Sharing pension plans.

Management has provided auditors with audit evidence related to the accuracy and reliability of Census Data. The Census Data provided by the government and used by the Actuary to determine the Net Pension Asset/Liability, Deferred Inflows and Outflows related to the Pension Asset/Liability, and Pension Expense has been demonstrated by audit procedures to be materially correct.

The discount rate appears to be reasonable based on historical data published in TCRS Plan Notes to the Audited Financial Statements for the year ended June 30, 2014. The discount rate utilized is 7.5%. Local governments may not invest in publicly traded securities or private equity type investments that are allowed for TCRS investment purposes. State statutes authorize local governments to make direct investments in bonds, notes, or treasury bills of the U.S. government and obligations guaranteed by the U.S. government or any of its agencies; deposit accounts at state and federal chartered banks and savings and loan associations; repurchase agreements; the State Treasurer's Investment Pool; bonds of any state or political subdivision rated A or higher by any nationally recognized rating service; nonconvertible debt securities of certain federal government sponsored enterprises; and the county's own legally issued bonds or notes. Therefore, the rate of interest for local government investments is not comparable to TCRS rates of return. The 7.5% discount rate appears reasonable based on historical evidence as published in the June 30, 2014 Audit Financial Statements for the Plan:

Rate of Return - For the year ended June 30, 2014, the money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 16.5 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested. The TCRS plan financial statements and historical rates of return can be found at the following website http://www.treasury.state.tn.us/TCRS_Report/2014/Investment%20Section.pdf . The historical rates of return support the 7.5% discount rate.

Investment decisions are made on behalf of all Teachers in all jurisdictions by the TCRS Board.

I have read the above memo, the Actuarial Certification Letter, and the Actuarial Report for the Pension Plans in which our government participates. I understand the memo and agree with the conclusions formed within the memo.

Management Designee:

Signature _____

Date _____