



CT TEACHERS' RETIREMENT BOARD

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Wednesday September, 24 2014

10:00 am Conference Call Meeting

The meeting of the Teachers' Retirement Board was called to order at 10:12 am by Chairperson Clare Barnett on Wednesday, September 24, 2014.

BOARD MEMBERS PRESENT:

Clare Barnett, Teacher Member
William Myers, Teacher Member
Elaine Lowengard, Public Member
Maureen Honan, Teacher Member
Al Bredehorst, Teacher Member
Charles Higgins, Public Member
Jonathan Johnson, Public Member
Eugene Cimiano, Public Member
Lee Ann Palladino, Designee (Office of the Treasurer)
Gregory Messner, Designee (Office of Policy and Management)
Kathy Demsey, Designee (State Department of Education)

BOARD MEMBERS NOT IN ATTENDANCE:

Michael Freeman, Teacher Member
Rosalyn Schoonmaker, Teacher Member (unable to connect to call)
Clifford Silvers, Public Member (unable to connect to call)

STAFF PRESENT:

Darlene Perez, TRB Administrator
Anne Scanlon, Assistant Accountant

OTHERS IN ATTENDANCE:

Christine Shaw (Office of the Treasurer)
Lawrence Wilson (Office of the Treasurer)

Open meeting – Chairperson

Chairperson, Clare Barnett

We will be discussing the Auditor's Report, Denise Napier's letter and the Memorandum of Understanding from Ben Barnes.

1. Review of Auditors' Report presented by Clare Barnett. Discussion and actions to be taken by Teachers' Retirement Board.

Auditor Recommendations 1 & 3 & 6 will be mediated with the actions we will take today.

Item #2: Collecting addresses for Designated Beneficiaries – we resumed doing this in May of 2014 and notified the Board. We disagreed with this finding - there is relationship between not collecting the addresses and not finding the beneficiaries. Our success rate exceeded 99% in this arena as stated in June, 2014 meeting. We will continue to receive the addresses until we receive a success rate with the auditors. We will not be hiring someone additional to look into this specific area.

Item #4: The Board has been compliant with the regulations governing the Disability Income report aspects and re-evaluation of members receiving Disability allowances with everyone who went on a Disability from 2011 forward. We feel we have been compliant with the regulation.

Item #5: We have reinstated the procedure of partnering with the Department of Education whereby we will compare their staff file with our retired teacher member file and will collect income reporting forms for those who have not filed. When we know that people are working again, and what they are earning, that will allow the Board to take appropriate action. That partnering has already begun.

Item #7: Board will seek permission from OPM to hire a pension tax attorney to assist with the regulation and review process. We will need to have some assistance in being able to proceed. This may still appear on the Auditor's Report as it might be in process. We will be able to provide updates as the process proceeds.

That is the update from the Auditor's Report as of September 24, 2014.

Questions & Comments:

Darlene Perez, Administrator: I would like to comment on Item #4 - We are getting income reporting forms for everyone on Disability, not just those who retired on or after 2011.

2. State Treasurer requested the Board to take some action on the Auditor's report:

Treasurer suggestions:

Item #1 – The Audit Report be immediately distributed to all Teachers' Retirement Board Members.

Item #1 - has been done.

Item #2 – The Board's ADHOC Audit Committee be reinstated and that it be charged with developing a plan of action to resolve the issues raised in the audit report.

Item #2 - We will take action to make the ADHOC Audit Committee a permanent part of the board

Item #3 – Status reports on the plan of action be included as a part of each and every regularly scheduled TRB Board meeting to ensure the Board's oversight of the plan of action.

Item #3 - We will have status reports at each and every meeting right now as we are faced with this audit report.

Disbursement account – this issue first arose in late spring, Darlene directly addressed this with the staff, however, it occurred again in the summer at which point Darlene took more direct action targeting the staffs activities and notifying them in no uncertain terms that this was unacceptable behavior. In the midst of all the things coming back to us from the Auditor's Report in September it happened again. The funds were not applied to the account in a timely manner to close out the weekly account. Larry Wilson, who heads the Cash Management Division at the Treasurer's Office has spent the last two days in the TRB offices just addressing this issue and this will be resolved to make sure the funds are applied to the correct account(s) in a timely fashion so we do not end up with any balance deficiencies.

We can accept everything that the Treasurer has asked the Board to do and will entertain a Motion to Accept Denise Napier's suggestions have the Board begin to implement them.

Motion was made and seconded to approve and take action from the suggestions made by Treasurer, Denise Napier with regards to the Auditor's Report. All members voted in favor and the motion was passed.

3. Memorandum of Understanding from the Office of Policy and Management

Darlene Perez, Administrator and Clare Barnett, Chairperson recently met with Ben Barnes, Secretary of the Office of Policy and Management who was quite clear in the directives to the Retirement Board. Clare has been in contact with Mr. Barnes and it has been determined that we cannot wait to go out for an RFP to try to find someone who might come in and look at the Agency's Accounting Division. The Board has always assumed that it was the lack of staffing within the Accounting Division that has caused some of these things to not get done in a timely manner. We need to know that the really important things are being taken care of accurately and that the Statutes

are being adhered to and in order to do that, we are going to need someone from outside TRB to come and serve as our Chief Financial Officer (CFO). The individual will be a retired state employee. In the Memorandum of Understanding it refers to this person as TWR (Temporary Worker Retired) who is an Accountant with vast experience in the CORE system (state accounting and reporting system). This individual will come in as soon as possible; as soon as this Board votes and OPM is able to have this person sign a contract. We would hope this person would be able to begin as early as this week or by October 1, 2014, which is next week. The TWR will serve a term of at least three months and will oversee all of the day-to-day operations of the Accounting Division.

The letter from Ben Barnes, Secretary at OPM is addressed to Clare Barnett and talks about the deficiencies, lack of financial oversight and the Secretary of OPM's authority to step in and assist us where management procedures, methods and reports are concerned. We need to be sure that the Secretary at OPM has the authority to do that. The TWR will report findings and recommendations and submit any proposed draft legislation that needs to be done.

By doing this, the Board will establish that an outside individual will come in and assess everything we do in the Accounting Division to make sure that we are getting things done correctly and where we are not, we are going to find that out. And, where things need to change and add resources, where things need to be corrected, that will also happen.

The cost will be borne by the TRB budget. It will be administered by OPM, this person (TWR) will report to OPM under this Memorandum of Understanding. If they need to hire outside auditing or accounting, that also will be paid for. If the costs are so great that they would limit TRB's ability to carry out its statutory vision, OPM will identify the deficiency and work with the Financial Authority Committee and the General Assembly and will satisfy the shortfall. Between now and December TRB is going to pay for this but if the monies exceed the TRB budget, OPM will satisfy the shortfall.

In order to provide support to this individual (TWR) they have agreed to establishing an *ADHOC TRB Financial Oversight Group*. It will not be called the Oversight Group, Ben Barnes and Clare Barnett have agreed it will be called the *Advisory Group*. Their sole power is to advise. They will present recommendations to us.

OPM supports us establishing an Audit Committee. TRB will appoint a committee of five members. This will be a permanent committee. The Advisory Group is temporary and if things go well, the contract for the TWR will end on December 31st, the Audit Committee will be with us and be TRB members. On this advisory committee will be representatives of the Treasurer, the Comptroller and OPM. Currently the Comptroller does not have a role on the Teachers' Retirement Board, however, all accounts satisfied and reconciled are done through the Comptroller's Office, so having a representative would be beneficial to us as it is an agency that interfaces with TRB on a daily basis. We will have two teacher members serving on this advisory committee.

Areas that the Temporary Worker Retired (TWR) will be responsible for:

- Providing oversight of the financial operations of TRB as our CFO
- Oversee the development of a plan to address the findings of the most recent audit report
- Oversee the development and documentation of policies and procedures for the proper handling and accounting of agency funds (will include the development of the Accounting Policy and Procedures Manual)
- Identify areas of weakness and oversee the establishment of appropriate internal controls
- Complete a reconciliation of account balances for all major agency-administered funds
- Provide recommendations for restructuring of the fiscal functions within TRB, including recommended staffing levels and hierarchies. Identify things that will remain in PensionGold and ones that must be in CORE as quickly as possible
- Oversee and assist the Administrator in the hiring process for any key financial positions

Ben Barnes' staff will draft the actual contract but this is the scope and nature of what we would want the TWR to do. It will be through December 31, 2014 with an option to extend given the fact of the nature of some of the things that were recommended, more time may be required to complete.

The Board is charged, as well, with the oversight of the finances of the Teachers' Retirement Board and, as such, the Board must make sure that everything is in order. The Memorandum of Understanding is an opportunity to look at everything that we are doing in this Accounting Division.

Motion was made and seconded to accept the Memorandum of Understanding as amended from Ben Barnes, Secretary of the Office of Policy and Management.

Comments/Questions:

Kathy Demsey: As an agency we have an internal audit staff, we would like to offer to TRB any technical assistance needed in setting up procedures that TRB could possibly use.

Eugene Cimiano questions: 1. Does TRB have the computer capability to augment these changes? 2. Do we need legislation with any of this?

Clare Barnett response: First we need an assessment and recommendations, if we need changes some may come with a price tag.

Clare Barnett response: If we are going ahead with any new things, we may need legislation. This will be determined after the TWR has reported to the Board.

Charles Higgins question: The letter from Ben Barnes – is this the MOU?

Clare Barnett response: Yes this is his request from us to authorize him to put this MOU out there and secure the services of an individual as quickly as possible. We are approving that Secretary Barnes create this MOU with the few changes we outlined and make the job offer.

Jonathan Johnson question: Could you share some of the due diligence considering candidates.

Clare Barnett response: We were looking for an individual who has a great deal of accounting experience in CORE. The individual literally wrote the book on some of these accounting procedures and CORE.

Gregory Messner response: The person we have in mind had a high level position in the state and recently retired. I don't think you could find a better person in terms of knowledge of state accounting rules.

All members voted in favor and the motion was passed.

We will not have a declaratory ruling on the appeal at the October 29th meeting. The attorney was on vacation, and they want a formal appeal with an official transcript and a court reporter. We hope to take the valuation report on the 29th and hopefully we will get an update on all of this work that has been going on as it will be about a month from now when that meeting takes place. Board members are requested to set aside the date of October 15th, which is the middle of next month, a couple of weeks before the scheduled meeting. If this person has some findings of informational nature or urgent in nature, perhaps we could do a face to face with the Board, so pencil in that date. We will know if we need to have the meeting on October 15, 2014 at 2pm in the next couple weeks.

The next scheduled meeting is October 29, 2014 at 1pm. The Valuation Report is a lengthy report and is expected to last at least an hour.

COMMENTS:

William Myers question: Do we know the timing and appointment of the Financial Advisory Committee and permanent Audit Committee. I will need to clear my calendar.

Greg Messner response: Date not available, will be soon

Clare Barnett response: We will know more about that later, there will be an email confirmation. I would like to appoint members of our Audit Committee; two teacher members will be Bill Myers and Maureen Honan, Lee Ann Palladino on behalf of the Treasurer, Greg Messner on behalf of OPM and Jonathan Johnson, public member. There may be some overlap as the teachers will serve on the Board and Advisory Group as well as both OPM and Treasurer representatives.

ADJOURNMENT – 10:45 AM