

Illinois Municipal Retirement Fund

Meeting No: 15-01-A

Audit Committee

The Audit Committee met via teleconference on Friday, January 30, 2015, at 9:00 A.M. Committee members Henry, Kuehne, Stanish and Miller were present. Also present were external auditors Gabouer, Barrientos from KPMG, and staff members Kosiba, Nannini, Bianchetta, Brown-Ryce, Splitt and Davidyan.

Mr. Kuehne served as chairperson and called the meeting to order at 9:05 A.M.

(15-01-01) (Approval of Minutes)

Minutes of the November 21, 2014 meeting were approved on a motion by Ms. Henry, seconded by Ms. Stanish. The motion carried unanimously.

(15-01-02) (Presentation the Proposal for External Audit Services for GASB 68 Employer Schedule Fee Estimate for IMRF's 2014 Requirements for Attestation for the IMRF Employers Report :

Mr. Gabouer and Ms. Barrientos of KPMG presented information on GASB 68 implementation requirements for by participating employers, such as IMRF. Mr. Gabouer discussed the AICPA audit guidance on this topic, the process of employers scoping, and the fee estimation per employer. They were further addressing questions from the committee and staff:

-Mr. Kosiba asked whether there was a need to opine in each employer column as opposed to the total (Schedule of Changes in Fiduciary Net Position by Employer) since this is part of the annual audit. Mr. Kuehne and Mr. Miller further inquired about the sampling process for the entire schedule vs. on each employer column. Mr. Gabouer responded that such procedures are specified in the AICPA best practices solution guide for GASB 68 and that KPMG is following such guidelines in designing their testing procedures, which state the need for the engaged auditor to opine on each employer column. In addition, there needs to be a separate materiality level for each employer, which will impact the number of selections made.

-Ms. Henry asked whether this type of attestation process would be followed each year and what do other plans do in terms of their approach to GASB 68. Mr. Gabouer explained that the attestation process is only going to be done during the initial year of GASB 68 adoption and subsequently, IMRF will be issuing a SOC1 type 2 report to their employers. Mr. Nannini added that other systems, such as Texas began their SOC1 type 2 much earlier and as such are not going through the attestation process on each employer. Other pension systems may be agent or cost sharing where the requirements are different from a multi-employer plan such as IMRF.

-Mr. Kuehne asked whether the SOC1 Type 2 fees were additional. Mr. Gabouer indicated that SOC1 Type 2 fees were an additional \$95,000 plus expense.

-Ms. Stanish asked what would happen if IMRF did proceed with the attestation process on each employer column? Would the respective participating employers get a qualified opinion from their auditors? Mr. Gabouer responded that in this event the employers are likely to get a qualified opinion from their auditors.

Mr. Gabouer proceeded to discuss the schedule of fee estimate.

-Mr. Kuehne asked about the 4 hours per employer estimate. Ms. Barrientos explained that certain recalculations and procedures may take a while, including information gathering and documentation.

-Ms. Davidyan asked whether the IA department can assist in the process of either smaller employers or initial information gathering in order to reduce the amount of time and/or fee estimate. Mr. Gabouer indicated that this could be discussed further. He stated that from a fee perspective the number of employers requiring the attestation report is effectively what will be driving the cost.

-Mr. Kosiba stated that in the event it is determined that these procedures (opining on each employer and the testing process presented) were not required, IMRF would get reimbursed for the costs incurred. KPMG will be revising the engagement letter to address this concern.

(15-01-03) (Discussion of KPMG Proposal - with staff only)

Mr. Nannini discussed the employer application process and review of the respective CAFRs to determine if an employer needs an attestation report from IMRF. Ms. Stanish mentioned that most CAFRs are available online.

-Mr. Kuehne asked staff for opinion on the proposed KPMG flat fee vs. actual expenses. Staff indicated that flat fees is perhaps the better option given the uncertainty in the amount of hours actually needed to test each employer column.

-Mr. Miller asked whether the option of taking actual expense but not to exceed flat fee times number of employers was discussed. Mr. Nannini answered that KPMG would not agree to such option and that is why they are proposing each one independently of each other.

-Ms. Henry inquired how other plans approach this requirement and pricing. Mr. Kosiba suggested staff should do additional research in this area.

Mr. Nannini discussed alternative options such as an RFP for these attestation services or charging IMRF's employers a nominal fee for the attestation report, which is what some other plans do. Ms. Stanish indicated she rather see IMRF absorb the costs. She asked

whether the budget will need to be amended. Mr. Nannini indicated that the budget for IMRF will need to be amended for the cost. The Committee further discussed the alternatives of fee 'split' between IMRF and employers or charging only employers requesting the attestation report but who do not really needed it based on our review of their CAFR.

(15-01-04) (Motion for Actions)

- a. Committee members agreed for IMRF to absorb the expenses related to issuing the attestation reports to employers needing such a report for their annual audit.
- b. It was recommended for staff to proceed with their proposed application process to identify employers that will need the attestation report.
- c. It was further recommended to keep KPMG for the attestation work and not seek alternatives at this time.
- d. Committee members asked staff to renegotiate the flat fee estimate with KPMG based on assistance from IA and provide the new fee amount at the February board meeting.
- e. Staff was also asked to prepare a memo for the February board meeting with the new fee information, proposed budget amendment, as well as an example of the employer application process form.

A motion to take the above actions was presented by Ms. Henry, seconded by Ms. Stanish. The motion carried unanimously.

(15-01-05) (Other Business)

None

(15-01-06) (Adjournment)

The meeting adjourned at 10:00 a.m. to be reconvened at the Oak Brook office of IMRF on May, 22 2015.

Chairperson

Date

Clerk

Date