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Service Organization Control (SOC 1) Report on the Suitability of the Design and Operating Effectiveness of Controls

April 14, 2015

Agenda

1. Schedule of Changes in Fiduciary Net Position by Employer
2. Purpose and Benefit of SOC 1 Report for the Agent Multiple Employer Plans
3. Primary Control Objectives in TMRS SOC 1 Report
4. Complementary User Entity Controls in TMRS SOC 1 Report and Responsibilities of Participating Employers

Schedule of Changes in Fiduciary Net Position by Employer

1. Current RSI actuarial information in the financial statement section will be removed.
2. New required supplemental information schedule (RSI) showing each employer's GAAP basis (not funding basis) share of total fiduciary net position – *Schedule of Changes in Fiduciary Net Position by Employer*.
3. Plan auditor is engaged to provide opinion on schedule as a whole combined with SOC 1 (type 2) report and will cover controls over the calculation and allocation of additions and deductions to employer accounts.

Purpose and Benefit of SOC 1 Report for the Agent Multiple Employer Plans

What is the purpose of a SOC 1 (type 2) Report from plan auditor?

1. Provides an opinion on the Suitability of the Design and Operating Effectiveness of Controls at the service organization (i.e. TMRS).
2. Provides a description of the service organization's responsibilities, the system in place, and the control objectives with related controls tested.
3. Provides a listing of complementary user entity controls that should be in place at each user entity (i.e. employer) relying on the service organization's information.

Purpose and Benefit of SOC 1 Report for the Agent Multiple Employer Plans

What benefit does the SOC 1 Report provide in relation to the new pension standards?

1. Provides evidence that the TMRS' internal controls over the completeness and accuracy of census data maintained by TMRS are suitably designed and operating effectively.
2. Provides evidence that TMRS' internal controls over the calculation and allocation of additions and deductions to employer accounts and deductions (that is, benefit payments, refunds, and administrative expenses) to employer accounts are suitably designed and operating effectively.

TMRS Control Objectives in SOC 1 Report

Census Reports

Controls provide reasonable assurance that reporting of participant census data to the plan's outside actuary is complete and accurate.

Contributions

Controls provide reasonable assurance that contributions received from employers are completely and accurately posted to the employee and employer accounts in the proper period.

Income Allocation

Controls provide reasonable assurance that income allocations are completely and accurately posted to the employer accounts based on amounts approved by the Board.

TMRS Control Objectives in SOC 1 Report

Fund Balances

Controls provide reasonable assurance that fund balances are reconciled and reported accurately and completely.

Distributions

Controls provide reasonable assurance that distributions (i.e. disability, partial lump-sum, refunds, and service retirements) are authorized and processed accurately, completely, and in a timely manner in accordance with employer plan provisions.

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TMRS Control Objectives in SOC 1 Report

System Maintenance

Controls provide reasonable assurance that modifications to existing system software are authorized, tested, approved, properly implemented and documented.

Applications Maintenance

Controls provide reasonable assurance that modifications to applications are authorized, tested, approved, properly implemented and documented.

Logical Access

Controls provide reasonable assurance that logical access to programs and data is granted to appropriately authorized individuals.

TMRS Control Objectives in SOC 1 Report

Backups

Controls provide reasonable assurance that data and systems are backed up on a scheduled basis and stored in an offsite location.

Physical Access

Controls provide reasonable assurance that physical access to computer equipment, storage media, and plan documentation is restricted to appropriate individuals.

Complementary User Entity Controls

1. Many aspects of the pension process at the service organization are dependent on the processes that occur at each employer (user entity).
2. The Complementary User Entity Controls listed in the SOC 1 Report are internal control responsibilities that the service organization believes should be present at each participating employer.
3. Each employer must evaluate its own internal controls to determine if the controls listed are in place and operating effectively.

Complementary User Entity Controls – Example Controls

1. Controls should be established to ensure municipal representatives (city correspondents) are authorized to create TMRS-16 forms for new member enrollment data.
2. Controls should be established to ensure municipal representatives are responsible for determining if workers are “employees” under the TMRS Act and for providing employee eligibility data to TMRS.
3. Controls should be established to ensure municipal representatives are responsible for maintaining plan documents.

Complementary User Entity Controls – Example Controls

1. Controls should be established to ensure municipal representatives are responsible for ensuring all plan amendments (i.e., ordinances) are forwarded to TMRS in a timely manner.
2. Controls should be established to ensure municipal representatives are responsible for providing TMRS with information that is accurate, complete, properly authorized (if applicable), and in accordance with plan guidelines.
3. Controls should be established to ensure payroll amounts included in the TMRS-3 forms submitted to TMRS are complete and accurate.

Complementary User Entity Controls – Example Controls

1. Controls should be established to ensure only appropriate municipal representatives are authorized to certify the Summary of Monthly Payroll Report (TMRS-3).
2. Controls should be established to ensure that municipal representatives are responsible for the timely remittance of contributions to TMRS (by the 15th of the month).
3. Controls should be established to ensure municipal representatives are responsible for providing TMRS updated personnel and payroll files as needed for the operation and maintenance of the plan.

Complementary User Entity Controls – Example Controls

1. Controls should be established to ensure municipal representatives are responsible for notifying TMRS of any manual adjustments needed to the payroll files/TMRS-3 Form.
2. Controls should be established to ensure only appropriate municipal representatives are authorized to certify the Application for Occupational Disability Retirement form (TMRS-15/O).
3. Controls should be established to ensure only appropriate municipal representatives are authorized to certify the Application for Retirement form (TMRS-15).

Complementary User Entity Controls – Example Controls

1. Controls should be established to ensure only appropriate municipal representatives are authorized to certify the Refund Application (TMRS-5).
2. Controls should be established to ensure access to PCs/terminals (containing payroll and TMRS-related information) is limited to authorized and appropriate individuals.

What Additional Questions Do You Have?





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