

**AUDIT COMMITTEE MEETING MINUTES
OF TENNESSEE CONSOLIDATED RETIREMENT SYSTEM (TCRS)
September 28, 2012**

The Audit Committee of the Board of Trustees of the Tennessee Consolidated Retirement System met on Friday, September 28, 2012, at 8:00 a.m. The meeting was held in the Tennessee Tower, Davidson Room, with Chairman Michael Barker presiding.

The following members were present: Chairman Michael Barker; Mr. Tre Hargett, Secretary of State; Mayor Ken Wilber, Tennessee Municipal League; and Commissioner Rebecca Hunter, Tennessee Department of Human Resources.

Others present were: Mr. David Lillard, Jr., State Treasurer; Ms. Janice Cunningham, Chief of Staff; Mr. Andy Furlong, Director of Internal Audit; Ms. Jill Bachus, Director of TCRS; Ms. Alison Cleaves, General Counsel; and Mr. Andy McArthur, Internal Auditor.

Approval of the June 29, 2012 Minutes of the Audit Committee

The meeting was called to order. Chairman Barker asked if any changes were needed to the minutes of the prior meeting. No changes were suggested. Mayor Wilber motioned to accept the minutes and Commissioner Hunter seconded the motion. The minutes of the June 29, 2012 Audit Committee meeting were unanimously approved.

Scope of the annual audit performed by the Comptroller of the Treasury

Mr. Furlong drew the committee's attention to the engagement letter contained in the meeting packet. Mr. Furlong explained the content of the engagement letter. Chairman Barker noted that Treasurer Lillard signed the engagement letter and asked the Treasurer if he had any questions or comments. The Treasurer had no questions or comments.

Mayor Wilber asked about the new GASB pension reporting standards. The Treasurer confirmed that the new standards were released and will change the way pension liabilities will be reported on the state's Comprehensive Annual Financial Report for the fiscal year ending June 30, 2014. Local governments will have to comply with the Ruling by 2015.

Discuss Internal Audit Report – PII and PHI

Mr. McArthur gave a brief review of the "PII and PHI" internal audit report. The committee discussed the future possibilities of transitioning from paper documents to storing documents electronically. The Treasurer noted that the Secretary of State is currently being positioned to lead a statewide effort to "go paperless". Secretary Hargett mentioned some of the main concerns and challenges surrounding a transition to a paperless system.

The Treasurer stated that he had requested the PII/PHI report in response to reports of other entities failing to secure PII and/or PHI and the resulting consequences. The committee discussed risk of loss and inaccessibility of files kept in obsolete formats, such as floppy disks.

The Treasurer stated that the flash drive accessibility of all computers in the Treasury has been disabled.

Ms. Bachus stated that Concord will use member numbers instead of social security numbers. The Treasurer added that the Treasury began a conscious effort to reduce the number of times social security numbers appear on outgoing documents.

Review the Treasury Department's Standards of Professional Conduct

Mr. Furlong gave a brief review of the Treasury Departments Standards of Professional Conduct and the Investment Division's Code of Ethics and Standards of Professional Conduct. The Treasurer described the process involved with the annual review of the Investment Division personnel's individual investment holdings.

Discuss the Control Culture and Tone as set by Top Management

Mr. Furlong defined "tone at the top" and included an article in the meeting packet that addresses matters concerning management's influence on organizational culture. Mr. Furlong and Commissioner Hunter agree that from their previous positions, outside of the Treasury, they observed the Treasury employees as having exemplary ethics at all levels. Chairman Barker commended the Treasurer for setting high ethical standards within the Treasury through leading by example.

Discuss Reporting Mechanism for Complaints to Audit Committee

Mr. Furlong reported that the audit committee charter requires that a mechanism be in place that assures complaints concerning accounting, internal controls, auditing, fraud, waste or abuse are reported to the audit committee. Mr. Furlong discussed the issue with some employees in the Comptroller's office. The employees stated that complaints directed to their fraud hotline were not always reported to the audit committee. Mr. Furlong recommended that the Treasury provide information for reporting complaints on its internet and intranet sites.

Secretary Hargett motioned to approve the recommendation to include reporting information on the Treasury's internet and intranet sites. Commissioner Hunter seconded. The recommendation was unanimously approved.

Review Private Equity Disclosures

The committee reviewed the quarterly report containing a list of Treasury staff's contacts with individuals in the private equity industry. The committee is only required to be aware of the contacts. No action is necessary.

Other Business

Ms. Bachus gave an update on the development of Concord. As parts of the system are completed, progress to complete implementation of the system will proceed more rapidly. The

payroll segment of the system is scheduled to go live in February of 2013. Testing on the payroll segment of the system will begin within the next two months. Retirees still receiving paper checks will begin receiving debit cards soon if they don't change to direct deposit. Despite many resources being dedicated to the transition to Concord and an increase of retirement applications, TCRS is maintaining its normal operations in a timely manner.

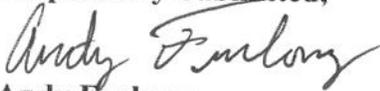
Chairman Barker commended the TCRS counseling staff for providing excellent service to the TCRS members.

The Treasurer stressed the need to develop contingency plans to continue operations in the event of regular office space becoming inaccessible. The Treasurer has initialized a plan to get all documents in the Treasury scanned to facilitate Treasury staff's ability to access those documents when working from remote sites. This effort was prompted by the loss of electrical power experienced in the Andrew Jackson Building during the first week of September 2012. The Treasurer also expressed concern about the outdated electrical systems in the Andrew Jackson Building. He is discussing updating the building utilities with other officials.

Adjournment

Chairman Barker stated that if there were no additional items to be discussed, the meeting could be adjourned. Commissioner Hunter motioned for adjournment. Mayor Wilber seconded the motion. Chairman Barker thanked the members of the Audit Committee and adjourned the meeting.

Respectfully Submitted,



Andy Furlong,

Director of Internal Audit

Approved:



Michael Barker

Chairman of the Audit Committee