

**AUDIT COMMITTEE MEETING MINUTES
OF TENNESSEE CONSOLIDATED RETIREMENT SYSTEM (TCRS)
September 26, 2014**

The Audit Committee of the Board of Trustees of the Tennessee Consolidated Retirement System met on Friday, September 26, 2014, at 8:00 a.m. The meeting was held in the Legislative Plaza, Room LP 30 with Chairman Michael Barker presiding.

The following members were present: Chairman Michael Barker; Mayor Ken Wilber, Tennessee Municipal League; Commissioner Rebecca Hunter, Tennessee Department of Human Services.

Others present were: Mr. David Lillard, Jr., State Treasurer; Mr. Andy Furlong, Director of Internal Audit; Ms. Jill Bachus, Director of TCRS; David Cook, Comptroller of the Treasury, Division of State Audit; Ms. Jennifer Selliers, Treasury Compliance Officer; and Mr. Andy McArthur, Internal Auditor.

Call Meeting to Order

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

Review the Treasury Department's Standards of Professional Conduct

Mr. Furlong discussed the Standards of Professional Conduct for both the Department of Treasury overall and the additional standards applicable to the Investments Division. Mr. Furlong highlighted sections of the standards pertaining to the Treasury staff's responsibility to report fraud, waste, and abuse along with the section pertaining to the acceptance of gifts from third parties. The set of standards that address the entire Treasury staff did not change from the previous review last year. The standards applicable to the Investments Division have been modified since last year. Ms. Jennifer Selliers, Treasury Compliance Officer, was credited for implementing changes to the Investment Division's standards. The new standards include required annual training specific to Investments Division personnel and new procedures for the preapproval required for securities trades in personal accounts. Other standards applicable to the Investments Division were modified to be more consistent with the other divisions of the Treasury.

Treasurer Lillard mentioned that the department is continuously striving to update the Standards of Professional Conduct to reflect the highest level of accountability and ethics. Treasurer Lillard mentioned an article released from the Securities Exchange Commission related to new "pay to play" rules that will assist with upcoming modifications to the Treasury's current Standards of Professional Conduct.

Concord Update

Ms. Bachus stated that the Concord system went live on July 28, 2014. The launch has been successful despite running slightly behind in a couple instances. As TCRS management and staff

become more familiar with the new system and develop procedures to address nonstandard situations, efficiency can be expected to improve. Penalties have been waived for employers that were unable to comply with the new Concord system initially. The penalties will be implemented in the near future for employers that do not report accurately and on time. Prior Treasury systems, such as TRACS, have now been converted into Concord. Currently, applications for retirement and other account changing inputs are being processed at night so as to not impact the speed of the system during business hours. In the future, account changes will be processed in real-time.

Treasurer Lillard commented on the need to report any significant issues with the new system to the Audit Committee. The system failed to update a table used to calculate the amount of refunds that resulted in approximately two hundred and fifty thousand dollars which Deloitte agreed to pay since the responsibility of the functioning of the system remained with Deloitte at the time. The user acceptance period extends 60 days after the system is implemented. Deloitte agreed to extend the user acceptance period until the run time issues are corrected and the system is capable of processing all inputs accurately and in real-time.

Treasurer Lillard also spoke about the contract extension that will allow Deloitte to address some of the enhancements that were identified as necessary during the implementation phase. The funds for the extension were approved by the Fiscal Review Board. Deloitte is expected to complete the work significantly quicker than Treasury IS could because of staff size and familiarity with the system.

Discuss Private Equity Disclosure

Chairman Barker mentioned the Private Equity Disclosure included in the meeting materials. The Investments Division is required to disclose any contact with those seeking private equity financing. The Board did not find any further discussion about the disclosure necessary.

Discuss the Control Culture and Tone at the Top as set by Management

Mr. Furlong introduced the term “tone at the top” as an internal control term that describes the ethical climate as set by the firm’s top management. The Institute of Internal Auditors publishes a monthly article that was included in the meeting material for review by the Audit Committee members.

Treasurer Lillard commended Treasury management and staff for holding high standards for ethical conduct and professionalism. Commissioner Hunter followed up by asking if every employee signs an agreement on expected ethical standards. Treasurer Lillard stated that new standards will be coming out in the near future that may require signatures for accountability purposes. However, the main focus in promoting high moral, ethical, and professional standards is leadership by example among management and colleagues.

Other Business

Chairman Barker opened the floor for other business not included in the meeting material. Treasurer Lillard announced the return of Britt Wood to the Internal Audit Division of the Treasury. Ms. Wood will assist with the continuous electronic auditing of the Concord system along with Suzanne Smotherman. Ms. Wood has extensive experience using Audit Command Language (ACL) software

which will be useful in her new role. Mr. Furlong commented that Ms. Wood's knowledge and background will be a great asset to the department.

Mr. Barker asked Ms. Bachus to comment on the implementation of the new hybrid retirement plan. Ms. Bachus stated that Great West has been in contact with local governments to facilitate the implementation. TCRS has begun receiving payments for the first pay cycle of the new plan. Kaci Lantz and personnel from Great West have visited some of the local governments to provide assistance and information to employers about the new hybrid plan.

Chairman Barker asked about the planned changes for credits related for military service. Ms. Bachus stated that there have been several legislative inquiries and legislative action would be required to make any changes to the plan. Veterans Affairs has also been in contact with Ms. Bachus to gather information about credit for military service and legislation to change the meaning of the various types of discharges prior military service members could be issued. A member could be discharged from active duty with one of several classifications of discharges beyond honorable and dishonorable. Currently, Tennessee statute only recognizes honorable discharges to qualify for prior military service credit.

Treasurer Lillard mentioned that Moody's Investors Services, which provides ratings for the bonds issued by the state, recently published a research report on the 25 largest pension plans in the United States. The report states that there has been an increase in the unfunded liability carried by many of the large pension plans. The Moody's report praised Tennessee and Wisconsin for muted growth in unfunded liabilities. Also, Treasurer Lillard had traveled to New York on September 25, 2014 to give the Bond Rating Presentation to three different bond rating agencies. The Tennessee pension plan was a highlight of all of the discussions. Tennessee has been recognized as a leader in pension plan reform and has accomplished its changes in a balanced way.


Adjournment

Chairman Barker stated that if there were no additional items to be discussed, the meeting could be adjourned. Mayor Wilber made a motion to adjourn the meeting. The motion was properly seconded by Commissioner Hunter. The Committee unanimously voted to adjourn the meeting.

Respectfully Submitted,


Andy Furlong
Director of Internal Audit

Approved:


Michael Barker
Chairman of the Audit Committee