

**AUDIT COMMITTEE MEETING MINUTES
OF TENNESSEE CONSOLIDATED RETIREMENT SYSTEM (TCRS)
June 28, 2013**

The Audit Committee of the Board of Trustees of the Tennessee Consolidated Retirement System met on Friday, June 28, 2013, at 8:00 a.m. The meeting was held in the Legislative Plaza, Room 30 with Chairman Michael Barker presiding.

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

Others present were: Mr. David Lillard, Jr., State Treasurer; Ms. Joy Harris, Chief of Staff; Mr. Andy Furlong, Director of Internal Audit; Ms. Jill Bachus, Director of TCRS; Mr. Rick DuBray, Assistant Treasurer; Mr. Tim Sundell, Director of Information Systems; and Ms. Stacey Jackson, Internal Auditor.

Approval of the March 22, 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. 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 Audit Committee Charter

Mr. Furlong has completed the annual review of the TCRS Audit Committee Charter. He has no recommended changes at this time. Members of the Board and others present were invited to submit any recommendations for changes to Mr. Furlong.

Discuss Comptroller's Hotline

Mr. Furlong discussed the recent activity on the Comptroller's Hotline. The hotline received its first call on Wednesday, June 26, 2013. The caller reported possible retiree benefits were being paid to an ineligible beneficiary. TCRS Management and Mr. Furlong were unable to locate the deceased or the beneficiary in the TCRS systems. Chairman Barker noted that the reported incident serves as evidence that the Comptroller's Hotline system is operating as intended.

Mr. Furlong also noted that the Comptroller's hotline now includes an online form available for respondents to submit tips anonymously online.

Concord Update

Ms. Bachus announced the April 8, 2013 implementation of Concord Phase 5. The first payroll ran through the system at the end of the month. The Phase 5 launch and subsequent pay cycles processed by the system were successful. Problems encountered during the initial cycles were addressed and corrected.

Less than 50 people are still receiving paper checks. Some benefits recipients use the debit cards issued by TCRS. Although the goal for Concord is to become paperless, the “customer friendly” goal of TCRS takes precedence.

Certain items included in Phase 5 were withheld from the rollout and introduced in the weeks following the initial Phase 5 implementation. Now referred to as Phase 5-B, ad-hoc reporting, COLA, and Form 1099 capabilities of the Concord system are scheduled to go live in July and August of 2013.

Phase 6, which includes active member and employer reporting, is tentatively scheduled to launch April 15, 2014. The system must be operational by July 1, 2014 for the new pension system.

Private Equity Disclosure

Treasurer Lillard announced some leadership changes among the Private Equity staff. Lamar Villere, Director of Private Equity, resigned from his position with the Treasury to return to his family’s asset management business in Louisiana. Daniel Crews will serve as the interim Director of Private Equity.

Treasurer Lillard also discussed a proposal being presented to the Investments Committee that would allow Private Equity to invest up to ten percent of the market value of TCRS assets. The previous limit was five percent.

Other Business

Mr. Furlong discussed the Internal Audit Division’s efforts toward continuous auditing. The division has implemented reasonableness tests for certain payments. Additional tests will be conducted as scripts are written and items are identified as appropriate for continuous audit testing.

Chairman Barker asked the Treasurer about developments in the Treasury’s cyber security. Treasurer Lillard discussed measures Treasury IS is currently taking to prevent unauthorized access to the Treasury’s systems. Also, the Board of Claims is in the process of procuring cyber liability insurance that will help cover immediate expenses if a data leak were to occur.

Treasurer Lillard mentioned some of the amenities in the Treasury’s newly designed spaces in the Andrew Jackson Building. Work areas are behind security doors that require employees to

scan their ID badge to gain access. The new work spaces also include the Andrew Jackson Building's first employee break rooms.

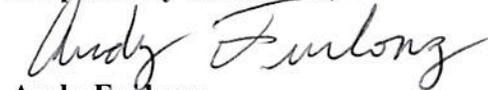
Chairman Barker asked the Treasurer to elaborate on the implementation of the new hybrid retirement system. Treasurer Lillard stated that the Treasury is heavily involved in the implementation process. Before implementation, the Treasury has a defined contribution plan procurement process to go through along with developing a plan to fulfill the statutory requirement to provide participant financial education. Management teams are developing plans that will benefit both large and small local government entities. Treasurer Lillard points to the volatile market conditions as the main reason to move to the hybrid system as soon as reasonably possible.

Treasurer Lillard stated that all divisions within the Treasury are moving ahead with scanning documents into the IT system for security reasons and business continuity in the event of a disaster.

Adjournment

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

Respectfully Submitted,



Andy Furlong

Director of Internal Audit

Approved:



Michael Barker

Chairman of the Audit Committee