

**AUDIT COMMITTEE MEETING MINUTES
OF TENNESSEE CONSOLIDATED RETIREMENT SYSTEM (TCRS)
March 28, 2014**

The Audit Committee of the Board of Trustees of the Tennessee Consolidated Retirement System met on Friday, March 28, 2014, at 8:00 a.m. The meeting was held in The Tennessee Tower, Nashville 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.

Others present were: Mr. David Lillard, Jr., State Treasurer; Mr. Andy Furlong, Director of Internal Audit; Ms. Jill Bachus, Director of TCRS; Michael Brakebill, Department of Treasury Chief Investment Officer; David Cook, Comptroller of the Treasury, Division of State Audit; Daniel Crews, Director of Private Equities; Mathew Haitas, Real Estate Analyst; Ms. Jennifer Selliers, Treasury Compliance Officer; Ms. Doreen Zientar, Internal Auditor; and Mr. Andy McArthur, Internal Auditor.

Call Meeting to Order

Chairman Barker called the meeting to order. The Chairman announced that the Committee would proceed to Item III of the agenda, Discuss Fair Value Estimates, while awaiting the arrival of the Secretary of State, Tre Hargett.

Discuss Fair Value Estimates (Private Equity and Real Estate)

Mr. Crews and Mr. Haitas were joined by Mr. Brakebill in the presentation of the methods used for valuation of the private equity and real estate portfolios. Mr. Haitas noted that the valuation of private equity and real estate holdings by the Department of Treasury presents unique challenges compared to equities in public companies, bonds, and other securities which are regularly traded in markets in which trading values are perpetually available.

Mr. Haitas presented the valuation methods used for the real estate portfolio. Mr. Crews presented the valuation methods used for the private equity portfolio. Chairman Barker asked about the timeline for completing the necessary steps for the investments division to have daily valuation available for illiquid portfolios. Mr. Brakebill stated that preliminary work has been done to identify a valuation vendor that uses models mirroring readily traded security markets to provide daily valuations for illiquid portfolios. Mr. Brakebill mentioned that the value of the illiquid portfolios is relatively small compared to the total value of TCRS investments.

Approval of the Minutes

Chairman Barker recognized a quorum with the attendance of Mr. Hargett. The Chairman reminded the committee that a closed session was held in December of 2013 following the regular committee meeting. Minutes were not available from the December meeting as it was not open to the public. Mayor Wilber made a motion to approve the minutes from the September 27, 2013 TCRS Audit Committee meeting. The motion was properly seconded by Mr. Hargett. The minutes were unanimously approved by the Committee.

Review of the TCRS audit report for the year ended June 30, 2013

Mr. Cook stated the State Audit Division of the Comptroller's Office conducted an audit of the TCRS plan financial statements for the year ended June 30, 2013 and issued an unmodified opinion. There were no findings and no items to be discussed.

Reviewing the Financial Statements and Significant Accounting and Reporting Standards

Mr. Furlong discussed the financial statements contained in the audit report. Mr. Furlong highlighted the increase in plan assets predominately resulting from investment returns in the 2012 to 2013 comparative financial statements. The investments return was highlighted on the Statement of Changes in the financial statements. Mr. Furlong opened the floor for any questions. The committee did not have any questions.

Review Financial Integrity Act Report

Mr. Furlong presented the Financial Integrity Act (FIA) Report and the attachment which describes measures taken by the Treasury to safeguard personally identifiable information. Chairman Barker encouraged the committee to thoroughly review the content of the report and attachment. The committee did not have any questions.

Review Internal Audit Report

Ms. Zientar presented the Internal Audit Report. Ms. Zientar stated there were no findings, but there were some suggestions related to the FIA Report. There will be changes in the guidelines for the FIA Report set forth by the Department of Finance and Administration. The suggestions related to the need to assess risks at a more detailed level than that required by the FIA. Also, management and advisory fees should be monitored more closely to assure the correct rates are charged at the correct time. The committee did not have any questions.

Private Equity Disclosure

Chairman Barker described the private equity disclosure as a requirement that investment personnel contacted about private equity investments must disclose the contact and all relevant information. This disclosure was presented to the committee. The committee did not have any questions.

Concord Update

Ms. Jill Bachus stated that the Concord project is progressing toward the Phase 6 “go live” date. A few items determined to be nonessential for the Phase 5 launch have since been addressed. 1099-R tax forms were successfully sent to the retirees currently using Phase 5 components of Concord. There will likely be items from Phase 6 deferred as well to achieve the required July 1, 2014 launch date.

Phase 6 was originally intended to launch April 28, 2014. Now, the target launch date is May 28, 2014. The main cause for the delayed launch date is the time required to identify, correct, and retest problems with the system discovered in the testing environment. Treasury staff and Deloitte personnel are working diligently to have essential components of Phase 6 fully operational by July 1, 2014. Also, employer training has now begun.

Chairman Barker asked about how smaller local governments are equipped to begin using the new system. Ms. Bachus noted that smaller employers will be encouraged to use the website to input data while larger employers will likely use file submissions to update its Concord records.

Update on Data Breach

Mr. Furlong presented some of the measures taken in response to the data breach that occurred in December of 2013. All Treasury employees were required to complete data security training that consisted of videos followed by a quiz. New Treasury employees are required to complete the training as well. The video content will be updated periodically and Treasury staff will be required to complete the updated training. Also, the Treasury Information Systems staff conducted live training sessions that all Treasury employees were required to attend. The live training focused on in-house policies and procedures related to data security. New employees are required to review the power point slides from the live training.

The Treasury offered free credit monitoring to those affected by the data breach. So far, four incidents have been reported by those individuals that have taken advantage of the credit monitoring. However, none of those incidents are suspected of being related to the data breach for which the Treasury was responsible. The Treasurer commented that the situation has turned out as well as could be hoped for under the circumstances. The situation will continue to be monitored for the coming months.

Other Business

The Treasurer commented on the development of Concord. The Treasurer recognizes the enormity of governmental computer systems and the level of reliance on those systems. The Treasurer expressed appreciation for the individuals that have committed their time and expertise to developing Concord given its complexity.

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 Mr. 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