

**AUDIT COMMITTEE MEETING MINUTES
OF TENNESSEE CONSOLIDATED RETIREMENT SYSTEM (TCRS)
March 23, 2018**

The Tennessee Consolidated Retirement System (TCRS) Audit Committee for the Board of Trustees met on Friday, March 23, 2018. The meeting began at 8:00 a.m. in the Cordell Hull Building, Hearing Room 4.

The following members were present:

- Chairman Michael Barker
- Ed Taylor, TCRS Board Member
- Rebecca Hunter, Commissioner of DOHR
- Tre Hargett, Secretary of State
- Mayor Ken Wilber, TN Municipal League

Others present were:

- David H. Lillard, Jr., TN State Treasurer
- Earle Pierce, Director of Internal Audit, TN Dept. of Treasury
- Jennifer Selliers, Director of Internal Compliance, TN Dept. of Treasury
- Heather Iverson, Attorney, TN Dept. of Treasury
- Jamie Wayman, Director of TCRS
- Kevin Gentry, Assistant Audit Director, TN Dept. of Treasury
- Alison Cleaves, Attorney, TN Dept. of Treasury

Call Meeting to Order

Chairman Barker called the meeting to order and presented the minutes from the November 30, 2017 Audit Committee meeting for approval. Secretary Tre Hargett motioned to accept the minutes as presented and Ed Taylor seconded the motion. The minutes were unanimously approved from the November 2017 Audit Committee meeting.

Internal Audit Results

Earle Pierce presented the final results for the following Treasury internal audits:

- FY2018 Investments Compliance Audit
- FY2017 Investment Division Incentive Compensation Plan Audit
- FY2018 Private Equity Follow Up Audit

Treasurer Lillard provided some additional insights on why the bonuses paid for fiscal year 2017 were in excess the bonus pool plan budget for Investment Division employees. The documented decision was an exception to the compensation plan which the Treasurer has a right to make per the plan document. He also commented on Internal Audit's recommendation to improve the

qualitative scoring portion of the incentive compensation plan. He and the Management team are working to address those issues. Commissioner Hunter commended the work of Internal Audit to identify the issues related to qualitative scoring for the incentive compensation plan and the recommendation to have such scoring reviewed and approved by the next level supervisor. Treasurer Lillard added he, Chief Investment Officer Michael Brakebill and Deputy Chief Investment Officer Derrick Dagnan review every Investment Division employee's performance in great detail before any incentives are paid to them. Audit Director Pierce summarized the discussion of the incentive plan audit by stating Internal Audit's review of the plan was performed after the incentive plan's development, but before payment of any incentives as a proactive, collaborative effort with Management to ensure the process was calculated and performed per the plan document.

Current Projects for TCRS

Mr. Pierce reviewed the schedule of internal audits completed for TCRS. This included a discussion of current TCRS audit projects as well as those in the design phase.

GASB 68 & Financial Statement State Audit Opinion Letters

Mr. Pierce reviewed the opinion letters received from State Audit for the following audits:

- Schedule of Employer Allocations of the Teacher Retirement Plan of TCRS as of and for the year ended June 30, 2016 and related notes
- Schedule of Employer Allocations of the Teacher Legacy Pension Plan of TCRS as of and for the year ended June 30, 2016 and related notes
- Financial Statement audit of TCRS and pension trust funds of the State of Tennessee as of and for the year ended June 30, 2017 and related notes
- Accompanying statement of fiduciary net position of the Tennessee Consolidated Retirement System and pension trust funds of the State of Tennessee as of and for the year ended June 30, 2017 and related notes

The letters contained unmodified opinions for all four audits.

Private Equity Disclosure

Chairman Barker reviewed the Private Equity Disclosure and asked if there were any questions. Secretary Hargett asked about the Investment Division employees present at the meetings. Mr. Pierce explained the listing included the names of the main TCRS investment employee contacted by those outside of TCRS contacting them about alternative investments; however, the names of all TCRS investment employees present during meetings are listed in a separate column titled Staff Present. Treasurer Lillard further clarified this listing represents the "Pitch" meetings where

representatives from the different private equity firms made presentations to Investment division employees listed in the disclosure report.

Comptroller's Hotline

Mr. Pierce informed the Committee there were no hotline submissions related to TCRS received by the Comptroller's office since the previous Audit Committee meeting in November 2017.

Current Internal Audit Article

Mr. Pierce discussed the article which discussed data analytics as a strategy vital to internal audit effectiveness.

Other Business

No other business was discussed.

Adjournment

Mayor Wilber motioned to adjourn and Ed Taylor seconded the motion. The motion to adjourn was unanimously approved. The meeting adjourned at approximately 8:48 a.m.

Meeting minutes documented by

Earle Pierce, CPA, CIA, CRMA
Director of Internal Audit
Tennessee Department of Treasury

Approved by:



Michael Barker
Chairman of the Audit Committee

