

**AUDIT COMMITTEE MEETING MINUTES
OF TENNESSEE CONSOLIDATED RETIREMENT SYSTEM (TCRS)
March 22, 2013**

The Audit Committee of the Board of Trustees of the Tennessee Consolidated Retirement System met on Friday, March 22, 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. Janice Cunningham, 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; Ms. Robyn Probus, State Auditor; Mr. John Kerr, Internal Auditor; and Ms. Stacey Jackson, Internal Auditor.

Approval of the September 28, 2012 and December 7, 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 two prior meetings. No changes were suggested. Commissioner Hunter motioned to accept the minutes and Mayor Wilber seconded the motion. The minutes of the last two Audit Committee meetings were unanimously approved.

Review TCRS Audit Report

Ms. Probus, Auditor-In-Charge for the TCRS audit, informed the committee that an unqualified opinion was issued for the audit ending June 30, 2012. There were no findings or any items to discuss with management.

Review Financial Statements and Significant Accounting Standards

Mr. Furlong discussed TCRS financial statements located in the TCRS audit report. There weren't any new accounting or pension standards affecting TCRS financial statements that became effective for fiscal year ending June 30, 2012. Mr. Furlong also mentioned the net assets held in trust for pension benefit increased over \$1 billion and capital assets increased due to the new Concord system.

Review Financial Integrity Act Report

Mr. Furlong explained the annual Financial Integrity Act Reporting process. Each division is responsible for assessing its risks, the impact of risks, and likelihood those risks will occur. The controls designed to mitigate those risk are also included in the report.

Mr. Sundell answered a question on Treasury's IT security and protection against cyber-attacks. He explained Treasury's infrastructure is run through the State's infrastructure networking systems that has a security group monitoring on the front end. Mr. Sundell stated monitoring is coordinated with national security groups as well as the FBI. Several other questions were fielded by Mr. Sundell regarding the security of Treasury's systems.

Private Equity Disclosure

Chairman Barker brought the committee's attention to the disclosure on private equity. No questions were asked regarding the item.

Concord Update

Ms. Bachus stated to the committee the Retired Payroll segment of the new system is set to go live April 8, 2013. Online access for retired members will be active soon after. The largest portion of the system that includes calculation of benefits and employer reporting will go live early spring of 2014. Training has started with staff.

Retirees still receiving paper checks will begin receiving debit cards soon if they don't change to direct deposit but the number of retirees who will need a debit card has been reduced to 700.

Other Business

The Treasurer explained an incident that occurred in South Carolina where thousands of social security numbers were stolen that were not encrypted. He ensured that the new Concord system will be encrypted to the highest level. Implementing a "key fob" system is also being considered to heighten security.

Mr. Sundell gave an update on the new voice over IP phone system and the efforts to move towards a paperless system.

Mr. DuBray gave an update on Project T3 renovations to the Andrew Jackson building and preparations for the move to the 13th – 15th floors. Treasurer Lillard expressed concern about the rolls of microfilm located in the Treasury Department that hold thousands of social security numbers. He stated it is possible for a roll to become missing and go unnoticed for a significant period of time. One way to negate the risk will be during the remodeling of the Andrew Jackson building. The Treasury Department floors will become inaccessible to non-Treasury employees because of locked doors. Additionally, cameras will be installed in the file room. The Treasurer

stated another way to negate the risk with the rolls of microfilm is to convert all the documents to scanned images.

Adjournment

Chairman Barker stated that if there were no additional items to be discussed, the meeting could be adjourned.

Respectfully Submitted,



Andy Furlong

Director of Internal Audit

Approved:



Michael Barker

Chairman of the Audit Committee