

**AUDIT COMMITTEE MEETING MINUTES  
OF TENNESSEE CONSOLIDATED RETIREMENT SYSTEM (TCRS)  
September 27, 2013**

The Audit Committee of the Board of Trustees of the Tennessee Consolidated Retirement System met on Friday, September 27, 2013, at 8:00 a.m. The meeting was held in 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; Ms. Priscilla Bright, Executive Director, Human Resources Total Rewards, University of Tennessee.

Others present were: Mr. Andy Furlong, Director of Internal Audit; Ms. Jill Bachus, Director of TCRS; Ms. Jennifer Selliers, Treasury Compliance Officer; and Mr. Andy McArthur, Internal Auditor.

**Approval of the June 28, 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. Mayor Wilber motioned to accept the minutes and Commissioner Hunter seconded the motion. The minutes of the last Audit Committee meeting were unanimously approved.

**Scope of Annual Audit Performed by the Comptroller of the Treasury**

Mr. Andy Furlong discussed the audit engagement letter from the Comptroller of the Treasury. The period under review is the fiscal year ended June 30, 2013. The auditors will express an opinion on the Treasury's financial statements. Any findings or deficiencies with the Treasury's financial statements or operations will be reported to Treasury management.

**Review the Treasury Department's Standards of Professional Conduct**

Mr. Furlong stated that the Standards of Professional Conduct have not changed from the previous year. Treasury employees are expected to avoid conflicts of interest. Investment Division personnel are required to disclose personal trading activity and report any gifts received from potential investees.

**Reporting Mechanism for Complaints to Audit Committee**

Mr. Furlong discussed the mechanisms available to the public for reporting suspected fraud, waste, and abuse. The Comptroller's fraud, waste, and abuse hotline is available on the

Treasury's internet and intranet sites. The hotline is also available on the Comptroller's site. A new online form for submitting reports of suspected fraud, waste, and/or abuse is now available in addition to the hotline. Mr. Furlong's office number is listed along with the Comptroller's hotline. Mr. Furlong has received submissions of suspected fraud. Chairman Barker noted that the system is working as intended.

### **Concord Update**

Ms. Jill Bachus presented the most recent developments in the Concord project. Ms. Bachus expects Phase 6 to be operational in April of 2014. Phase 5 was launched earlier this year with minor disruptions that were quickly corrected. The Concord team is currently preparing for employer training to make the full transition to Concord proceed smoothly. Deloitte staff are completing system testing on the Phase 6 segment of Concord with the intent of finding the bulk of system bugs before TCRS staff begin implementing and using the system.

The current contracts between TCRS and Deloitte along with the contract between TCRS and North Highland have been increased in response to the use of change order hours built into the initial contract. Change order hours were used to implement the newest user interface developed by Deloitte. The Fiscal Review Committee approved the adjustments and the contracts have been updated. The Concord project implementation effort remains under budget after the contract adjustments.

### **Review Private Equity Disclosure**

Chairman Barker reviewed the private equity disclosures. The disclosure lists the meetings between investment staff and potential investees.

### **Control Culture and Tone as set by Top Management**

Chairman Barker expressed the importance of the tone set by the Treasury's management. The integrity and effectiveness of the staff is greatly influenced by the Treasury's leadership.

### **Other Business**

Commissioner Hunter stated that the budget will include provisions for additional employees to assist with the Concord project.

Mayor Wilber asked about the letters that were mailed to TCRS members by a financial planning group. Louisiana state retirement members had received similar letters recently. TCRS responded in a manner consistent with the response by Louisiana's state retirement administration. TCRS sent letters to members and posted a notification online that warned members to not release any information to companies sending unsolicited mailings concerning

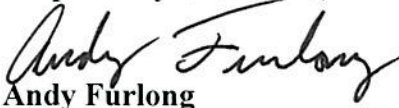
TCRS retirement benefits. The company that sent the letters later contacted TCRS management. The company was referred to the Treasury's legal staff. It does not appear the company is involved in a scam.

Chairman Barker mentioned a situation originating in East Tennessee concerning quasi-governmental entities that are part of TCRS. Ms. Bachus spoke about a media inquiry which asked about the inclusion of non-government employees in TCRS. Ms. Bachus clarified that a lobbyist of a quasi-governmental entity must be an employee of the quasi-governmental entity to be eligible for TCRS benefits. Additionally, the quasi-governmental entity is solely responsible for its employee's compensation. TCRS obtained a list of those eligible for TCRS participation and reported the findings to TCRS employers. No adjustments are planned until the IRS produces guidance on the topic. The current TCRS policy is to pay out to contributing members until the members' contributions have been returned in the event an employer ceases to utilize the services of TCRS.

### **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 Mayor Wilber. The Committee unanimously voted to adjourn the meeting.

**Respectfully Submitted,**



**Andy Furlong**

**Director of Internal Audit**

**Approved:**



**Michael Barker**

**Chairman of the Audit Committee**