

**AUDIT COMMITTEE MEETING MINUTES
OF TENNESSEE CONSOLIDATED RETIREMENT SYSTEM (TCRS)
June 23, 2017**

The Tennessee Consolidated Retirement System (TCRS) Audit Committee for the Board of Trustees met on Friday, June 23, 2017. The meeting began at 8:00 a.m. in Tennessee Tower, Conference Room H.

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 Department of Treasury
- Jennifer Selliers, Investments Compliance Officer
- Jamie Wayman, Director of TCRS
- David Clock, ACL Auditor, TN Department of Treasury
- Ashley Nabors, Senior Director of Financial Empowerment

Call Meeting to Order

Chairman Barker called the meeting to order and presented the minutes from the March 31, 2017 Audit Committee meeting for approval. Secretary Hargett motioned to accept the minutes as presented and Ed Taylor seconded the motion. The minutes were unanimously approved from the March 2017 Audit Committee meeting.

Private Equity Investment Audit

Earle Pierce presented the executive summary of the Private Equity Investment Audit. Mr. Pierce highlighted results and recommendations for the due diligence process, formally documenting in policy the Investments positions authorized to make private equity investments on behalf of the Chief Investment Officer, and timeframes for implementing updates to guidelines after the investment policy has been revised. Internal Audit recommendations also included updating signature authorizations annually.

Audit Command Language (ACL) Analytics Update

Mr. Pierce introduced new employee David Clock to the Audit Committee as the division's new ACL auditor. Mr. Clock presented an update on analytics under development by the Internal Audit division using ACL analytics software. This included some explanation of the tools used in continuous monitoring and auditing. A question was raised on how long ACL has been used by Internal Audit. Mr. Pierce stated it had been at least five or six years and was tied to the Concord Conversion Project. Mr. Clock discussed several ongoing data analytics projects.

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 planning phase. He also noted a follow up audit to verify implementation of Management's action plans to address the State Audit finding from the 2016 financial statement audit had been completed. Mr. Pierce recommended another executive session be scheduled for the September meeting to discuss the results of the follow up audit which are confidential.

Mr. Pierce discussed the follow-up audit for Real Estate Investments in progress which includes a review of the observations and recommendations regarding the real estate risk assessment due diligence process as well as the business continuity plan.

Fiscal Year 2017 Audit Plan

Mr. Pierce reviewed the results of the Internal Audit plan for Fiscal Year 2017 related to TCRS. He informed the Committee an Assistant Audit Director has been hired and will start next month.

2017 Financial Integrity Act (FIA) Risk Assessment

Mr. Pierce informed the Committee he is working with the divisional leaders to get their risk assessments completed by the end of September so they can be compiled for Treasurer's review and approval by Mid-November. The approved risk assessments will be submitted to the Comptroller's office by the December 31, 2017 due date.

Private Equity Disclosure

Chairman Barker reviewed the Private Equity Disclosure and asked if there were any questions. There were no questions.

Comptroller's Hotline

Mr. Pierce informed the Committee no hotline submissions related to TCRS have been received since the previous Audit Committee meeting in March 2017.

Current Internal Audit Article

Chairman Barker and Mr. Pierce discussed the focus of the article regarding small audit operations and what we can learn from other small audit shops.

Other Business

Jamie Wayman discussed employee reporting issues where employees had not been reported properly or not reported at all. Mr. Wayman discussed how reporting issues can be corrected through authority provided in the Tennessee Code Annotated (T.C.A.). Treasurer Lillard highlighted two areas to be focused on for misclassification are nurses and physical therapists working for school systems. Ashley Nabors described the census units located in each of the three grand divisions.


Adjournment

Secretary Hargett motioned to adjourn and Commissioner Hunter seconded the motion. The motion to adjourn was unanimously approved. The meeting adjourned at 8:42 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

