

**AUDIT COMMITTEE MEETING MINUTES
OF TENNESSEE CONSOLIDATED RETIREMENT SYSTEM (TCRS)
December 7, 2012**

The Audit Committee of the Board of Trustees of the Tennessee Consolidated Retirement System met on Friday, December 7, 2012, 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 and Commissioner Rebecca Hunter, Tennessee Department of Human Resources.

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; and Ms. Stacey Jackson, Internal Auditor.

Mayor Ken Wilber, Tennessee Municipal League was present through conference call.

Approval of the September 28, 2012 Minutes of the Audit Committee

The meeting was called to order. Chairman Barker suggested the Committee wait to approve the minutes at the next meeting when a quorum was present. Chairman Barker also asked if any changes were needed to the minutes of the prior meeting. No changes were suggested.

Review Adequacy of Internal Controls with Management

Mr. Furlong drew the committee's attention to a list of compliance requirements that are material to the financial statements. The document is provided to the State Auditors and updated by meeting with Directors, Senior Staff, and Treasury's Legal Counsel. The compliance document is also used by Internal Audit during reviews and audits. Mr. Furlong also stated the committee is welcome to talk to him about any of the compliance requirements at any time.

Discuss Audit Recommendations

Mr. Furlong discussed the recent recommendations from Internal Audit. They included adding a privacy policy to the Treasury Employee Guidebook which was approved by the Treasurer on November 27, 2012. The policy includes other recommendations made by Internal Audit and follow-up will be conducted within the next few months to ensure the recommendations are being followed.

Mr. Furlong informed the committee about a recent issue concerning the shredding of confidential documents by a contracted company. Internal audit has been observing the shredding process to ensure that necessary controls are in place.

Mr. Furlong also mentioned the recommendation in June 2012 related to check shredding procedures. A log is now kept that states when checks are shredded and by whom.

Discuss APPFA Conference

Mr. Furlong gave a brief review of the Association of Public Pension Fund Auditors conference he attended in California. He was able to network with Internal Audit Directors throughout the United States and Canada. Topics covered include real estate investments, the cloud, metadata, GASB pension standards, actuarial data file analysis, workplace investigation, and investment advisor compliance.

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. Another concern of the Treasurer is the rolls of microfilm located in the Treasury Department that holds thousands of social security numbers. He stated it 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. The Treasurer stated another way to negate the risk with the rolls of microfilm is to convert all the documents to scanned images.

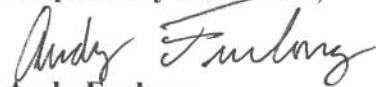
Ms. Bachus gave an update on the development of Concord. The payroll segment of the system is scheduled to go live in February or March. Retirees still receiving paper checks will begin receiving debit cards soon if they don't change to direct deposit.

Chairman Barker added that a list of all private equity contacts could be found at the back of the meeting packets.

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