



Teachers' Retirement System of the State of Illinois

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MINUTES Audit Committee May 19, 2011

A meeting of the Audit Committee of the Board of Trustees of the Illinois Teachers' Retirement System was held on May 19, 2011 at the Springfield office of the Illinois Teachers' Retirement System, 2815 West Washington Street. Janice Reedus, Chair, called the meeting to order at 1:35 p.m. A quorum was present.

Roll call attendance was taken with the following committee members present: Janice Reedus (Chair), Sonia Walwyn (Vice Chair), Marcia Boone, Jan Cleveland, and Cinda Klickna.

Trustees present: Mike Busby, Sharon Leggett, Bob Lyons, Sid Marder, Molly Phalen.

Others present: Dick Ingram, Executive Director; Stan Rupnik, CIO; Cynthia Fain, Sr. Asst. General Counsel; Gina Larkin, Director of Human Resources; Jana Bergschneider, Director of Administration; Sally Sherman, Director of Member Services; Kent Custer, Senior Investment Officer; Deron Bertolo, Director of Investment Operations; Stacy Smith, Director of Internal Audit; Tassi Maton, Senior Internal Auditor; Christine Baker, Internal Auditor; Dave Urbanek, Public Information Officer; Sue Billington, Executive Assistant; Tammy Green, Asst. to Exec. Director; Becky Gratsinger, RV Kuhns (Investment Consultant); and John Long, Cavanagh & O'Hara (Fiduciary Counsel).

Visitors present: Shirley Dodds, IRTA Rep.; Don Davis, IRTA Rep.; Dennis Murfin, IRTA Rep.; Christine Williamson, Pensions & Investments; and Angela Myers, Loop Capital Markets.

Minutes

A draft of the February 23, 2011 Audit Committee minutes was sent to the committee members for review. On a motion by Cinda Klickna, seconded by Marcia Boone, and by unanimous voice vote, the minutes were approved as printed.

New Auditor

Stacy Smith, Director of Internal Audit, introduced Christina Baker as the System's new internal auditor. Christina began employment at TRS on April 18, 2011.

Independence of Internal Audit Activity

Attribute Standard 1110 from the International Standards for the Professional Practice of Internal Auditing states that the chief audit executive must annually confirm to the Board the organizational independence of the internal audit activity. The committee received a copy of the TRS Auditor Independence Statement for Christina Baker for fiscal year 2011. Documentation is on file. There are no potential conflicts of interest that could preclude her from carrying out fiscal year audit activities.

Internal Audit Report

Tassi Maton, Senior Internal Auditor, provided a summary of the Member Refunds audit. Documentation is on file.

Audit Findings & Observations Status Report

Stacy Smith reported on the Audit Findings & Observations Status Report as of March 31, 2011, containing items that are still pending, issues that have been resolved, and new reportable items. Issues where the risk has been accepted by the responsible department are noted on a separate report titled Audit Findings & Observations With Risk Accepted Status. Documentation is on file.

Revised FY 11 Audit Plan

The FY 11 Audit Plan has been revised to reflect the vacancies of the internal auditor positions during the year. The Employers Services and Annuity Payroll audits were removed as well as time allocated to an investment audit. In addition, staff increased time allocated to the Peer Review category. Documentation is on file. A motion was made by Sonia Walwyn, seconded by Jan Cleveland, that the committee recommend to the Board to approve revisions to the FY 11 Audit Plan, as presented. The motion passed by a unanimous voice vote.

Investment Training and Consulting Institute

The ITCI conducted an investment department risk assessment in January. Stacy Smith provided an overview of the results of the work performed by ITCI including management discussion points. Documentation is on file. Internal Audit will use the discussion points as a resource in future audits. The items are not considered validated audit issues but should be considered a potential opportunity for improvement.

FY 12/FY 13 Internal Audit Plan

The committee received copies of the two-year internal audit plan for fiscal years 2012 and 2013 including the risk assessment worksheet and the Investment Training and Consulting Institute (ITCI) audit planning matrix. Documentation is on file. A motion was made by Marcia Boone, seconded by Jan Cleveland, that the committee recommend to the Board to approve the FY 12/FY13 Internal Audit Plan with risk assessment worksheet, as presented. The motion passed by a unanimous voice vote.

FY 11 FCIAA Summary of Responses (Internal Control Evaluation)

The Fiscal Control and Internal Auditing Act requires that staff prepare and transmit to the Auditor General by May 1 of each year a certification that the system of internal controls of TRS fully complies with the requirements of the Act. A summary of the responses from fiscal year 2011 FCIAA internal control evaluation process is on file. Staff submitted certification to the Auditor General.

Internal Audit Standards

Attribute Standard 1010 in the International Standards for the Professional Practice of Internal Auditing states that the chief audit executive should discuss the Definition of Internal Auditing, the Code of Ethics, and the *Standards* with senior management and the Board. Ms. Smith provided a brief overview of the items provided to the committee. Documentation is on file.

Quality Assurance Review

Attribute Standard 1312 in the International Standards for the Professional Practice of Internal Auditing states that an external assessment, performed through a quality assurance review (QAR), must be completed at least once every five years to demonstrate that the internal audit activity is in compliance with the *Standards*.

Ms. Smith submitted a request in March for SURS to be the QAR independent validator. Approval was received from the State Internal Audit Advisory Board. The committee received a copy of the quality assurance confidentiality policy commitment statement and the statement of independence for the QAR validator. The committee will receive a copy of the final QAR once it is issued from SIAAB. In compliance with Attribute Standard 1312, Ms. Smith also discussed the need for more frequent external assessments. A more frequent review cycle is not deemed necessary at this point in time.

ADJOURNMENT

On a motion by Marcia Boone, seconded by Jan Cleveland, and by unanimous vote, the meeting adjourned at 2:10 p.m.

Richard W. Ingram, Executive Director

Approved _____