



## Teachers' Retirement System of the State of Illinois

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### **MINUTES Audit Committee May 23, 2012**

A meeting of the Audit Committee of the Board of Trustees of the Illinois Teachers' Retirement System was held on May 23, 2012 at the Springfield office of the Illinois Teachers' Retirement System, 2815 West Washington Street. Janice Reedus, Chair, called the meeting to order at 1:04 p.m. A quorum was present.

Roll call attendance was taken with the following committee members present: Janice Reedus (Chair), Bob Lyons (Vice Chair), Mike Busby, Cinda Klickna, and Cynthia O'Neill. Trustees present: Marcia Campbell, Sharon Leggett, Molly Phalen, Jan Cleveland (arrived 2:05 p.m.), and Sonia Walwyn (arrived 2:30 p.m.).

Others present: Dick Ingram, Executive Director; Stan Rupnik, Chief Investment Officer; Greg Turk, Director of Investments; Tim Hays, Sr. Investment Officer; Dakin Sanert, Sr. Investment Analyst; Tom Gray, General Counsel; Cynthia Fain, Senior Assistant General Counsel; Jana Bergschneider, Director of Administration; Deron Bertolo, Director of Investment Operations; Stacy Smith, Director of Internal Audit; Tassi Maton, Sr. Internal Auditor; Christine Baker, Internal Auditor; Tammy Green, Assistant to the Executive Director; Pat O'Hara, Cavanagh & O'Hara (Fiduciary Counsel), Barbara Davison and Kelly Anderson, Investment Training and Consulting Institute; Becky Gratsinger, Marcia Beard, and John McLaughlin, RV Kuhns (Investment Consultant, arrived 1:38 p.m.)

Visitors present: Don Davis, IRTA Rep.; Dennis Murfin, IRTA Rep.; and Jack Tucker, IEA-R.

#### Minutes

A draft of the February 8, 2012 Audit Committee minutes was sent to the committee members for review. On a motion by Cynthia O'Neill, seconded by Cinda Klickna, and by unanimous voice vote, the minutes were approved as printed.

## **EXECUTIVE SESSION**

A motion was made by Bob Lyons, seconded by Cinda Klickna, that the Audit Committee enter into executive session for the purpose of discussing internal control weaknesses as permitted under the following exception set forth in the Open Meetings Act which authorizes the closing of the meeting to the public: 5ILCS 120/2(c)(28). Roll call resulted in affirmative voice votes from Trustees Busby, Klickna, Lyons, O’Neill, and Reedus. Motion CARRIED.

No action was taken during executive session. A motion was made by Cinda Klickna, seconded by Bob Lyons, that the Audit Committee come out of executive session. Roll call resulted in affirmative voice votes from Trustees Busby, Klickna, Lyons, O’Neill, and Reedus. Motion CARRIED.

## **RECESS**

The meeting recessed at 3:15 p.m. and reconvened at 3:25 p.m.

### Audit Findings & Observations Status Report

Stacy Smith reported on the Audit Findings & Observations Status Report as of March 31, 2012, 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.

### FY 13/FY 14 Internal Audit Plan

The committee received copies of the two-year internal audit plan for fiscal years 2013 and 2014 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 Bob Lyons, seconded by Cynthia O’Neill, that the committee recommend to the Board to approve the FY 13/FY 14 Internal Audit Plan with risk assessment worksheet, as presented. The motion passed by a unanimous voice vote. Stacy Smith announced she will be traveling to the Missouri State Employees Retirement System to conduct a peer review.

## FY 12 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 2012 FCIAA internal control evaluation process is on file.

### 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.

### Internal Self-Assessment Quality Assurance Report

Professional auditing standards require internal assessments of the internal audit function. Stacy Smith and Christina Baker reviewed internal audit work performed between January 1, 2011 and March 31, 2012. The committee received a copy of the Internal Audit Department Self-Assessment Quality Assurance Report. Documentation is on file. TRS is in compliance with all the standards.

### Real Estate Audit RFP

Tim Hays, Sr. Investment Officer, and Dakin Sanert, Sr. Investment Analyst for Real Estate, provided an overview of the real estate audit services RFP process and due diligence that was conducted. KPMG has provided audit services to the System for the past five years. To ensure that TRS is receiving appropriate services and market rates, staff issued an RFP in January 2012. Three firms responded to the RFP. Staff is pleased with the work performed by KPMG but recommended doing a rotation with Deloitte. A motion was made by Bob Lyons, seconded by Mike Busby, that the committee recommend to the Board to hire Deloitte to provide real estate audit services for a five-year contract period. The motion passed by a unanimous voice vote.

## **TRUSTEE CONCERNS**

Trustee O'Neill recommended that the System go through an RFP process during the next review of hedge fund investments.

## **ADJOURNMENT**

On a motion by Janice Reedus, seconded by Cinda Klickna, and by unanimous vote, the meeting adjourned at 3:40 p.m.

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Richard W. Ingram, Executive Director

Approved \_\_\_\_\_