



## Teachers' Retirement System of the State of Illinois

2815 West Washington Street | P.O. Box 19253 | Springfield, Illinois 62794-9253

Richard W. Ingram, Executive Director

<http://trs.illinois.gov>

(800) 877-7896 | for the hearing impaired: (866) 326-0087

### **MINUTES Audit Committee August 22, 2012**

A meeting of the Audit Committee of the Board of Trustees of the Illinois Teachers' Retirement System was held on August 22, 2012 at the Springfield office of the Illinois Teachers' Retirement System, 2815 West Washington Street. Janice Reedus, Chair, called the meeting to order at 11:04 a.m. A quorum was present.

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

Others present: Dick Ingram, Executive Director; Stan Rupnik, Chief Investment Officer; Deron Bertolo, Director of Investment Operations; Tim Hays, Sr. Investment Officer; Dakin Sanert, Sr. Investment Analyst; Cynthia Fain, Senior Assistant General Counsel; Jana Bergschneider, Director of Administration; Stacy Smith, Director of Internal Audit; Tassi Maton, Sr. Internal Auditor; Christina Baker, Internal Auditor; Dave Urbanek, Director of Communications; Gina Larkin, Director of Human Resources; Kathleen Farney, Director of Research; Tammy Green, Assistant to the Executive Director; John Long, Cavanagh & O'Hara (Fiduciary Counsel), and Andrew Bodewes (Legislative Consultant).

Visitors present: Don Davis, IRTA Rep. and Dennis Murfin, IRTA Rep.

#### Minutes

A draft of the May 23, 2012 Audit Committee minutes was sent to the committee members for review. On a motion by Cynthia O'Neill, seconded by Bob Lyons, and by unanimous voice vote, the minutes were approved as printed.

## **EXECUTIVE SESSION**

A motion was made by Marcia Campbell, seconded by Bob Lyons, 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: 5 ILCS 120/2(c)(28). Roll call resulted in affirmative voice votes from Trustees Campbell, Lyons, O’Neill, and Reedus. Motion CARRIED.

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

### 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 confirm to the board, at least annually, the organizational independence of the internal audit activity. A copy of an annual TRS Auditor Independence Statement is on file for each internal audit staff member. There are no potential conflicts of interest that could preclude them from carrying out the fiscal year audit activities.

### Quality Assurance and Improvement Program

Attribute Standard 1320 from the International Standards for the Professional Practice of Internal Auditing states that the chief audit executive must communicate the results of the quality assurance and improvement program to senior management and the board at least annually. The committee received a copy of the FY 2012 quality assurance and improvement program checklist. Documentation is on file.

### Continuous Auditing

Internal Audit staff started continuous auditing during FY12 with investment management fees and selected fees for testing within the real estate asset class for FY09-early FY12. The fees were appropriately reviewed and paid in a timely

manner. In addition, Internal Audit staff selected fees for testing within the private equity asset class. Staff completed testing for FY09 and will continue to test private equity fees from FY10-FY12. Results will be reported at a later date.

### Audit Completion Report

The committee received the FY 2012 Audit Completion Report which is required by the Fiscal Control and Internal Auditing Act. The report compares the FY 2012 audit plan to actual audits completed during the year, noting significant findings, and the extent to which the audit recommendations were implemented. All mandatory audits scheduled this fiscal year were completed. Documentation is on file.

### External Audit Update

Staff held the annual entrance conference in May with external auditors. The auditors are scheduled to be back in the TRS office soon to complete the remaining compliance audit and begin the financial audit.

### Real Estate Audit RFP Update

In May, the Board approved hiring Deloitte to perform real estate audit services. Stan Rupnik, Chief Investment Officer, reported that contract negotiations with Deloitte were not successful. Staff re-opened negotiations and recommended selecting KPMG to provide real estate audit services for a five-year contract period. A motion was made by Cynthia O’Neill, seconded by Bob Lyons, that the committee recommend to the Board to hire KPMG to provide real estate audit services for five years. The motion passed by a unanimous voice vote.

## **ADJOURNMENT**

On a motion by Cynthia O’Neill, seconded by Bob Lyons, and by unanimous vote, the meeting adjourned at 11:52 a.m.

\_\_\_\_\_  
Richard W. Ingram, Executive Director

Approved \_\_\_\_\_