



Teachers' Retirement System of the State of Illinois

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Richard W. Ingram, Executive Director

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MINUTES Audit Committee May 22, 2013

A meeting of the Audit Committee of the Board of Trustees of the Illinois Teachers' Retirement System was held on May 22, 2013 at the Springfield office of the Illinois Teachers' Retirement System, 2815 West Washington Street. Janice Reedus, Chair, called the meeting to order at 1:33 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, Marcia Campbell, and Cynthia O'Neill.

Trustees present: Jan Cleveland, Cinda Klickna, Sharon Leggett, Molly Phalen, and Sonia Walwyn.

Others present: Dick Ingram, Executive Director; Stan Rupnik, Chief Investment Officer; Deron Bertolo, Director of Investment Operations; Tom Gray, General Counsel; Cynthia Fain, Senior Assistant General Counsel; Jana Bergschneider, Director of Administration; Stacy Smith, Director of Internal Audit; Tassi Maton, Sr. Internal Auditor; Rich Frankenfeld, Director of Outreach; Dave Urbanek, Director of Communications; Gina Larkin, Director of Human Resources; Tim Hays, Sr. Investment Officer; Dakin Sanert, Sr. Investment Analyst; Tammy Green, Assistant to the Executive Director; Pat O'Hara, Cavanagh & O'Hara (Fiduciary Counsel), and Jamie Shen, Callan Associates (Real Estate Consultant).

Visitors present: Don Davis, IRTA Rep.; Dennis Murfin, IRTA Rep.; Shirley Dodds, IRTA Rep.; and Gayla Dial, IEA-R.

Minutes

A draft of the minutes from the February 21, 2013 Audit Committee was sent to the committee members for review. On a motion by, seconded Bob Lyons, seconded by Mike Busby, the minutes were approved as printed.

Real Estate Audit Reports

KPMG performed an audit of the financial statements of the real estate portfolios owned by TRS and managed by Heitman Capital Management, Lincoln Property Company, Invesco, Capri Capital Partners, and Cornerstone Real Estate Advisors. Their presentation book is on file. Rolland Johns, partner, and Leah Marsaglia, audit manager, provided a summary of the real estate audits performed by KPMG and reported that the FY12 audit did not contain any material weaknesses or significant deficiencies. The real estate advisors have corrected the immaterial errors that were identified by KPMG.

Internal Audit Reports

Internal Audit staff provided summaries of the Disability Benefits audit and the Expenditure Control audit. Documentation is on file.

Revisions to FY 13-14 Internal Audit Plan

Staff recommended several revisions to the schedule of the FY 13-14 internal audit plan. Documentation is on file. A motion was made by Mike Busby, seconded by Marcia Campbell, that the committee recommend to the Board to approve the revisions, as presented. The motion passed by a unanimous voice vote.

FY 14/FY 15 Internal Audit Plan

The committee received copies of the two-year internal audit plan for fiscal years 2014 and 2015 including the risk assessment worksheets. Documentation is on file. A motion was made by Mike Busby, seconded by Marcia Campbell, that the committee recommend to the Board to approve the FY 14/FY 15 Internal Audit Plan with risk assessment worksheet, as presented. The motion passed by a unanimous voice vote.

FY 13 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 2013 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 including minor changes to the *Standards* that were effective January 1, 2013. Documentation is on file.

Internal Audit Charter Revisions

The Internal Audit Charter was revised to reflect minor language changes and changes to the *Standards*. Documentation is on file. A motion was made by Bob Lyons, seconded by Marcia Campbell, that the committee recommend to the Board to approve the revisions to the Internal Audit Charter, as presented. The motion passed by a unanimous voice vote.

Audit Committee Charter Revisions

The Audit Committee Charter was revised to reflect changes to the *Standards* and a change to the responsibilities section clarifying that the audit committee is responsible for reviewing and approving the risk assessment and internal audit plan. In addition, term limits for serving on the audit committee were removed. A motion was made by Bob Lyons, seconded by Marcia Campbell, that the committee recommend to the Board to approve the revisions to the Audit Committee Charter, as presented. The motion passed by a unanimous voice vote.

Audit Findings & Observations Status Report

Stacy Smith reported on the Audit Findings & Observations Status Report as of March 31, 2013, 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.

Employer Services Audit Update

Chair Reedus reported that responses to the resolution that was adopted in October 2012 regarding the employer services audit are still unresolved. A discussion was held regarding position titles and the level of work performed. For example, a lower level position should not be reviewing the work of an upper level position. Chair Reedus directed staff to provide a written agreed upon report by the June meeting regarding the status of the following resolution that was adopted in October 2012.

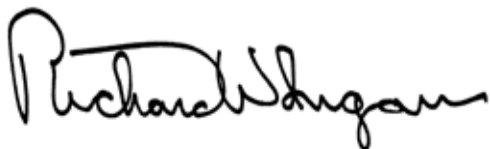
All processes or changes in Employer Services must be reviewed by an Auditor II level or above by the December 2012 Board meeting.

Staff shall provide a preliminary cost benefit analysis of the automated submit and verify functions within STAR for Employer Services processes by the February 2013 Board meeting.

Staff shall develop parameters for requesting documentation from employers for changes to credible earnings, salary rate, and days worked. Such parameters shall be communicated to the Audit Committee for approval at the December 2012 Board meeting.

ADJOURNMENT

On a motion by Marcia Campbell, seconded by Bob Lyons, and by unanimous vote, the meeting adjourned at 2:30 p.m.

A handwritten signature in black ink, appearing to read "Richard W. Ingram". The signature is fluid and cursive, with the first name "Richard" being more prominent.

Richard W. Ingram, Executive Director

Approved 6/20/13