



TEACHERS' RETIREMENT SYSTEM OF THE STATE OF ILLINOIS

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MINUTES Audit Committee June 18, 2020

A virtual meeting of the Audit Committee of the Board of Trustees of the Illinois Teachers' Retirement System was held on June 18, 2020 in accordance with Public Act 101-640 which was signed by Governor Pritzker on June 12, 2020. Director Ingram read into the record that Illinois currently is in Phase 3 of the Governor's Restore Illinois Plan. During Phase 3, gatherings of 10 or fewer people are allowed but this meeting exceeds those limitations. It is not practical or prudent to have an in-person meeting due to the coronavirus pandemic.

Requirements under the new law include:

- All votes must be roll call votes so that each member's vote on each issue can be identified and recorded.
- Prepare and maintain a verbatim record of both the open and closed sessions of the remote meeting.
- Everyone must be able to hear one another.

Note: Director Ingram and Marcy Dutton, Chief Legal Counsel, were present at the regular meeting location in Springfield, 2815 W. Washington Street.

Fred Peronto, Chair, called the meeting to order at 8:30 a.m. A quorum was present.

Roll Call attendance was taken with the following committee members present:

Fred Peronto, Doug Strand, Larry Pfeiffer, and Devon Bruce. Maureen Mena joined the meeting later due to technical difficulties.

Other TRS trustees present: Carmen Ayala, Mark Bailey, Norma Bellcoff, Marsha Byas, Andy Hirshman, Matt Hunt, David Miller, Laura Pearl, and Beth Anderson, TRS trustee effective 7/15/20.

Others present: Dick Ingram, Executive Director; Stan Rupnik, Chief Investment Officer; Bob Jiroutek, Risk Officer; Marcy Dutton, Chief Legal Counsel; Cynthia Fain, Senior Legal Counsel; Gina Larkin, Chief Human Resources Officer; Jana Bergschneider, Chief Financial Officer; Carlton Lenoir, Chief Benefits Officer; Stacy Smith, Director of Internal Audit and Risk; Christina Baker, Sr. Internal Auditor; Deron Bertolo, Director of Finance; Jeff Bennett, Director of Operations; Tammy Green, Executive Assistant; Abby Griffith, Investment Accounting Manager; Chad Fry, Sr. Network Engineer; Chris Wiedel,

Director of Information Technology; Tiffany Reeves and Jessica Culotti, Reinhart (Fiduciary Counsel).

Note: Unable to determine the public participants that joined the meeting as audio attendees.

Minutes

A draft of the February 28, 2020 minutes of Audit Committee meeting was sent to the committee members for review. A motion was made by Trustee Bruce, seconded by Trustee Strand, to approve the minutes as presented. Roll call resulted in affirmative voice votes from Trustees Strand, Peronto, Pfeiffer, and Bruce. Trustee Mena was present but did not vote due to technical difficulties. Motion Carried.

Global Fixed Income Audit Report

Barbara Davison, President of Investment Training and Consulting Institute, provided a summary of the global fixed income internal audit report for the period January 1, 2018-December 31, 2019. The major objectives of the audit were to determine whether initial and ongoing due diligence was performed at an appropriate level, verify appropriate approval was obtained prior to funding investment managers and review the valuation, performance, risk metrics and financial accounting processes. Ms. Davison noted the audit results were extremely positive. The audit observations in the report note Internal Audit was made aware of the Board's desire to streamline and reduce content of investment meeting materials. Trustee Hirshman stated the Board has not been seeking a reduction in the amount of information available to trustees but is working to identify which information should be included in executive summaries and which information should be available to the Board in appendices. Trustee Bailey stated that meeting materials contain a lot of information and sometimes it's difficult to pick out the salient points that assist in decision-making. He would like to see only the most important points in a presentation to the Board and supporting information in appendices.

FY 2020 Revised Internal Audit Plan

Internal Audit staff recommended moving four audits from the FY 2020 to the FY 2021 internal audit plan due to the extra time spent on the IT Staff Augmentation Contract Review and the resignation of an internal auditor. Documentation is on file.

1. IT General Controls
2. Diversifying Strategies
3. Derivatives
4. Retirement Claims

A motion was made by Trustee Pfeiffer, seconded by Trustee Bruce, that the committee recommend to the Board to approve the revised FY 2020 internal audit plan as presented.

Roll call resulted in affirmative voice votes from Trustees Strand, Peronto, Pfeiffer, Bruce, and Mena. Motion Carried.

FY 2021/FY 2022 Internal Audit Plan

The committee received the two-year Internal Audit Plan for fiscal years 2021 and 2022 including the risk assessment worksheets. Documentation is on file. A motion was made by Trustee Bruce, seconded by Trustee Pfeiffer, that the committee recommend to the Board to approve the FY 2021/FY 2022 Internal Audit Plan as presented. Roll call resulted in affirmative voice votes from Trustees Strand, Peronto, Pfeiffer, Bruce, and Mena. Motion Carried.

Internal Audit Charter Revisions

Stacy Smith, Director of Internal Audit & Risk, proposed the following revision to the internal audit charter, Section 3B – Audit Documents. Documentation is on file. A motion was made by Trustee Strand, seconded by Trustee Bruce, that the committee recommend to the Board to approve the revision to the internal audit charter as presented. Roll call resulted in affirmative voice votes from Trustees Strand, Peronto, Pfeiffer, Bruce, and Mena. Motion Carried.

The audit report shall be signed and dated by the Internal Auditor and the
Director of Internal Audit and Risk, ~~and the Executive Director.~~

The executive director has not signed audit reports since 2011 due to recommendation in an external review. This update was inadvertently omitted.

Audit Findings & Observations Status Report

The committee received the Audit Findings & Observations Status Report as of March 31, 2020. The report provides the status of previous audit findings and observations and ensures that TRS management takes the appropriate corrective action. The report contains only items that are still pending, issues that have been resolved, new reportable items since last report, and issues where the risk has been accepted by the responsible department. Documentation is on file.

Enterprise Risk Report

The TRS enterprise risk management committee (ERMC) provides oversight and disciplined thought about current and potential risks facing TRS. Since the last report in December 2019, the ERMC has added a Cybersecurity risk category report and also reviewed 13 existing risk category reports. The Enterprise Risk Committee initially identified 20 individual risk categories in 2015 and have since added four more categories – three at the December 2019 meeting and one at this meeting. Documentation is on file.

Risk levels include high, elevated, caution, guarded, and low. The overall risk rating changes are:

- Business Continuity – guarded to elevated
- Investment Portfolio Management – guarded to caution
- Open Government – guarded to caution

Personnel

The chief executive officer of each State agency shall appoint a chief internal auditor to serve a five-year term. Director Ingram requested approval to re-appoint Stacy Smith to a new five-year term as Director of Internal Audit & Risk, effective July 1, 2020. A motion was made by Trustee Bruce, seconded by Trustee Strand, that the committee recommend to the Board to re-appoint Stacy Smith to serve a five-year term as Director of Internal Audit & Risk effective July 1, 2020. Roll call resulted in affirmative voice votes from Trustees Strand, Peronto, Pfeiffer, Bruce, and Mena. Motion Carried.

ADJOURNMENT

On a motion by Trustee Bruce, seconded by Trustee Strand, the meeting adjourned at 9:11 a.m. Roll call resulted in affirmative voice votes from Trustees Strand, Peronto, Pfeiffer, Bruce, and Mena. Motion Carried.



Stan Rupnik, Interim Executive Director

Approved: 8/28/20