



MINUTES
Audit Committee
May 22, 2015

A meeting of the Audit Committee of the Board of Trustees of the Illinois Teachers' Retirement System was held on May 22, 2015 at the Springfield office of the Illinois Teachers' Retirement System, 2815 West Washington Street. Bob Lyons, Chair, called the meeting to order at 8:04 a.m. A quorum was present.

Roll Call attendance was taken with the following committee members present: Mark Bailey, Cynthia O'Neill, and Bob Lyons.

Trustees present: Mike Busby, Cinda Klickna, Sharon Leggett, and Dr. Tony Smith.

Others present: Dick Ingram, Executive Director; Deron Bertolo, Director of Investment Operations; Tom Gray, General Counsel; Cynthia Fain, Senior Assistant General Counsel; Stan Rupnik, Chief Investment Officer; Sally Sherman, Director of Member Services; Gina Larkin, Director of Human Resources; Kathleen Farney, Director of Research; Stacy Smith, Director of Internal Audit; Tassi Maton, Sr. Internal Auditor; Christina Baker, Internal Auditor; Dave Urbanek, Director of Communications; Tammy Green, Assistant to the Executive Director; Sue Billington, Executive Assistant; and Pat O'Hara, Cavanagh & O'Hara (Fiduciary Counsel).

Visitors present: Dan Winter, IRTA; Dennis Murfin, IRTA; Janet Kilgus, IEA-R; Jack Tucker, IEA-R; and Christine Williamson, Pensions & Investments.

Chair Lyons welcomed Dr. Tony Smith as president of the Board of Trustees. Dr. Smith began his post as the Illinois State Superintendent of Education on May 1.

Minutes

A draft of the February 18, 2015 regular Audit Committee meeting was sent to the committee members for review. On a motion by Mark Bailey, seconded by Cynthia O'Neill, the minutes were approved as printed.

Private Equity Audit

Barbara Davison of Investment Training and Consulting Institute provided an overview of the private equity audit for the period July 1, 2013 through November 30, 2014. Documentation is on file. The scope of the audit included a review of initial and ongoing due diligence, accounting and reporting functions performed by Investment staff. Barbara had positive comments on the due diligence performed by both TRS staff and TorreyCove; the creation of a separate risk oversight and compliance function; and oversight of management fees. Although there were no reportable issues, some recommendations for improvement were shared with management.

Internal Audit Reports

Staff provided summaries of the Survivor Benefits audit and the GAAP and Financial Statement Process audit report. Documentation is on file.

FY 15 Revised Internal Audit Plan

The audit plan was revised to reflect the time allocated for the Employer Services audit that will be used to perform a review of the employer field audits. In addition, the Performance System and Reporting audit title was changed to Performance Monitoring and Reporting. Documentation is on file. A motion was made by Mark Bailey, seconded by Cynthia O'Neill, that the committee recommend to the Board to approve the revised FY 15 audit plan, as presented. The motion passed by a unanimous voice vote.

FY 16/FY 17 Internal Audit Plan

The committee received copies of the two-year internal audit plan for fiscal years 2016 and 2017 and the risk assessment worksheets. Documentation is on file. A motion was made by Mark Bailey, seconded by Cynthia O'Neill, that the committee recommend to the Board to approve the FY 16/FY 17 Internal Audit Plan with risk assessment worksheet, as presented. The motion passed by a unanimous voice vote.

FY 15 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 2015 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. Stacy Smith, Director of Internal Audit, provided an overview of the items provided to the committee. Documentation is on file.

Internal Audit Charter Revisions

Attribute Standard 1000 in the International Standards for the Professional Practice of Internal Auditing states that the chief audit executive should periodically review the Internal Audit Charter and present it to senior management and the Board. Documentation is on file. Internal Audit staff has reviewed the Charter and no changes were recommended at this time.

Audit Findings & Observations Status Report

Stacy Smith provided a summary of the Audit Findings & Observations Status Report as of March 31, 2015. The report has a new format showing the recommendation for each finding and observation along with the status of the item and length of time outstanding. 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.

Compliance Audit Update

The committee received a copy of the compliance examination for the year ended June 30, 2014 that was conducted by McGladrey, Special Assistant Auditors for the Auditor General. There was one finding on weaknesses in controls over census data.

Stacy Smith shared comments prepared by Jana Bergschneider, Director of Administration, on the compliance examination. The finding was a result of the implementation of GASB 67 and 68. During the fiscal year 2014 audit, McGladrey reviewed census data and earnings information from a sample of school districts. TRS received a finding because staff was not performing employer audits of census data and earnings information.

In order to address the finding, TRS started field audits during fiscal year 2015. In addition, a statement was added to the member benefits statement instructing members to contact TRS if their information is incorrect. A final step will be collecting member birth certificates to verify census data. It will take time before the finding is resolved.

EXECUTIVE SESSION

A motion was made by Mark Bailey, seconded by Cynthia O’Neill, that the Audit Committee enter into executive session for the purpose of discussing the appointment, employment, compensation, discipline, performance, or dismissal of specific employees and internal control weaknesses as permitted under the following exceptions set forth in the Open Meetings Act which authorizes the closing of the meeting to the public: 5 ILCS 120/2(c)(1) and 5 ILCS 120/2(c)(28). Roll call resulted in affirmative voice votes from Trustees Bailey, O’Neill, and Lyons. Motion Carried.

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

Approval of Executive Session Minutes

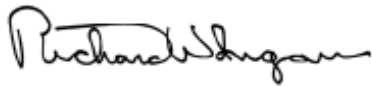
A draft of the October 30, 2014 executive session meeting of the Audit Committee was sent to the committee members for review. On a motion by Mark Bailey, seconded by Cynthia O’Neill, the minutes were approved as printed.

Personnel

The chief officer of each State agency shall appoint a chief internal auditor to serve a five year term. The Board bylaws state that the audit committee must review and concur in the appointment, replacement, or dismissal of the Director of Internal Audit. A motion was made by Mark Bailey, seconded by Cynthia O’Neill, that the committee recommend to the Board to re-appoint Stacy Smith to serve a five-year term as Director of Internal Audit effective July 1, 2015. The motion passed by a unanimous voice vote.

ADJOURNMENT

On a motion by Cynthia O’Neill, seconded by Mark Bailey, and by unanimous vote, the meeting adjourned at 9:05 a.m.



Richard W. Ingram, Executive Director

Approved: 8/12/15