



Teachers' Retirement System of the State of Illinois

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MINUTES Audit Committee December 8, 2010

A meeting of the Audit Committee of the Board of Trustees of the Illinois Teachers' Retirement System was held on December 8, 2010 at the Springfield office of the Illinois Teachers' Retirement System, 2815 West Washington Street. Janice Reedus, Chair, called the meeting to order at 11:00 a.m. A quorum was present.

Roll Call attendance was taken with the following committee members present: Janice Reedus (Chair), Sonia Walwyn (Vice Chair), Marcia Boone (arrived 11:08 a.m.), Jan Cleveland, and Cinda Klickna.

Trustees present: Mike Busby, Sharon Leggett, Bob Lyons, Cynthia O'Neill, and Molly Phalen.

Others present: Stan Rupnik, Acting Exec. Director/CIO; Tom Gray, General Counsel; Cynthia Fain, Sr. Asst. General Counsel; Stacy Smith, Director of Internal Audit; Tassi Maton, Internal Auditor; Deron Bertolo, Director of Investment Operations; Mike Bartletti, Director of Real Estate; Tim Hays, Sr. Investment Officer; Dakin Sanert, Real Estate Analyst; Sally Sherman, Director of Member Services; Jana Bergschneider, Director of Administration; Dave Urbanek, Public Information Officer; Sue Billington, Executive Assistant; Tammy Green, Asst. to Executive Director; Andrew Bodewes (Legislative Consultant); Pat O'Hara, Cavanagh & O'Hara (Fiduciary Counsel); and Marcia Beard, RV Kuhns (Investment Consultant).

Visitors present: Don Davis, IRTA Rep.; Shirley Dodds, IRTA Rep.; Dennis Murfin, IRTA Rep.

Minutes

A draft of the minutes from the October 27, 2010 Audit Committee was sent to the committee members for review. On a motion by Cinda Klickna, seconded by Jan Cleveland, the minutes were approved as printed. Trustee Walwyn abstained from voting.

Trustee Reedus, Chair, reported that she met with Stacy Smith, Director of Internal Audit, to discuss topics on the current agenda.

Independence of Internal Audit Activity

In compliance with the Institute of Internal Auditors *Standard 1130.A1*, Tassi Maton, Internal Auditor, will refrain from conducting internal audits within the Investment Department for one year after her November 1st transfer date. The Audit Committee received a copy of the TRS Auditor Independence Statement for Ms. Maton.

Revised IIA Standards

Stacy Smith reported that the Institute of Internal Auditors has revised the *Standards* effective January 1, 2011. Documentation is on file. The changes to the *Standards* will require modifications to the Internal Audit Charter. The State Internal Audit Advisory Board (SIAAB) requires an internal self-assessment to be performed within one year of the effective date of the change in *Standards*. Staff will perform an internal self-assessment during calendar year 2011 and report to the committee on the changes made to the charter and System's internal audit processes. In addition, an external assessment will be performed next year.

(Trustee Boone arrives)

FY 10 Real Estate Audits

The real estate separate account financials were audited by KPMG. Tim Hays, Sr. Investment Officer, and Dakin Sanert, Real Estate Investment Analyst, provided a summary of the real estate audits and reported that the FY 10 audit did not contain any material weaknesses or significant deficiencies. Further, the reports noted two deficiencies and three immaterial uncorrected misstatements. Staff discussed the two deficiencies with the investment managers and adjustments were made. Documentation is on file.

KPMG

KPMG was hired in 2007 to perform audits of TRS's real estate separate account advisors. Staff is pleased with the quality of work being performed by KPMG and recommended an additional one-year contract extension with a maturity date of February 2012. Documentation is on file. The annual fee for this extended year is

lower than what other firms bid in the original RFP. Discussion followed. A motion was made by Cinda Klickna, seconded by Marcia Boone, that the committee recommend to the Board to award an additional one-year contract extension to KPMG to perform the FY 11 real estate audit. Motion passed by voice vote. Trustee Walwyn abstained.

ADJOURNMENT

On a motion by Sonia Walwyn, seconded by Marcia Boone, and by unanimous vote, the meeting adjourned at 11:22 a.m.

Richard W. Ingram, Executive Director

Approved _____