



## **MINUTES**

**Meeting of the Audit & Risk Committee  
of the Board of Trustees of the  
State Universities Retirement System  
4:00 p.m., Thursday, June 11, 2015  
The Northern Trust  
50 South LaSalle Street, Global Conference Center  
Chicago, Illinois 60603**

The following Trustees were present: Dr. John Engstrom, Chair; Ms. Lindsay Anderson, Ms. Jacqueline Berger, Mr. Dennis Cullen, Dr. John Engstrom, Mr. Paul R. T. Johnson Jr., Mr. Craig McCrohon; Ms. Dorinda Miller; Mr. Antonio Vasquez and Mr. Mitchell Vogel.

Others present: Mr. W. Bryan Lewis, Executive Director; Mr. Andrew Matthews, Chief Operating Officer; Mr. Daniel Allen, Chief Investment Officer; Mr. Albert Lee, Interim General Counsel; Mr. Steve Hayward, Director of Internal Audit; Ms. Phyllis Walker, Chief Financial Officer; Ms. Lori Kern, Executive Assistant; Ms. Mary Pat Burns of Burke, Burns & Pinelli; Ms. Patti Somerville-Koulouris of the Northern Trust Company; Ms. Renaye Manley and Mr. Aaron Ammons of Service Employees International Union.

Audit & Risk Committee roll call attendance was taken. Trustee Berger, present; Trustee Engstrom, present; Trustee Figueroa, absent; Trustee Johnson, present; Trustee Miller, present.

## **APPROVAL OF MINUTES**

Trustee John Engstrom presented the Minutes from the Audit & Risk Committee meeting of March 13, 2015.

Trustee Craig McCrohon moved that:

- The Minutes from the March 13, 2015 Audit Committee Meeting be approved as presented.

Trustee Dorinda Miller seconded and the motion carried with all Trustees present voting in favor.

## **CHAIRPERSON'S REPORT**

Trustee Engstrom indicated that he did not have a formal Chair report at this time; however, he briefly went over the Audit agenda and items that are going to be discussed during the meeting.

### **INTERNAL AUDIT**

#### **GAAP Audit**

Mr. Steve Hayward reviewed the GAAP process review stating the State Universities Retirement System's Internal Audit (IA) department is required to annually audit the GAAP package and financial statement reporting processes in accordance with the "Financial Reporting Standards Board Act" (PA 097-1055) which became effective 8/23/12. Annually, the State of Illinois issues basic financial statements in accordance with Generally Accepted Accounting Principles (GAAP). In order to obtain the data needed, the Comptroller's Office requires State agencies to submit a GAAP reporting package for each fund in which the agency has activity and various other forms related to footnote disclosures and entity-wide transactions. Results of this internal audit are required to be submitted to the Financial Reporting Standards Board. Mr. Hayward stated this was the third audit of this process which is required annually until June 2016.

Results from GAAP process review were presented. Mr. Hayward reported that Internal Audit formed the opinion that there is adequate staffing for preparation of GAAP forms and adequate GAAP package and financial reporting processes exist to ensure the timely and accurate completion of these annual reporting activities. He also reported there were no findings noted in the audit.

Mr. Hayward reviewed the Required Financial Reporting Standards Board Information provided with the Board noting Internal Audit believes that potential future risks will be minimal due to the planning that has been implemented by the SURS' Accounting Department.

#### **Employer Audit Update**

Mr. Hayward stated SURS solicited proposals from independent public accounting firms in March to provide employer audit services for employers in response to an external audit finding last year. A proposal review team was assembled to review the proposals received. This team reviewed each firm's proposal and selected Sikich. It was noted that Sikich had extensive experience auditing community colleges in SURS and pension audit experience.

Mr. Hayward reviewed the audit objectives and the testing and audit schedule. Mr. Hayward explained that SURS picked the employers to be audited each year using a risk-based approach; however, the auditor will select the members whose individual census data will be verified. SURS selected seven employers to be audited this year. The current plan is for

Sikich to spend one or two days at each employer and complete the fieldwork in June with a final report expected mid-August.

### **Chief Internal Auditor Appointment**

Ms. Burns noted the Illinois Fiscal Control and Internal Auditing Act (FCIAA) requires the appointment of the Chief Internal Auditor by the Chief Executive Officer for 5-year terms. Mr. Bryan Lewis noted he has appointed Steven L. Hayward as the Director of Internal Audit of SURS for a 5-year term effective September 3, 2015. The last appointment was made September 3, 2010.

Trustee Engstrom moved that:

- The Audit & Risk Committee concur with the appointment of Steven L. Hayward, as the Director of Internal Audit of SURS, for a 5-year term effective September 3, 2015.

Trustee Paul R.T. Johnson, Jr. seconded and the motion carried with all Trustees present voting in favor.

### **INFORMATION SYSTEMS SECURITY**

Mr. Andrew Matthews presented the Annual Security Report Summary to the Board. Mr. Matthews remarked that risk management is an ongoing issue and with IT security being an important component of overall risk management, multiple staff members are heavily involved in the process. Mr. Matthews outlined that the priority is addressing concerns of breach, stopping breach, and then mitigating results of any potential breach that may occur. Mr. Matthews stated that the goal is to not only upgrade performance but to also update infrastructure to address security concerns that currently exist.

Mr. Matthews explained that an Information Security audit is performed every two years. The last internal audit was performed in 2012. In March of 2014, Clifton, Larson, Allen performed this audit and provided a total of 42 recommendations. To date, 32 of the recommended actions have been completed, 8 are targeted for June 30<sup>th</sup> completion, and 2 have been budgeted for in FY 2016.

Mr. Matthews noted that as the organization continues to grow, risk management will continue to be an ongoing process. He stated that staff has recently met with our insurance provider, and that we will be further reviewing the current insurance coverage to ensure there is adequate coverage in place in the event of a cyber-attack.

Mr. Bryan Lewis emphasized that as the overall process of enterprise risk management is reviewed, it is important to note that information systems security will continue to be a key area of concentration.

## **EXTERNAL AUDIT UPDATE**

### **FY 15 Scope, Purpose & Schedule Statement**

Mr. Hayward provided an external audit update reporting that an entrance conference was conducted with McGladrey, LLP on May 28, 2015, for FY the 2015 financial and compliance audits. The auditors will also conduct census data testing with eight employers.

Mr. Hayward reviewed the timeline and noted Phase 1 began June 1, 2015, and focuses on compliance with laws, rules, etc. Phase 2 will begin on or about August 30, 2015, and will focus on financial statements. The auditors are expected to remain on-site through mid-November. It is anticipated that McGladrey will submit a preliminary report of draft findings to SURS for review in early November and draft reports later in the month. An exit conference is expected to be conducted December 11, 2015, with final reports completed by December 31, 2015.

### **FY 14 Compliance Audit Report**

Mr. Hayward reviewed the Summary Report Digest from the State of Illinois Office of the Auditor General. The digest covered the compliance examination of SURS for the year ended June 30, 2014, as required by the Illinois State Auditing Act. The accountants report did not contain any scope limitations, disclaimers or other significant non-standard language.

The Report was issued May 7, 2015. One material weakness was noted as a census data finding, which was also noted in the financial audit report, and which Mr. Hayward had previously reported to the Board. Two immaterial findings were also noted which Mr. Hayward had previously reported to the Board in December.

Mr. Hayward discussed the Independent Accountant's Report on State Compliance, on Internal Control Over Compliance, and on Supplementary Information for State Compliance Purposes, as well as the Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards. Mr. Hayward noted that the purpose of these reports is to describe the scope of their testing of internal controls and compliance. The auditors express an opinion on compliance, however they don't express an opinion for internal controls over the financial statement reporting process.

### **FY 14 External Audit Recommendation Implementation**

Mr. Hayward reviewed the SURS FY 14 Audit Recommendation Implementation tracking spreadsheet.

## **INFORMATIONAL ITEMS NOT REQUIRING COMMITTEE ACTION**

Mr. Hayward presented the FY 2015 Internal Audit Plan Work Report, the FY 2015 Internal Audit Recommendation Implementation tracking worksheet and the most recent Death Match

report. Mr. Hayward also informed the Committee that May was International Internal Audit Awareness Month.

**PUBLIC COMMENT**

There were no public comments presented to the Audit & Risk Committee.

Since there was no further business before the Committee, Trustee Miller moved that the meeting be adjourned. The motion was seconded by Trustee Antonio Vasquez carried with all Trustees present voting in favor.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mr. W. Bryan Lewis". The signature is written in a cursive, flowing style.

Mr. W. Bryan Lewis  
Secretary, Board of Trustees

WBL:lk