



## **MINUTES**

**Meeting of the Audit and Risk Committee  
of the Board of Trustees of the  
State Universities Retirement System  
9:00 a.m., Friday, December 12, 2014  
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. Richard Figueroa, Mr. Paul R. T. Johnson Jr., Mr. Andrew Matthews, Mr. Craig McCrohon, Ms. Dorinda Miller Mr. Peter Newell and Mr. Mitchell Vogel.

Others present: Mr. William Mabe, Executive Director; Mr. Michael Weinstein, General Counsel; Mr. Daniel Allen, Chief Investment Officer; Mr. Douglas Wesley, Deputy Chief Investment Officer; Mr. Steve Hayward, Director of Internal Audit; Ms. Brenda Dunn, Director of Human Resources; Mr. Albert Lee, Associate General Counsel; Mr. Jeffrey Houch, Legislative Liaison; Ms. Lori Kern, Executive Assistant; Ms. Mary Pat Burns of Burke, Burns & Pinelli; Ms. Patti Somerville-Koulouris of the Northern Trust Company; Ms. Linda Brookhart, State Universities Annuitant's Association; and Ms. Carol Bullock and Mr. Derrick Buckingham of The Hollins Group.

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

## **APPROVAL OF MINUTES**

Trustee John Engstrom presented the Minutes from the Audit and Risk Committee meeting of September 18, 2014.

Trustee Richard Figueroa made the following motion:

- That the Minutes from the September 18, 2014 Audit and Risk Committee meeting be approved, as presented.

Trustee Jacqueline Berger seconded and the motion carried with all Trustees present voting in favor.

## **APPROVAL OF THE CLOSED SESSION MINUTES**

Trustee Engstrom then presented the closed session Minutes from the Audit and Risk Committee meeting of September 18, 2014.

Trustee Figueroa made the following motion:

- The closed session minutes from September 18, 2014 Audit and Risk Committee meeting be approved and be opened.

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

## **CHAIRPERSON'S REPORT**

Trustee Engstrom remarked that he did not have a chair report at this time.

## **EXTERNAL AUDIT UPDATE**

Mr. Steve Hayward provided an update on the status of last year's external audit finding. Mr. Hayward reported that the one immaterial finding from last year was fully implemented in September.

Mr. Hayward then reported on the draft findings received from the external auditors for this year. The first potential finding is regarding census data testing at employers. Mr. Hayward explained that GASB 67 and 68 Standards were recently adopted, and in March of last year, a white paper was published by AICPA as to how to implement them. Although this paper was published three quarters of the way through the fiscal year, the auditors felt as though SURS should have completed employer audits to verify census data in FY '14 as well as prior years. The external auditors noted that SURS' internal controls over creditable earnings and member census data for the System is accumulated from multiple participating employers which makes it difficult to verify and increases the likelihood of errors within the data. Currently, the System's process for this relies heavily on reporting of the information by each participating employer. Mr. Hayward noted that although SURS doesn't currently verify the underlying earnings reported by employers, SURS has internal controls in place that test the reasonableness of this data and other census data.

Trustee Engstrom remarked that employer census data testing would be an entirely new process for SURS and it does make sense to complete this additional testing. He assured the committee that SURS will comply with the requirements moving forward and Mr. Hayward will communicate with the auditors for reassurance that the processes put in place are appropriate. Mr. Hayward stated that the external auditors conducted employer audits this year and very few errors in regards to census data were found.

Trustee Andrew Matthews inquired if SURS has the statutory authority to conduct such employer audits. Mr. Michael Weinstein confirmed that SURS does indeed have statutory

authority which was added with an effective date of August 1, 2013, which was after fiscal year had begun.

Mr. Hayward then indicated two other potential audit findings which he feels will be deemed immaterial. The first finding is with regard to an alternative work schedule for an employee, wherein no formal agreement was found to be in place. The other finding noted was failure to properly monitor terms of an existing contract during fiscal year ended June 30, 2014. Mr. Hayward indicated this was a carryover from the previous year and since has been resolved.

## **INTERNAL AUDIT**

### **Disability Benefits Audit**

Results from the Disability Benefits Audit were presented. Mr. Hayward advised that Internal Audit formed the opinion that the computer calculations of disability benefits reasonably conform to the Illinois Pension Code and the rules of the system. Internal Audit also formed the opinion that the benefit payment procedures for disability benefits are adequate. Details on the errors noted were discussed.

### **Management and Governance Audit**

Results from the Management and Governance Audit were presented. Mr. Hayward reported that the Institute of Internal Auditor's (IIA) Standard 2110 on Governance requires Internal Auditors to assess and make appropriate recommendations in regard to organizational performance and accountability. Mr. Hayward remarked that this was the first audit of this area which is designed to meet the IIA requirements.

Mr. Hayward remarked that during this audit, the Internal Audit department examined specific formal and informal management and governance practices within the organization and at the board level to ensure the audit objectives were met. Internal Audit did not issue overall opinion of the governance process or internal controls over the governance or management process. However, Internal Audit formed the opinion that various mandatory and discretionary management and governance processes are in place to ensure SURS achieves its objectives and performs necessary organizational functions.

Discussion regarding the findings and recommendations continued. Mr. Hayward recommended that Staff compile a formal Board Governance Manual which should include all of the appropriate Board governance documents that the Board should periodically review and approve.

Trustee Engstrom wished to commend Mr. William Mabe and Ms. Mary Pat Burns with the administrative changes they have implemented over the past year with the Bylaws and Charters; however, he agrees with the recommendation of Mr. Hayward to have all documents in a central location and have the Board review them on a regular basis. Mr. Mabe also supports this recommendation.

**INFORMATIONAL ITEMS NOT REQUIRING COMMITTEE ACTION**

Mr. Hayward presented the FY 2014 Internal Audit Recommendation Implementation Summary and results of the death match process.

**PUBLIC COMMENT**

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

Since there was no further business before the Committee, Trustee Figueroa moved that the meeting be adjourned. The motion was seconded by Trustee Paul R.T. Johnson Jr. and carried with all Trustees present voting in favor.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "William E. Mabe". The signature is written in a cursive style with a large initial "W" and "M".

Mr. William E. Mabe  
Secretary, Board of Trustees

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