



MINUTES

**Meeting of the Audit Committee
of the Board of Trustees of the
State Universities Retirement System
9:00 a.m., Friday, June 14, 2013
The Northern Trust
50 South LaSalle Street, London Room B9
Chicago, Illinois 60603**

The following Trustees were present: Dr. John Engstrom, Chair; Ms. Jacqueline Berger, Mr. Paul R. T. Johnson Jr., Mr. Craig McCrohon, Ms. Dorinda Miller, 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; Ms. Phyllis Walker, Chief Financial Officer; Mr. Steve Hayward, Director of Internal Audit; Mr. Chris Hansen, Director of Operations; Mr. Doug Steele, Director of Application & Development; Ms. Brenda Dunn, Director of Human Resources; Ms. Angela Lieb, Director of Member Services; 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 of SUAA; Ms. Janet Jones of Janet Jones & Associates, Mr. Steve Zahn of Governmental Consulting Solutions; Ms. Renaye Manley of Service Employees International Union; Mr. Thomas Kizziah of the Office of the Auditor General and Mr. Joseph Evans of McGladrey.

Roll call attendance was taken. Trustee Berger, present; Trustee Engstrom, present; Trustee Figueroa, absent.

APPROVAL OF MINUTES

Trustee John Engstrom presented the Minutes from the Audit Committee meeting of March 14, 2013. Trustee Jacqueline Berger moved:

- That the Minutes from the March 14, 2013 Audit Committee meeting be approved as presented.

Trustee Craig McCrohon seconded and the motion carried with all Trustees present voting in favor.

CHAIRPERSON'S REPORT

Trustee Engstrom reported on the Illinois CPA Society Governmental Accounting Conference, which he attended on May 13, 2013. Trustee Engstrom remarked on various conference sessions including: a GASB Update, Audit Standards Update, and the GASB Pension Standard Implementation. It was noted that the new GASB standards for Pension Plans will be effective for the fiscal year ending June 30, 2014. Trustee Engstrom also remarked that some of the audit standards have not been changed but other audit standards have major revisions. Some of these changes introduce new terms and audit opinion language, one which is that the principal auditor will now be called the "group auditor." This concept apparently will result in many changes in the audit process. Trustee Engstrom also attended a panel session in which the GASB Pension Standard implementation was discussed.

(Educational Topic) – EXTERNAL AUDIT

Mr. Thomas Kizziah of the Office of the Auditor General (OAG) and Mr. Joseph Evans of McGladrey, LLP conducted the educational session, which began at 9:10 a.m.

Mr. Kizziah discussed the External Audit Process and all of the steps associated in conducting an annual audit every fiscal year. It was noted that separate financial statement and compliance audits are conducted at SURS each year. Mr. Kizziah stated that it is the OAG's responsibility to evaluate and review the obligation, expenditure, receipt and use of public funds by reviewing an agency's financial records, compliance with State and Federal laws and regulations and program performance after the close of its fiscal year. All reports issued by the OAG can be found on their website. The OAG contracts with an external audit firm to conduct the SURS audit and the firm currently contracted to SURS is McGladrey, LLP. It was noted that the current contract with McGladrey, LLP will terminate after the completion of the FY 2013 audit. Upon expiration of this contract, the Office of the Auditor General will perform a search for a new external audit firm for SURS at that time. Mr. Kizziah also noted a few recent changes in the audit process including the actuarial review by the State Actuary, which is now completed each year.

Mr. Joe Evans from McGladrey, LLP, informed the Committee that their audit approach places a strong emphasis on obtaining an overall general understanding of how SURS operates as an organization. They identify key audit components and then tailor their procedures to the unique aspects of SURS operations. By understanding SURS and its environment, they are able to obtain an understanding of SURS internal controls and then use these internal controls to identify risks of material misstatement and material noncompliance. They also apply the concept of materiality both in planning and performing the audit, evaluating the effect of identified misstatements and compliance on the audit, and the effect of uncorrected misstatements, if any, on the financial statements, and in forming opinions in their reports. Mr. Evans also noted that they must be cost effective in their audit process and explained that an audit is not designed to look at every single transaction but to look at major transaction cycles through a sampling process. Mr. Evans stated that the external auditors

and the OAG work together when setting the audit scope and procedures that are to be performed during the audit.

Mr. Evans educated the Committee not only on the management's responsibility within an Audit, but the overall audit procedures, major transaction cycles, the different levels of audit findings, and the new GASB standards that have recently been put into place that will affect some of the reporting standards. Mr. Evans conveyed that effective communication between McGladrey, LLP, SURS management and the Board of Trustees is important in understanding all matters related to the audit and in developing a constructive working relationship.

The educational session lasted for 30 minutes and concluded at 9:38 a.m.

EXTERNAL AUDIT UPDATE

Mr. Hayward directed the Committee's attention to the SURS FY 2012 External Audit Recommendation Implementation Summary which outlines the FY '12 findings and the status of the recommendations. It was noted that all recommendations from the FY '12 audit have been implemented..

Mr. Hayward reported that SURS Staff and Trustee Engstrom met with McGladrey, LLP for the Entrance Conference on May 28, 2013. The firm indicated that there will be two phases of fieldwork performed at SURS. The first phase started on May 28, 2013, and will be finishing up within the next week or two. The second phase will begin early September and fieldwork should end at SURS mid-November. Mr. Hayward also summarized the audit Authority, Scope and Purpose statement which was discussed at the meeting. The firm anticipates submitting a report of draft findings to SURS for review in early December and should have everything wrapped up and ready to present to the Auditor General by January 2014.

Since there was no further business before the Committee, Trustee Berger moved that the meeting be adjourned. The motion was seconded by Trustee McCrohon 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, stylized initial "W".

Mr. William E. Mabe
Secretary, Board of Trustees

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