



MINUTES

**Meeting of the Audit & Risk Committee
of the Board of Trustees of the
State Universities Retirement System
9:00 a.m., Friday, June 13, 2014
The Northern Trust
50 South LaSalle, London Room B9
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. Antonio Vasquez.

Others present: Mr. William Mabe, Executive Director; Mr. Michael B. Weinstein, General Counsel; Mr. Albert J. Lee, Associate General Counsel; Mr. Jeff Houch, Legislative Liaison; Mr. Daniel Allen, Chief Investment Officer; Mr. Steve Hayward, Director of Internal Audit; Mr. Chris Hansen, Director of Operations; Ms. Lori Kern, Executive Assistant; Ms. Mary Pat Burns of Burke, Burns & Pinelli; Ms. Patti Somerville-Koulouris of the Northern Trust Company; Mr. Steve Zahn of Governmental Consulting; Ms. Janet Jones of Janet Jones Consulting; Mr. John Shuler of SURSMAC; and Ms. Linda Brookhart of SUAA.

Audit & Risk Committee 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 20, 2014. Trustee Jacqueline Berger moved that:

- The Minutes from the March 20, 2014 Audit Committee Meeting be approved as presented.

Trustee Antonio Vasquez 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.

Trustee Lindsay Anderson and Trustee Richard Figueroa entered the meeting at 9:04 a.m.

INTERNAL AUDIT

Investment Compliance Review

Mr. Steve Hayward reported that an Investment Compliance review was recently completed noting that the objectives of this audit were to review policies and procedures to make sure SURS is in compliance with them, as well as Illinois statutes and other applicable laws. Specifically reviewed were compliance of asset allocation and rebalancing policies, valuation of assets in the general ledger accounts, Sudan divestment laws and Iran divestment laws. The scope of the examination was for the period ended December 31, 2013. Mr. Hayward reported that Internal Audit formed the opinion that the Investment Department's procedures are in compliance with state statutes and internal investment policies and that no findings or recommendations were noted during the review.

Information Technology General Controls Review

Mr. Hayward stated that SURS recently retained an outside consultant to conduct an Information Technology Control Review and Chris Hansen would be reporting on the review findings.

Mr. Chris Hansen informed the Committee that the field work for the Information Technology Control review, conducted by Clifton Larson Allen was completed in late April. He also stated that in conjunction with the Information Technology Control Review, a Business Impact (Disaster Recovery and Business Continuity) Analysis was also completed by the Atlas Preparedness Group.

Mr. Hansen explained that during the review, the firm focused on: security, business continuity, privacy, penetration, infrastructure and application development for the general controls security review. In addition, separate testing was done for internal vulnerability. Mr. Hansen summarized the firm's general approach to assessing risk; further noting that each category was reviewed and judged on its potential risk with and without any controls. The difference between the two was then assessed which produced a risk finding/rating. The firm found several high risk findings during this audit. Mr. Hansen then discussed the internal vulnerability review stating that this was SURS' first internal vulnerability scan performed by a third party. Mr. Hansen explained that in the past, SURS had performed its own testing in this area. The firm's main focus was an authentication review of all servers and individual PCs and included a weak passwords search, proper patch management (security updates), and configuration review (technical specifications). As with the general controls security audit, there were findings. Mr. Hansen stated that the next steps are to assign each finding/recommendation to a tech support specialist who will then create a management response which would mitigate the risk or come up with a compensating control. A management summary will then be developed for distribution to senior management and to the Board of Trustees. Work will then be prioritized and implementation will begin to

resolve the findings. Mr. Hansen reported that SURS is in the process of contracting with Secure Works for intrusion detection and prevention, and performing a penetration test on the external network.

In regards to the Business Impact Analysis, Mr. Hansen remarked that this report is helpful in defining the requirements of developing and implementing a plan for disaster recovery. Although SURS' plan is reviewed annually, a complete Business Impact Analysis has not been performed for several years. SURS retained Atlas Preparedness Group to conduct this analysis. The consultant reviewed SURS' current recovery requirements in the event of a disaster and then assisted SURS in the development of a disaster recovery vendor RFP that will be issued later this year. The Atlas Group did report that most of the requirements have not changed since SURS' last business impact analysis was conducted. Mr. Hansen noted that he will continue to update the Board as the process evolves.

A copy of the IT General Controls Review presentation is incorporated as a part of these Minutes as [Exhibit 1](#).

EXTERNAL AUDIT UPDATE

Mr. Hayward reported that SURS Staff and Trustee Engstrom met with auditors from McGladrey, LLP and a member of the Auditor General's staff for the entrance conference on May 8, 2014. Mr. Hayward reported that this will be McGladrey's seventh year auditing SURS and they will be conducting two phases of fieldwork at SURS. The first phase started on May 27, 2014, and will be completed by the end of June. The second phase will begin in early September and they are expected to remain on-site through the end of November. It is anticipated that McGladrey will submit a preliminary report of draft findings to SURS for review in early December which will be shared with the Committee at the December meeting. Mr. Hayward noted that the financial report must be completed by December 31, 2014. An exit conference is expected to be conducted sometime in mid-December.

Mr. Hayward noted that there are normally two audits performed each year. The first one is a compliance audit and the second one is a financial statement audit. A new audit procedure this year will be the Census Data Testing from GASB 67 and 68. As part of the audit, McGladrey will select ten of SURS employers and they will reconcile SURS payroll data to the payroll records for each employer. After the data is reconciled, McGladrey will test individual employee payroll records and will conduct site visits at the employer to examine their payroll records. Mr. Hayward stated that this audit step is mandated by the Auditor General of the State of Illinois. Mr. Weinstein advised that SURS now has the statutory authority to audit its employers and theoretically, SURS could have conducted such audits previously under its own statute. Mr. Hayward remarked that the auditors do expect SURS to begin auditing employers as Mr. Weinstein stated and he indicated that money has been allocated in the budget year to begin performing these audits. SURS will use the external auditor's methodology from this year to test the data next year. Mr. Mabe noted that he believes these audits are significant in helping determine that the information we are receiving from employers is accurate and in compliance with state law.

INFORMATIONAL ITEMS NOT REQUIRING COMMITTEE ACTION

Mr. Hayward presented the FY 2014 Internal Audit Plan Work Report and the FY 2014 Internal Audit Recommendation Implementation Summary Report. He also informed the Committee that the State of Illinois recently proclaimed that May 2014 is 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 Vasquez moved that the meeting be adjourned. The motion was seconded by Trustee Paul Johnson carried with all Trustees present voting in favor.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "William E. Mabe".

Mr. William E. Mabe
Secretary, Board of Trustees

WEM:lk