



## **MINUTES**

**Meeting of the Audit Committee  
of the Board of Trustees of the  
State Universities Retirement System  
9:15 a.m., Thursday, March 14, 2013  
Abraham Lincoln Presidential Library and Museum  
Governor's Conference Room, Library  
212 North Sixth Street  
Springfield, IL 62701**

The following Trustees were present: Ms. Jacqueline Berger, Dr. John Engstrom, Chair; Ms. Carrie Hightman, Mr. Paul R.T. Johnson, Jr., Mr. Andrew Matthews, Mr. Craig McCrohon, Ms. Dorinda Miller and Mr. Mitchell Vogel.

Others present: Mr. William Mabe, Executive Director; Mr. Daniel Allen, Chief Investment Officer; Mr. Douglas Wesley, Deputy Chief Investment Officer; Ms. Marilyn Branson, Investment Governance and Compliance Officer; Mr. Steve Hayward, Director of Internal Audit; Mr. Michael Weinstein, General Counsel; Ms. Beth Spencer, Communications Manager; Ms. Lori Kern, Executive Assistant; Ms. Brenda Dunn, Director of Human Resources; Ms. Phyllis Walker, Chief Financial Officer; Mr. Jeffrey Houch, Legislative Liaison; Ms. Mary Pat Burns of Burke, Burns & Pinelli; and, Ms. Patti Somerville-Koulouris of the Northern Trust Company.

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

Trustee John Engstrom called the meeting to order at the time and location set forth in the notice of meeting.

### **APPROVAL OF MINUTES**

Trustee Engstrom presented the Minutes from the Audit Committee Meeting of December 14, 2012. Trustee Jacqueline Berger moved that:

- The Minutes from the December 14, 2012 Audit Committee meeting be approved as presented.

Trustee Dorinda Miller seconded. Motion carried with all Trustees present voting in favor.

## **CHAIRPERSON'S REPORT**

Trustee Engstrom reserved his remarks to insure sufficient time for the Educational Portion on Financial Statement Review.

## **EXTERNAL AUDIT UPDATE**

### **FY 2012 Financial Report Digest & Opinion**

Mr. Steve Hayward reviewed the Fiscal Year 2012 Financial Audit Report Digest & Opinion wherein the State of Illinois Office of the Auditor General (OAG) provides a summary of the audit of SURS' financial statements. This financial statement audit was released on January 16, 2013 and no material findings were cited in this report. Mr. Hayward briefly reviewed the three immaterial findings that he had shared with the Board at the December meeting.

Mr. Hayward discussed the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters. This report summarizes testing on internal control and compliance and no deficiencies in internal control or compliance issues were identified.

### **FY 2012 Compliance Report & Internal Control**

The FY 2012 Compliance Report was issued February 21, 2013, covering the year ended June 30, 2012, and no findings of noncompliance were identified in this report.

### **Required Communications to the Board**

The Statement on Auditing Standards No. 114 requires the auditor to communicate certain matters to the Board in order to adequately inform them about matters related to the financial statement audit that are, in their professional judgment, significant and relevant to the responsibilities of those overseeing the financial reporting process. Mr. Hayward briefly went over this report and highlighted the following communications:

1. There were no significant or unusual transactions in SURS accounting practices identified;
2. There were no audit adjustments made to the original trial balance presented to begin the audit;
3. There were no uncorrected misstatements noted during the audit;
4. There were no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit, or significant disclosures to be included in the financial statements;
5. There were no significant issues arising from the audit discussed with management; and

6. There were no difficulties in dealing with management during the audit.

Trustee Engstrom discussed the external auditor selection process performed by the State Auditor General. It was noted that McGladrey & Pullen's contract expires after the 2013 audit is complete. The search for a new external auditor will also coincide with GASB accounting principles changes taking place at the same time. An audit manager with the Auditor General's office, along with a partner from McGladrey will attend the Board Meeting in June to discuss the audit process and answer any questions that the Board may have regarding this process.

### **FINANCIAL STATEMENT REVIEW** **(Educational Topic)**

Trustee Engstrom provided opening remarks regarding the SURS Comprehensive Annual Financial Report (CAFR) for Fiscal Year ending June 30, 2012. The CAFR complies with the Generally Accepted Accounting Principles adopted by the Governmental Accounting Standards Board (GASB). The CAFR is not released until the Auditor General issues its report on the underlying financial statements. This financial audit for FY 2012 was released in January 2013.

Ms. Phyllis Walker, Chief Financial Officer of SURS, conducted the educational session, which began at 9:25 a.m. Ms. Walker noted that every year SURS submits to the Governmental Finance Officer Association (GFOA) a copy of our CAFR, along with an application to receive the Certificate of Excellence in Financial Reporting. SURS received this award for the 28<sup>th</sup> consecutive year, for the FY 2011 CAFR. We have submitted our application again this year for our FY 2012 CAFR.

Ms. Walker reviewed the Financial Section including the Independent Auditor's report, the Management's Discussion and Analysis, Basic Financial Statements, and Required Supplementary Information. She also briefly discussed the Actuarial Section and Statistical Section of the report.

Mr. Daniel Allen discussed the Investment Section of the Report noting the summary of the Investment Program, which includes the Investment Policy, Investment Objectives and Investment Strategies outlined in the report. He also remarked on the Investment Performance section.

Trustee Engstrom concluded the discussion, noting that the report is placed on our website and available to the public.

A copy of the staff memorandum, entitled "Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2012" was provided and is incorporated as part of these Minutes as [Exhibit 1](#).

The educational session lasted for 20 minutes and concluded at 9:45 a.m.

## **INTERNAL AUDIT**

### **Disability Retirement Annuity Audit**

Mr. Hayward reviewed the Disability Retirement Annuity (DRA) Claim Audit. This audit examined the calculation of disability retirement benefits, claim payment and check writing processes. No errors were found and Internal Audit formed an opinion that the computer calculations of DRA 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 DRA benefits are adequate.

### **Portable Refund Audit**

Mr. Hayward reviewed the Portable Refund and Lump Sum Retirement Claims Audit. This audit reviewed the procedures for the payment of portable refunds and lump sum retirements, as well as the entire claim payment and check writing process.

Although a few issues were found, Internal Audit formed the opinion that the computer calculations of the portable refund and lump sum retirement payments reasonably conform to the Illinois Pension Code and the rules of the system. Internal Audit also formed the opinion that the payment procedures for portable refunds and lump sum retirement claims are adequate. It was noted that there was a repeat finding from the last audit regarding the "Audit Detail Report". It appears that a Program Change Request (PCR) was never formally issued to initiate the correction process. Trustee Engstrom would like to make sure that his item is made a high priority and will be addressed immediately. Mr. William Mabe and Mr. Hayward both agreed that this item has been discussed with staff and they feel confident that the finding is being addressed appropriately at this time.

### **Travel and Administrative Expense Audit**

Mr. Hayward reviewed the Travel and Administrative Expense Audit Report. This audit is a recurring annual audit and examined reimbursements made to executive staff, members of the Board of Trustees, and other SURS staff. This audit also examined administrative expense payments made directly to vendors to verify compliance with applicable state laws, SURS administrative rules and internal policies.

Although few minor errors were found, Internal Audit formed the opinion that the approval, payment and purchasing functions associated with the travel and administrative expenses reasonably conform to the Higher Education travel statutes, SURS travel and purchasing administrative rules and policies and any other rules of the State of Illinois. The minor findings were discussed and the Board was assured that additional steps have been taken in order to try to eliminate these instances in the future.

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

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "William E. Mabe". The signature is written in black ink and is positioned centrally below the phrase "Respectfully submitted,".

Mr. William E. Mabe  
Secretary, Board of Trustees

WEM:lk