



MINUTES

**Meeting of the Audit and Risk Committee
of the Board of Trustees of the
State Universities Retirement System
9:00 a.m., Friday, March 13, 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. Paul R. T. Johnson Jr., Mr. Craig McCrohon, Ms. Dorinda Miller, Mr. Antonio Vasquez and Mr. Mitchell Vogel.

Others present: Mr. William Mabe, Executive Director; Mr. Michael Weinstein, General Counsel; Mr. Daniel Allen, Chief Investment Officer; Ms. Phyllis Walker, Chief Financial Officer; Mr. Steve Hayward, Director of Internal Audit; Ms. Brenda Dunn, Director of Human Resources; Mr. Albert Lee, Associate General Counsel; Ms. Marilyn Branson, Investment Governance and Compliance Officer; 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; Mr. Lance Weiss and Ms. Amy Williams of Gabriel Roeder Smith & Company.

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

APPROVAL OF MINUTES

Trustee John Engstrom presented the Minutes from the Audit and Risk Committee meeting of December 12, 2014.

Trustee Dorinda Miller made the following motion:

- That the Minutes from the December 12, 2014 Audit and Risk Committee meeting be approved, as presented.

Trustee Paul R. T. Johnson Jr. 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

FY 2014 Financial Report Digest & Opinion

Mr. Hayward reviewed the FY 2014 Financial Audit Report Digest & Opinions, issued in February 2015, wherein the State of Illinois Office of the Auditor General (OAG) provides a summary of the audit of SURS' financial statements each year. Mr. Hayward remarked that there are plans in place to address the category 2 finding included in this report and previously discussed in December concerning the census data testing and employers will be audited in the future concerning this issue. Mr. Hayward briefly reviewed the summary report noting that the Independent Auditor's report stated that the financial statements of SURS are presented fairly in all material respects. It was noted there were no other findings associated with the financial statement report.

Required AU-C 260 Communications to Board

Mr. Hayward reviewed the report prepared by McGladrey that summarized Required AU-C 260 Communications to the Board. Generally accepted auditing standards require professional standards to be communicated to the Board, ensure two-way communications between the Board and auditors and to also provide the auditors an opportunity to comment on any problems noted during the audit. The report indicated that no problems, issues, or difficulties were noted during the audit process, with SURS Management.

The auditing firm is selected by the Auditor General and McGladrey has been SURS auditors for the past seven years. Trustee Engstrom remarked that McGladrey is highly regarded in governmental auditing throughout the United States, and they participate in many national discussions on auditing standards. Trustee Engstrom also noted that the auditors will be invited to attend an upcoming Audit Committee meeting to discuss the audit process and answer any questions the Board may have.

GASB 67 PLAN REPORTING AND ACCOUNTING **(Educational Topic)**

Ms. Phyllis Walker introduced Ms. Amy Williams and Mr. Lance Weiss from GRS to present the Fiscal Year 2014 GASB 67 Actuarial Valuation Report and to provide an overview of the GASB 67 and 68 accounting standard changes.

Mr. Weiss presented the background and requirements for the new GASB 67 & 68 standards and remarked that on June 25, 2012, the Governmental Accounting Standards Board (GASB) approved two new standards that will substantially improve the accounting and financial reporting of public employee pensions by state and local governments. These new standards completely replaced the previous GASB Statement Nos. 25 and 27, to improve the way state and local governments report their pension liabilities and expenses which should result in more accurate presentation of the full impact of these obligations. Mr. Weiss emphasized that this report is related to disclosure only, and has nothing to do with funding. He explained that the new GASB statements are very specific and disconnect pension accounting from pension funding. GASB 67 took effect for SURS the fiscal year ending June 30, 2014. GASB 68 rules

take effect for SURS employers and non-employer contributing entities (State of Illinois) for the fiscal year covering July 1, 2014 to June 30, 2015. Mr. Weiss further summarized that the major changes in GASB 67 and 68 include new vocabulary terms, new balance sheet liability, and new requirements for cost sharing plans.

Mr. Weiss commented on the proposed allocation of the net pension liability and net pension expenses among the employers. Ms. Mary Patricia Burns inquired about implications of employers challenging the figures. Ms. Walker explained that the external auditors will review the calculations. Ms. Burns suggested that these duties be stated and included in the scope of responsibilities of the external auditors. Discussion ensued concerning limiting the exposure of SURS as a result of these changes.

Ms. Amy Williams summarized other changes in GASB 67 and 68 noting that the new accounting standards require the use of a single (blended) discount rate to determine liabilities. She further explained how the calculation of a blended discount rate works for SURS, providing comparative results based on Funding and GASB 67/68. Ms. Williams also identified and discussed the additional non-actuarial disclosure requirements as a result of GASB 67 and 68. At the conclusion of the education session, Trustee Johnson made the following motion:

- SURS staff and Gabriel Roeder Smith & Company jointly recommend that the Fiscal Year 2014 GASB 67 Actuarial Valuation Report be received and filed.

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

Discussion continued regarding the implications of GASB 67 and 68 changes and the accuracy of the reporting information received from employers.

Trustee Jacqueline Berger joined the meeting at 9:25 a.m.

The educational session lasted for 35 minutes and concluded at 9:45 a.m.

A copy of staff memorandum entitled “Fiscal year 2014 GASB 67 Actuarial Valuation Report,” and the GRS presentation entitled “Overview of GASB 67 and 68 Accounting Standard Changes,” are incorporated as part of these Minutes as [Exhibit 1](#) and [Exhibit 2](#).

FINANCIAL STATEMENT REVIEW

Ms. Walker presented an overview of GASB 68 and the Comprehensive Annual Financial Report for Fiscal Year Ended June, 30, 2014, noting GASB 68 changes, the purpose of the CAFR, and components and highlights of the CAFR.

Trustee Engstrom noted that stringent standards are required in preparing financial statements and that SURS has been meeting those standards with excellence for many years.

A copy of staff memorandum entitled “Overview of GASB 68 and the Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2014” and attached presentation are incorporated as part of these Minutes as [Exhibit 3](#) and [Exhibit 4](#), respectively.

INTERNAL AUDIT

Travel & Administrative Expense Audit

Results from the Travel and Administrative Expense Audit were presented. Mr. Hayward noted that although a few minor errors were found, Internal Audit formed the opinion that the approval, payment and purchasing functions associated with the travel and administration 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.

Management and Governance Audit

Mr. Hayward stated that results of the Management and Governance Audit were reported to the Board in December 2014 and this is the first audit of this area which is designed to meet the IIA requirements. There was an additional item to be addressed involving the compliance system. Mr. Hayward then reviewed the recommendations for the current compliance process and remarked there are plans being implemented for improving the process.

INFORMATIONAL ITEMS NOT REQUIRING COMMITTEE ACTION

Mr. Hayward provided the Quality Assurance and Improvement Program memo, the Internal Audit Standards Discussion and Changes memo, the IT General Controls Review (Security Audit) Recommendation Tracking Worksheet, and the Death Match report for reference.

PUBLIC COMMENT

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

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

Respectfully submitted,



Mr. William E. Mabe
Secretary, Board of Trustees

WEM:lk