



MINUTES

**Meeting of the Audit & Risk Committee
of the Board of Trustees of the
State Universities Retirement System
8:30 a.m., Friday, September 11, 2015
State Universities Retirement System
1901 Fox Drive, Main Conference Room
Champaign, Illinois 61820**

The following Trustees were present: Dr. John Engstrom, Chair; Mr. Aaron Ammons, Ms. Lindsay Anderson, Mr. Dennis Cullen (via conference call), Dr. Fred Giertz, Mr. Francis Idehen Jr., Mr. Paul R.T. Johnson Jr., Ms. Dorinda Miller, Dr. Steven Rock, Mr. Antonio Vasquez.

Others present: Mr. W. Bryan Lewis, Executive Director; Mr. Andrew Matthews, Chief Operating Officer; Mr. Daniel Allen, Chief Investment Officer; Ms. Phyllis Walker, Chief Financial Officer; Mr. Albert Lee, Interim General Counsel; Mr. Steve Hayward, Director of Internal Audit; Ms. Brenda Dunn, Director of Human Resources; Ms. Allison Kushner, Compliance and Governance Officer; Ms. Kristen Houch, Legislative Liaison; Mr. Doug Taylor and Ms. May Techolarn of SURS Internal Audit; Mr. Chris Hansen, Director of Operations; Ms. Angela Lieb, Director of Member Services; Ms. Suzanne Mayer, Director of Outreach; Ms. Lori Kern and Ms. Karen Hipskind, Executive Assistants; Ms. Mary Pat Burns of Burke, Burns & Pinelli; Mr. Steve Zahn of Zahn Consulting Solutions; Ms. Janet Jones of Janet Jones Consulting; Ms. Linda Brookhart of The State Universities Annuitant Association.

Audit & Risk Committee roll call attendance was taken. Trustee Ammons, absent; Trustee Cullen, (conference call) absent; Trustee Engstrom, present; Trustee Giertz, present; Trustee Johnson, present.

Trustee Aaron Ammons, Trustee Francis Idehen and Trustee Antonio Vasquez all joined the meeting at 8:38 a.m. Trustee Dennis Cullen joined the meeting by a conference call at 8:50 a.m.

Per the motion approved at the Board meeting on September 10, 2015, Trustee Dennis Cullen is allowed to participate via conference call for all meetings on September 10 & September 11, 2015, pursuant to Section 7(c) of the Open Meetings Act.

APPROVAL OF MINUTES

Trustee John Engstrom presented the Minutes from the Audit & Risk Committee meeting of June 11, 2015. Trustee Paul R.T. Johnson, Jr. made the following motion:

- That the Minutes from the June 11, 2015 Audit & Risk Committee Meeting be approved as presented.

Trustee Fred Giertz 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.

INTERNAL AUDIT

Mr. Hayward introduced SURS internal auditor, Mr. Doug Taylor to present the results from the Traditional Refund Claims and the Portable Refund Claims audits.

Refund Claims Audit

Mr. Taylor presented the results from the Refund Claims Audit and explained that traditional refunds are paid to members who terminate employment and apply to have their contributions refunded. Members are eligible to receive all of their contributions plus 4.5% interest. Mr. Taylor explained that this is a recurring biennial audit and the period for review was June 2013 through May 2015.

Mr. Taylor discussed one issue noted during the audit and remarked that internal audit formed the opinion that the computer calculations of the refund payments 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 refunds are adequate.

Portable Refund Claims Audit

Mr. Taylor presented the results from the Portable Refund Claims Audit and explained that portable refunds and lump sum retirements are paid to members who terminate employment or retire and apply for a refund or a retirement. Mr. Taylor further explained that portable members generally receive distributions of all accrued interest. Additionally noting that if portable members have at least five years of service credit, their lump sum distribution will include an employer match equaling their total contributions and interest. This audit is also a recurring biennial audit and the period for review was February 2013 through May 2015.

Mr. Taylor noted that no issues were identified and 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.

MSL Systems Audit

Mr. Hayward introduced SURS internal auditor, Ms. May Techolarn to present the results from the MSL System/Retirement Plans Audit.

Ms. Techolarn presented the results from the MSL Systems Audit and remarked that the Member Subsidiary Ledger System processes earnings, contributions, interest and service credit for SMP, Portable, and Traditional Plan members. Ms. Techolarn stated that the scope of the audit examined MSL system processing and retirement plan elections processed between 3/1/13 and 2/28/15. A review of plan elections processed prior to 2/28/13 was also examined on a limited basis.

Ms. Techolarn stated that although a few minor problems were found, Internal Audit formed the opinion that the processing of the plan elections, SMP account balance transfers and the payroll, service credit and interest processing and statements of account reasonably conform to the Illinois Pension Code and the rules of the system.

Staff Payroll Audit

Mr. Hayward presented the results of this audit and stated that this audit covered the pay of SURS 129 full time employees. Mr. Hayward stated that the audit objectives were to determine that the accounting and the payment procedures for the staff payroll functions conform to the statutes and the rules of the State Universities Civil Service System and the policies and procedures of SURS.

Mr. Hayward indicated that during the examination of the accounting and payment procedures for the staff payroll functions, Internal Audit noted some errors, areas of non-compliance and suggestions for improvement, which are listed in the findings section of the audit report. Internal Audit formed the opinion that the accounting and payment procedures reasonably conform to the statutes and the rules of the State Universities Civil Service System and the policies and procedures of SURS.

Employer Audit Update

Mr. Hayward stated that as a follow-up to the Audit & Risk Committee Meeting in June, Sikich was selected as the independent public accounting firm which would provide employer audit services for SURS. The contracting of these services was in response to an external audit finding last year (FY 2014) which noted that SURS didn't audit the underlying payroll and census data for participating employers. This census data is used in the actuarial valuation and the liability amounts reported in the financial statements.

Mr. Hayward explained that objective was to provide a sufficient basis for concluding that the employer has: enrolled all eligible employees in the System; enrolled only eligible employees; reported completely and accurately all required member census data (examples include member name, birthdate, gender, date of hire and certification date); reported completely and accurately all required employee earnings and contributions; reported completely and accurately all annuitants who returned to work with the employer after retiring from SURS.

Mr. Hayward explained that the employers selected for testing were picked by SURS using a risk-based approach; however the auditor selected the members whose individual census data was verified. SURS selected seven employers to be audited this year. Sikich scheduled these audits with the employers and planned on spending 1 or 2 days at each employer. Three audits were completed in June, two in July, and one in August. The last audit for City Colleges of Chicago should be completed in early September. SURS has received a list of potential findings for four of the employers and there appears to be no major findings. SURS expects to receive a final report in November.

APPROVAL OF FY 2016/2017 INTERNAL AUDIT PLAN

Mr. Hayward presented the Internal Audit Plan for FY '16 and '17 and explained a formal risk assessment process was used to develop the plan. Trustee Engstrom then made the following motion:

- That the Internal Audit Plan for fiscal year 2016/2017 be approved as presented.

Trustee Fred Giertz seconded and the motion carried with all Trustees present voting in favor.

INFORMATION SYSTEMS SECURITY

Mr. Hayward introduced Mr. Andrew Matthews, SURS Chief Operating Officer to present the Information Systems Security update.

Mr. Matthews stated that Clifton, Larson, Allen was utilized for an external review of security measures. To date, 32 items have been completed and eight items are targeted for completion by the end of 2015. The two remaining items include one with an expected FY 2017 budgetary request and another with necessary changes from the vendor for security upgrades. In addition, IT staff, continue to monitor the steps taken to mitigate risks from the audit. In response to recent internal discussions, staff is taking additional security measures in areas that were already considered complete in an effort to further improve network security. Mr. Matthews added that the 32 items that have been corrected will be revisited to see if further improvements can be made.

Mr. Matthews also noted that the Network Backbone Upgrade is in the first of three phases, with a RFP to be put out to market by the end of the month. The improvements will provide better performance for internal systems, and the infrastructure upgrades will also include heightened security capability.

Mr. Matthews remarked that SURS staff continues to assess current IT security practices and procedures. In an effort to ensure that best practices are being implemented in all IT functions, staff has engaged in discussions with outside consultants to see what the market can provide in an effort to ensure that there is adequate coverage in place in the event of a cyber-attack. Options will be presented to the Board once staff has fully evaluated the products offered and services included.

EXTERNAL AUDIT UPDATE

Report on Allocation of Pension Amounts

Mr. Steve Hayward provided an overview of the external audit Allocation of Pension Amounts report from McGladrey, LLP dated August 13, 2015. This report states the net pension liability amounts for the years ended June 30, 2014 and 2013 as required by GASB Statement 68.

A discussion then followed concerning the prospect of the State not paying the required employer match. Ms. Mary Pat Burns, External Counsel from Burke, Burns & Pinelli discussed the applicability of Section 15-155(b), and Article 22, Section 403 in regard to this issue.

Mr. Steve Hayward followed up noting the FY 2015 audits are currently being conducted by McGladrey, which is comprised of three audits; the financial statement audit, the compliance audit, and the pension liability audit. In June, Phase 1 of the field work was completed and the auditors are now at SURS for phase 2 of the audit which should last through the 1st of November. The focus of phase 2 will be on the financial statements and compliance with all of the state rules.

Audit Completion Report

Mr. Hayward stated that all of the mandatory audits that were scheduled in FY '15 were completed. Mr. Hayward reported that the Civil Service System came in and conducted an audit to make sure that SURS was in compliance with their rules. Areas reviewed were assigning positions to classes, examination procedures for pre-employment testing, administration of employment, and separation and exempt positions. Mr. Hayward remarked that there were no findings on this audit.

PUBLIC COMMENT

There were no public comments presented to the Audit Committee.

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

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mr. W. Bryan Lewis". The signature is fluid and cursive, with a large initial "W" and "L".

Mr. W. Bryan Lewis
Secretary, Board of Trustees

WBL:mc