



MINUTES

**Meeting of the Audit & Risk Committee
of the Board of Trustees of the
State Universities Retirement System
Thursday, June 9, 2016, 4:15 p.m.
Northern Trust
50 S. LaSalle, Global Conference Center
Chicago, Illinois 60603**

The following trustees were present: Dr. John Engstrom, Chair; Mr. Aaron Ammons, Mr. Tom Cross, Mr. Dennis Cullen, Dr. Fred Giertz, Mr. Paul R.T. Johnson Jr., Ms. Dorinda Miller, Dr. Steven Rock, and Mr. Antonio Vasquez.

Others present: Mr. W. Bryan Lewis, Executive Director; Mr. Andrew Matthews, Chief Operating Officer; Ms. Phyllis Walker, Chief Financial Officer; Ms. Brenda Dunn, Director of Human Resources; Ms. Bianca Green, General Counsel; Mr. Steve Hayward, Director of Internal Audit; Ms. Allison Kushner, Compliance and Governance Officer; Ms. Kristen Houch, Legislative Liaison; Ms. Monique Cullotta, Executive Assistant; and Ms. Mary Pat Burns of Burke, Burns & Pinelli.

Audit & Risk Committee roll call attendance was taken. Trustee Ammons, present; Trustee Cullen, present; Trustee Engstrom, present; Trustee Giertz, present; and Trustee Johnson, present. The meeting started at 3:45 p.m.

APPROVAL OF MINUTES

Trustee John Engstrom presented the minutes from the Audit & Risk Committee meeting of March 11, 2016. Trustee Dennis Cullen made the following motion:

- That the minutes from the March 11, 2016 Audit & 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.

INTERNAL AUDIT UPDATE

Annuity Benefits Processing Audit

Mr. Steve Hayward reported that this was a new audit which tested the accuracy of the monthly annuity pay benefits processing and integrity of the master file. This audit also tested all benefit deductions and automatic annual increases. Also reviewed were the additional health insurance premiums that were withheld due to PA 97-0695 and the subsequent refunds which totaled \$24 million. It was stated that analytical procedures were developed for this audit which allowed for a 100 percent review of some benefit amounts. Internal Audit formed the opinion that the annuity benefit amounts were primarily correct and conformed to the Pension Code and the rules of the system. Mr. Hayward then reviewed some of the findings in detail which noted several over or under paid benefits due to various reasons such as incorrect base annuity amounts, incorrect state funded amounts and re-establishment of one annuity after the retiree terminated his post-retirement work. It was noted that staff had reset all overpaid annuities to the correct amounts, but couldn't seek reimbursement since the problems were due to SURS errors which occurred more than three years ago. Underpaid benefits were reset at the correct amount and annuitants were paid any monies due. It was noted that no errors were found in the withholding or refund processes associated with the PA 97-0695 insurance premiums.

GAAP Audit

The GAAP financial statement review was then discussed with the committee. The Internal Audit department is required to annually audit the GAAP package and financial statement reporting processes in accordance with the "Financial Reporting Standards Board Act" (PA 097-1055). Annually, the state of Illinois issues basic financial statements in accordance with Generally Accepted Accounting Principles (GAAP). In order to obtain the data needed, the comptroller's office requires state agencies to submit a GAAP reporting package for each fund and various other forms related to footnote disclosures and entity-wide transactions. Results of this internal audit are required to be submitted to the Financial Reporting Standards Board. Results from GAAP process review were presented. Internal Audit concluded that there is adequate staffing for preparation of GAAP forms and adequate GAAP package and financial reporting processes exist to ensure the timely and accurate completion of these annual reporting activities. Mr. Hayward also reported there were a few minor findings noted in the audit.

Investment Compliance Audit

Mr. Hayward reported that an Investment Compliance review was recently completed. The objectives of this audit were to review Illinois statutes and to ensure SURS policies and procedures are in compliance. Specifically reviewed were asset allocation and rebalancing policies, valuation of assets in the general ledger accounts, compliance of various mandates such as Sudan divestment laws and public posting of investment managers, statistics, etc. The scope of the examination was for the period ended December 31, 2015. 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.

Employer Audit Update

An update of the employer audit process was presented. It was reported that Sikich was in the process of performing the FY 2016 employer census data audits required as a result of GASB 68. The audit objectives are similar to the FY 2015 objectives and include testing employee census data items such as member name, birthdate, gender, certification date, annual earnings and contributions. It was noted that a risk-based assessment was used to pick the six employers selected for this year's audits. Some field work was reported to have been already completed at some employers and a final report was expected in August.

EXTERNAL AUDIT UPDATE

FY 2016 Scope, Purpose and Schedule Statement

Mr. Hayward provided an external audit update. It was reported that an entrance conference with the Office of the Auditor General and the new auditors from BKD was conducted in May for the FY 2016 financial and compliance audits. The auditors will also conduct census data testing with a few employers. Mr. Hayward briefly reviewed the timeline and noted auditors will be onsite almost continuously until the end of October. It is anticipated that BKD will submit a preliminary report of draft findings to SURS for review in early November and draft reports later in the month. An exit conference is expected to be conducted in December 2016 and final reports should be completed by December 31, 2016.

FY 2015 Compliance Audit Report

The Compliance Audit report for fiscal year 2015 from the Illinois Office of the Auditor General was discussed. The Summary Report Digest noted the compliance examination of SURS was required by the Illinois State Auditing Act. The report was issued April 14, 2016, and included two findings. The census data finding which was also reported in the Financial Statement audit wasn't reviewed. The other finding noted a few insurance premium calculations for staff were found to be incorrect.

Mr. Hayward briefly discussed other parts of the report including the Independent Accountant's Report on State Compliance, on Internal Control Over Compliance, and on Supplementary Information for State Compliance Purposes, as well as the Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards. The auditors express an opinion on compliance; however, they don't express an opinion for internal controls over the financial statement reporting process.

FY 2015 External Audit Recommendation Implementation

Mr. Hayward reviewed the SURS FY 2015 Audit Recommendation Implementation tracking spreadsheet and noted the progress of the recommendations from last year's audit.

FY 2015 Report on Allocation of Pension Amounts

The Allocation of Pension Amounts report for FY 2015 was briefly discussed. It was noted that this report is required by GASB 68. The opinion section of the report states all employer allocations and schedules were presented fairly for FY 2014 and 2015.

GOVERNANCE RISK COMPLIANCE ASSESSMENT SEARCH

Ms. Allison Kushner noted that staff is requesting approval to obtain the services of a professional consultant to conduct a governance, risk and compliance (GRC) assessment and provide recommendations for implementing an integrated GRC program at SURS. The value of an integrated GRC program was then discussed with the committee. It was stated that the current risk processes are currently siloed in each organizational unit and the GRC program would focus on integrating various risk and compliance functions in the organization. It was noted that the GRC consultant would assess the current risk appetite at SURS, analyze areas of exposure and ultimately provide a framework on how to reduce risk exposure and protect SURS. It is believed that the consultant would review inherent and residual risks as part of the assessment process, help to set target risk tolerances and provide a working/living framework to monitor, review and update the GRC program going forward. A brief discussion ensued which covered expected benefits, expenses of the assessment and if other public employee retirement systems were implementing similar frameworks.

Trustee Ammons made the following motion:

- SURS staff should issue a request for proposal to identify governance, risk and compliance professional consultants qualified to conduct a GRC assessment and develop recommendations for implementing a GRC framework at SURS.

Trustee Johnson seconded and the motion carried with all trustees present voting in favor, except for Trustee Cross who opposed.

COMPLIANCE UPDATE

Ms. Kushner then gave a compliance update which included current compliance activity. It was stated that a Compliance Program Scope Statement and Implementation Plan was being developed by her. A review of the FY 2017 Compliance Program followed which indicated six risk-opportunity areas would be created: culture of compliance; organizational policies and procedures; organizational transparency; identification of fraud, waste and abuse; developing an integrated GRC and compliance program and establishing a fraud, waste or abuse helpline. Components of the Compliance Program Communications Strategic Plan were then discussed. Updates were then given on policy development and the creation of an internal fraud working group.

INFORMATION SYSTEMS SECURITY

Mr. Andrew Matthews presented the quarterly IT Security Update for the committee. It was noted that staff has worked to address potential threats through increased monitoring and detection, additional prevention measures and ongoing staff training. Details on current activities to improve IT security were discussed. The current network backbone upgrade will provide a variety of security

enhancements once implemented. An upgrade to security software currently used will add intrusion prevention to the current intrusion detection software already in place. Staff recently completed a disaster recovery planning session which included reactions to several disaster scenarios. Recommendations from a physical security assessment conducted by Elert and Associates were discussed including costs and an implementation plan.

An executive summary of the Annual Security Report was then reviewed with the committee. The six major components of the SURS Security Program include policies and governance, security awareness program, business continuity, risk management, network security assessment and incident response.

INFORMATIONAL ITEMS NOT REQUIRING COMMITTEE ACTION

Mr. Hayward briefly reported on the Internal Audit Recommendation Implementation worksheet and noted that May was Internal Audit Awareness month in the state of Illinois.

PUBLIC COMMENT

There were no public comments presented to the Audit Committee.

Since there was no further business before the committee, Trustee Ammons moved that the meeting be adjourned. The motion was seconded by Trustee Vasquez 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, written over a light gray rectangular background.

Mr. W. Bryan Lewis
Secretary, Board of Trustees

WBL:sh