



MINUTES

**Meeting of the Audit & Risk Committee
of the Board of Trustees of the
State Universities Retirement System
Thursday, September 15, 2016, 4:00 p.m.
State Universities Retirement System
1901 Fox Drive, Main Conference Room
Champaign, Illinois**

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

Others present: Mr. William Mabe, Interim Executive Director; Mr. Andrew Matthews, Chief Operating Officer; Ms. Bianca Green, General Counsel; Mr. Albert Lee, Associate General Counsel; Mr. Steve Hayward, Director of Internal Audit; Ms. Kim Pollitt, Sr. Investment Officer; Mr. Shane Willoughby, Sr. Investment Officer; Ms. Angie Lieb, Director of Member Services; Mr. Doug Steele, Director of IT Applications; Ms. Allison Kushner, Compliance and Governance Officer; Ms. Kristen Houch, Legislative Liaison; Ms. Lori Kern, Ms. Diane Bradford and Ms. Whitney Jones, Executive Assistants; Ms. Mary Pat Burns of Burke, Burns & Pinelli; and Ms. Linda Brookhart of the State Universities Annuitants Association.

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

APPROVAL OF MINUTES

Trustee John Engstrom presented the minutes from the Audit & Risk Committee meeting of June 9, 2016. Trustee Dorinda Miller made the following motion:

- That the minutes from the June 9, 2016 Audit & Risk Committee Meeting be approved as presented.

Trustee Dennis Cullen 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

Retirement Claims Audit

Mr. Steve Hayward presented results from the Retirement Claims Audit. It was noted that this was a mandatory audit which covered a two-year period ending February 29, 2016. Internal Audit formed the opinion that the benefit calculation and payment procedures for the computer calculated retirement benefits adequately conform to the Illinois Pension Code and the rules of the System. One recommendation concerning the use of employer reported return to work salary information was reviewed. Trustee Engstrom noted that management's responses are included in the Committee materials however they aren't part of the official reports.

Information Systems General Controls Audit

Results from the Information Systems General Control Review were presented. This audit focused mainly on physical and logical security, systems development, program promotions and segregation of duties. Mr. Hayward advised that Internal Audit formed the opinion that the information systems general controls reasonably conform to accepted internal control standards. The findings and recommendations were reviewed and it was noted that three of the recommendations related to policy development. It was noted that the executive leadership team recently resumed responsibilities for policy development which should improve the governance issues identified.

Disability Audit

Mr. Hayward reported that the Disability Claims Audit was recently completed covering the two year period that ended June 30, 2016. The main objective of this audit was to determine if disability benefits were calculated in accordance to the Illinois Pension Code and the rules of the system. Internal Audit formed the opinion that the computer calculations of disability benefits reasonably conform to the Illinois Pension Code and the rules of the system. IA was pleased to report that there were no findings or recommendations noted during the audit.

Employer Audit Update

An update of the employer audit process was presented. It was reported that Sikich was nearing the end of the FY 2016 employer census data audits required as a result of GASB 68. A risk-based assessment was used to pick the six employers selected for this year's audits. The six employers audited this year were: Governors State, John Logan, Southern Illinois University, Rend Lake, Waubonsee and the University of Illinois at Chicago. It was reported that most of the audit field work was completed in June, however the U of I work was completed in August. SURS has received draft reports including detailed findings for each employer. Sikich's opinion noted the census, earnings and contributions data were fairly presented and submitted to SURS. After some discussion, it was noted that Sikich does not need to present the FY 16 audit reports at the December Audit & Risk Committee meeting.

Approval of Internal Audit Plan FY 2017 & 2018

Mr. Hayward presented the Internal Audit Plan for FY 17 and 18. It was noted that the two-year plan was derived from a formal risk assessment process which assigns a risk ranking to each auditable area.

Trustee Paul Johnson then made the following motion:

- That the Internal Audit Plan for fiscal year 2017 and 2018 be approved as presented.

Trustee Cullen seconded and the motion carried with all trustees present voting in favor.

EXTERNAL AUDIT UPDATE

Mr. Hayward stated the FY 2016 audits are currently being conducted by BKD. Much of the work centers on the financial statement and the compliance audits; however additional work focuses on the pension liability report and information systems general controls. During the summer, the audit work focused on compliance and information systems. Currently, most of the work is on the financial statements. It was noted that field work should continue through the end of October; Findings should be received in November; Draft reports should be received in December and Final audit reports should be issued in the January/February timeline. A recommendation tracking worksheet summarizing the implementation plans from the FY 15 audits was also reviewed with the Committee.

GOVERNANCE RISK COMPLIANCE UPDATE

Ms. Allison Kushner noted that SURS received proposals from professional consultants to conduct a governance, risk and compliance (GRC) assessment as approved at the June Audit and Risk Committee meeting. It was noted that SURS received proposals from five vendors. SURS staff reviewed the responses from the eligible responders and doesn't recommend hiring a GRC consultant at this time based on the perceived value of the services. Staff will conduct a COSO-based risk self-assessment to determine if any enhancements are needed in this area.

INFORMATION SYSTEMS SECURITY UPDATE

Mr. Andrew Matthews presented the quarterly IT Security Update for the committee. It was noted that staff continues to work on high priority projects in the physical and data security areas. The following security enhancements are planned for the upcoming year: phase II of the backbone upgrade which will involve items such as firewall, intrusion prevention and VPN access; security upgrades for mobile devices such as electronic notebooks used by staff and the board; utilizing a third-party service for the SURS website and business continuity plan; physical building improvements recommended by Elert and Associates and IT strategic planning and risk assessment.

INFORMATIONAL ITEMS NOT REQUIRING COMMITTEE ACTION

Mr. Hayward briefly reported on the FY 16 Audit Completion Report required by the Fiscal Control and Internal Auditing Act. Also highlighted was the Internal Audit Independence memo which annually confirms the organizational independence of the internal audit activity to the board.

PUBLIC COMMENT

There were no public comments presented to the Audit Committee.

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

Respectfully submitted,

A handwritten signature in black ink, appearing to read "William Mabe". The signature is written in a cursive style with a large, sweeping initial "W".

Mr. William Mabe
Secretary, Board of Trustees

WEM:wj