



## MINUTES

**Meeting of the Audit & Risk Committee  
of the Board of Trustees of the  
State Universities Retirement System  
Friday, June 9, 2017, 9:00 a.m.  
Northern Trust  
Global Conference Center – 1<sup>st</sup> Floor  
50 S. LaSalle St., Chicago, IL**

The following trustees were present: Dr. John Engstrom, Chair; Mr. Aaron Ammons, Mr. Mark Cozzi, 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. Martin Noven, Executive Director; Mr. Andrew Matthews, Chief Operating Officer; Ms. Bianca Green, General Counsel; Mr. Douglas Wesley, Chief Investment Officer; Ms. Phyllis Walker, Chief Financial Officer; Mr. Steve Hayward, Director of Internal Audit; Ms. Brenda Dunn, Director of Human Resources; Ms. Kristin Houch, Legislative Liaison; Ms. Kelly Carson, Executive Assistant; Ms. Mary Pat Burns of Burke, Burns & Pinelli; Mr. Frederick Lantz of Sikich; Mr. Cyril Thomas of Sikich; Ms. Patti Summerville-Koulouris of the Northern Trust Company; 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, present; and Trustee Johnson, present.

Trustee Dennis Cullen made the following motion:

- That the trustees be allowed to participate via conference call for all meetings on June 9, 2017, pursuant to Section 7(c) of the Open Meetings Act.

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

## APPROVAL OF MINUTES

Trustee John Engstrom presented the minutes from the Audit & Risk Committee meeting of March 9, 2017. Trustee Aaron Ammons made the following motion:

- That the minutes from the March 9, 2017 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.

## **EMPLOYER AUDITS FY 17**

Mr. Frederick Lantz and Mr. Cyril Thomas from Sikich presented the results of the seven employer audits they completed for FY 17. Sikich tested census data for the following employers: College of Lake County, Elgin Community College, Heartland Community College, Illinois State University, Kishwaukee College, McHenry College and the University of Illinois Urbana - Champaign. The census data that was verified included date of birth, date of hire, gender, name, Social Security number, eligible compensation, contributions and dates of leave or termination. The overall audit report opined that the census data and earnings and contribution data for the seven employers were presented fairly in all material respects. Findings summaries were presented for each of the employers audited. It was noted that SURS has not received the employer contribution directly from community college employers for employees who are paid by state grants. This issue is being analyzed by SURS staff and additional research is needed in this area.

## **INTERNAL AUDIT UPDATE**

### **Staff Payroll Audit**

Mr. Steve Hayward presented the results of the staff payroll audit and stated that this audit covered the pay of SURS 121 full-time employees. Mr. Hayward noted 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 and payment procedures for the staff payroll functions, Internal Audit noted some errors and suggestions for improvement, which are listed in the findings section of the audit report. Some of the findings were reviewed in detail for the committee. 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.

### **GAAP Audit**

Mr. Hayward then discussed the Generally Accepted Accounting Principles (GAAP) process review stating the State Universities Retirement System's 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) which became effective 8/23/12. Annually, the state of Illinois issues basic financial statements in accordance with the GAAP. In order to obtain the data needed, the Comptroller's Office requires state agencies to submit a GAAP reporting package for each fund in which the agency has activity 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. Mr. Hayward stated this was the fifth audit of this process which is required annually until June 2017.

Results from the GAAP process review were presented. Mr. Hayward reported that Internal Audit examined the GAAP and financial statement reporting processes for the period July 1, 2015, to June 30, 2016. Mr. Hayward noted that although there was one finding, Internal Audit formed the opinion 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.

### **EXTERNAL AUDIT UPDATE**

#### **FY 17 Scope, Purpose & Schedule Statement**

Mr. Hayward provided an external audit update reporting that an entrance conference with the Office of the Auditor General and the auditors from BKD was conducted on April 25, 2017, for the FY 17 financial and compliance audits. As usual, the scope includes three separate audits: a financial statement audit, compliance audit and a financial audit on the schedule of employer allocations. Mr. Hayward briefly reviewed the timeline and noted that BKD auditors will be onsite almost continuously until the beginning of November. It is anticipated that BKD will submit a preliminary report of draft findings to SURS for review and Internal Audit will report those to the board at the December meeting.

#### **FY 16 Compliance Audit Report**

Mr. Hayward then reviewed the Compliance Examination results and Summary Report Digest issued by the Auditor General's office on April 12, 2017. The digest covered the highlights of the Compliance Examination of SURS for the year ended June 30, 2016, as required by the Illinois State Auditing Act. All findings were discussed amongst the committee and updates were given on SURS responses and implementation actions.

#### **FY 16 External Audit Recommendation Implementation**

Mr. Hayward reviewed the SURS FY 2016 Audit Recommendation Implementation tracking spreadsheet and noted the progress of the recommendations from last year's audit.

### **INFORMATION SYSTEMS SECURITY UPDATE**

Mr. Andrew Matthews updated the committee on IT security work making note of four key items; phase II backbone upgrade, external IT audit, annual business continuity exercise and network penetration testing. He reported that the business continuity exercise that simulated a data breach scenario went well and a few changes may be made as a result of the exercise. SURS recently signed a contract with an external vendor to perform the penetration testing during the upcoming fiscal year.

### **INFORMATIONAL ITEMS NOT REQUIRING COMMITTEE ACTION**

Mr. Hayward provided the Internal Audit Plan Progress report, the Internal Audit Recommendation Tracking Worksheet, Internal Audit Recommendation Implementation Detail and the Death Match report for reference. Mr. Hayward also informed the committee that the governor proclaimed the month of May as International Internal Audit Awareness Month.

### **PUBLIC COMMENT**

There were no public comments presented to the Audit Committee.

There was no further business before the committee and Trustee Ammons moved that the meeting be adjourned. The motion was seconded by Trustee Paul RT Johnson and carried with all trustees present voting in favor.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'M. Noven', with a long horizontal flourish extending to the right.

Mr. Martin Noven  
Secretary, Board of Trustees

MMN:kc