



**Meeting of the Audit & Risk Committee
of the Board of Trustees of the
State Universities Retirement System
Friday, March 8, 2019, 9:00 a.m.
State Universities Retirement System
Main Conference Room
1901 Fox Dr., Champaign, Illinois**

The following trustees were present: Dr. John Engstrom, Chair; Mr. Aaron Ammons, Dr. Fred Giertz, Mr. Craig McCrohon, Dr. Steven Rock, and Mr. Collin Van Meter

Others present: Mr. Martin Noven, Executive Director; Ms. Bianca Green, General Counsel; Mr. Doug Wesley, CIO; Mr. Albert Lee, Associate General Counsel; Mr. Steve Hayward, Director of Internal Audit; Mr. Doug Taylor, Internal Auditor; Mr. Jefferey Saiger, Chief Technology Officer; Ms. Tara Myers, Chief Financial Officer; Ms. Suzanne Mayer, Chief Benefits Officer; Ms. Brenda Dunn, Director of Human Resources; Ms. Kristen Houch, Legislative Liaison; Ms. Kelly Carson and Ms. Annette Ackerman, Executive Assistants; and Mr. Timothy Spila.

Audit & Risk Committee roll call attendance was taken. Trustee Ammons, present; Trustee Engstrom, present; Trustee Rock, present; Trustee Van Meter, present; and Trustee Vasquez, absent.

Trustee Vasquez joined the meeting via conference call at 9:12 a.m.

APPROVAL OF MINUTES

Trustee John Engstrom presented the minutes from the Audit & Risk Committee meeting of September 13, 2018, and December 6, 2018.

Trustee Steven Rock made the following motion:

- That the minutes from the September 13, 2018 Audit & Risk Committee Meeting be approved as presented.
- That the minutes from the December 6, 2018 Audit & Risk Committee Meeting be approved as presented.

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

APPROVAL OF CLOSED SESSION MINUTES

Trustee Engstrom presented the closed session minutes from the Audit & Risk Committee meeting of September 13, 2018.

Trustee Van Meter made the following motion:

- That the closed session minutes from the September 13, 2018 Audit & Risk Committee Meeting be approved as presented and remain closed.

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

CHAIRPERSON'S REPORT

Trustee Engstrom did not have a chairperson's report.

EXTERNAL AUDIT UPDATE

FY 2018 Compliance Audit Report Digest & Summary

Mr. Steve Hayward provided the SURS compliance examination report issued February 14, 2019, by the Office of the Auditor General (OAG) for the year ending June 30, 2018. Mr. Hayward briefly reviewed details on one repeat finding, which had already been reported and discussed in prior meetings. Mr. Hayward also discussed immaterial findings and noted that those findings are not released to the public. Mr. Hayward reviewed various sections of the compliance report and explained the objectives of the compliance review are to make sure SURS is in accordance with the law and rules of the system. It was also noted that the opinion section indicated that SURS complied, in all material respects, with the compliance requirements set by the auditors.

FY 2018 Financial Report Digest & Opinion

Mr. Hayward reviewed the FY 2018 Financial Audit Report & Supplemental Summary Report Digest, issued in January 2019 by the Office of the Auditor General. It was noted the digest provides a summary of the audit of SURS' financial statements each year and includes any significant findings. No findings were included in this report. Other sections of the Financial Audit Report were reviewed with the committee. The opinion section indicated that the SURS financial statement for the year ended June 30, 2018, were fairly stated in all material respects.

FY2018 Report on Allocation of Pension Amounts

Mr. Hayward discussed the FY 2018 OAG audit report on the pension allocation schedules provided by BKD for the year ended June 30, 2018. This report and related schedules show the pension liability totals. The auditors opined that the schedules present fairly, in all material respects, the employer allocations for the year ended June 30, 2018, in accordance with the accounting principles generally accepted in the United States.

Required AU-C 260 Communications to Board

Mr. Hayward reviewed the Required AU-C 260 Communications Report prepared by BKD that summarizes communications with the board. Generally Accepted Auditing Standards require this

letter to the board to ensure there are two-way communications between the board and auditors and to give the auditors an opportunity to comment on any problems noted during the audit. The report indicated that no problems, issues or difficulties were encountered with SURS management during the audit process.

INTERNAL AUDIT

Refund Claims Audit

Mr. Doug Taylor reviewed the Refund Claims Audit. This audit reviewed the processes and procedures for the calculation and payment of separation refunds, as well as the check writing process for the period between 10/1/2016 and 10/31/2018. No issues were identified and internal audit opined that the computer calculations of the separation refund payments reasonably conform to the Illinois Pension Code and the rules of the system.

Portable Refund Claims Audit

Mr. Taylor reviewed the Portable Refund and Lump-Sum Retirement Claims Audit. This audit reviewed the processes and procedures for the calculation and payment of portable refunds and lump-sum retirements for the period 10/1/2016 through 10/31/2018. 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 opined that the payment procedures for portable refunds and lump-sum retirement claims are adequate.

Staff Payroll Audit

Mr. Hayward presented the results of the staff payroll audit and stated that this audit covered the payroll functions for SURS' 132 full-time employees. Mr. Hayward noted that the audit objectives were to determine whether the accounting and the payment procedures for the staff payroll functions conform to the statutes, to the rules of the State Universities Civil Service System and to the policies and procedures of SURS.

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

Buyout Table Audit

Mr. Hayward provided an update regarding the recent audit of the actuarial tables for the two current buyout options; the vested and inactive pension benefits buyout and the Automatic Annual Increase buyout. In December, SURS selected Segal Consulting to conduct an independent review of the completeness and accuracy of the calculations of the buyout factor tables developed by GRS. Mr. Hayward discussed the methods, assumptions and benefit provisions used to develop the

buyout factor tables and he also provided a summary of findings, recommendations and conclusions provided by Segal. At the end of the presentation, Ms. Suzanne Mayer, Mr. Martin Noven and Kristen Houch addressed questions raised by trustees regarding the buyout audit report and the buyout program implementation.

Internal Quality Assurance Review

Mr. Hayward then presented the results from the Internal Audit Department's internal Quality Assurance Review (QAR). This type of review is required to be performed at least every five years in accordance with the professional auditing standards issued by the Institute of Internal Auditors (IIA). The objectives of the review were to evaluate the department's compliance with IIA Standards, Code of Ethics and Definition of Internal Auditing. Other primary objectives were to evaluate compliance with the Fiscal Control and Internal Auditing Act (FCIAA) and SURS' Internal Audit policies and procedures. The opinion statement noted that SURS internal audit activity generally conforms to the IIA Standards, Code of Ethics and Definition of Internal Auditing and also complies with the FCIAA. It was noted that the review identified a few changes needed in the SURS Internal Audit, policies and procedures manual and the revised document would be presented at the June 2019 meeting.

Travel & Administrative Expense Audit

Results from the Travel and Administrative Expense Audit were presented by Mr. Taylor for the examination period 1-1-18 through 1-31-19. Although a few minor errors were found in the travel area, internal audit opined that the approval, payment and purchasing functions associated with the travel and administration expenses reasonably conform to the higher education travel statutes, to the SURS travel and purchasing administrative rules and to policies and any other applicable rules of the state of Illinois. Details on the findings noted were also reviewed.

Employer Audit Update

A brief update was given by Mr. Hayward regarding the status of the employer audits currently being completed by Sikich. It was noted that Sikich began these audits in January and plan to complete their onsite fieldwork in March. SURS expects to receive draft audit reports in May with a final report in late May or early June. Final reports are expected to be completed in time for the June Audit Committee meeting.

INFORMATION SYSTEMS SECURITY UPDATE

CLOSED SESSION

Trustee Craig McCrohon moved that the Audit & Risk Committee go into closed session pursuant to §2(c)(29) of the Open Meetings Act to discuss internal control weakness. Trustee Aaron Ammons seconded and the motion carried in a roll call vote:

Trustee Ammons	-	aye
Trustee Engstrom	-	aye
Trustee Rock	-	aye

Trustee Van Meter - aye
Trustee Vasquez - aye

RETURN TO OPEN SESSION

Upon a motion by Trustee Van Meter and seconded by Trustee Rock, the motion carried and the Audit & Risk Committee resumed its meeting in open session.

INFORMATIONAL ITEMS NOT REQUIRING COMMITTEE ACTION

Mr. Hayward guided trustees to the back of their materials which provide information regarding the IIA required Quality Assurance Program Report, Disability Benefits Response, Fixed Assets Response and the Death Match Report. Trustee Engstrom informed the board of Mr. Hayward's upcoming June 1 retirement and thanked him for all his years of service.

PUBLIC COMMENT

There were no public comments presented to the Audit Committee.

There was no further business before the committee and Trustee Giertz moved that the meeting be adjourned. The motion was seconded by Trustee Van Meter 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