

**MINUTES OF THE AUDIT & COMPLIANCE COMMITTEE MEETING**

October 27, 2015

The Audit and Compliance Committee convened on Tuesday, October 27, 2015 at 9:00 a.m. in the System's Springfield office with a videoconference location at the Bilandic Building in Chicago.

The Committee moved and approved the minutes of the July 14, 2015 Audit and Compliance Committee meeting. CIA Evans discussed the on-going external audit financial and compliance audit which is currently underway. The auditors are still completing work on site, however SERS is aware of one potential compliance issue as it relates to Trustee training required by the Pension Code in which Trustees must receive 8 hours of annual training and a certification must be provided to the Division of Insurance. An update will be given during the January 2016 committee meeting after draft copies of the audit reports are provided.

CIA Evans stated during July and August, he worked on an audit covering the NCPERS Voluntary Life Insurance Program that is promoted by SERS, but administered by a third party. During this audit, it was reported that 362 decedents exist in which a life insurance claim has not been filed with the administrator. Using the participant's age at death, it was possible to determine the unclaimed amount due to beneficiaries totaled \$2.18 million. Although SERS was providing monthly death reports to the plan administrator it did not appear that the administrator had made reasonable efforts to track down beneficiaries or notify SERS in an effort to reduce unclaimed benefits. Several recommendations were provided to reduce the overall number of unclaimed NCPERS life insurance benefits.

CIA Evans explained that during January 2015, he performed a consultation regarding benefit recipients residing outside of the United States. During this consultation, it was recommended that the Claims Division send alive and well correspondences which would provide assurance that all benefit recipients were living and receiving SERS mailings. Recipients were asked to complete a notarized verification form and provide a copy of a current valid ID or passport. The Claims Division mailed 100 out of country certifications to benefit recipients during Feb-Apr. 2015. As of this meeting date, the Claims Division has suspended 5 benefits totaling \$6,505 monthly or \$78,060 annually due to no reply from the benefit recipients. Two recipients reside in Puerto Rico and the others reside in Israel, Panama and Japan. This pilot project will remain an important annual exercise as it is likely the several death matches that SERS already utilizes would not detect deaths reported outside of the United States. It was noted that the Claims Division did an excellent job in taking on this project, tracking replies and working with benefit recipients to ensure continued eligibility.

Following the Disability Fraud Assessment performed in June, CIA Evans worked to implement a benefit fraud reporting hotline and email address. The CIA and Disability Supervisor lead a disability fraud roundtable at the pension systems' reciprocal conference and presented information on pension system fraud to promote the new fraud reporting methods during 3 retirement coordinator workshops and 2 webinars. Various staff within SERS have been involved in reviewing current disability procedures, rules, and the modernization of the disability processes and computer systems which will increase efficiencies and deter fraud.

During October, CIA Evans reviewed disability earnings reports provided to SERS by the Department of Employment Security to better understand the processes taken by the disability section to uncover gainful employment of disability recipients. During this review, internal audit noted one disability recipient that may be gainfully self-employed after performing some initial analysis and further background. This could potentially be an instance of fraud as the member has not reported any self-employment income to SERS during previous disability certifications. The member's information was provided to the Claims Division and is currently being investigated. Management and the Committee will be informed of the investigation's progress during subsequent meetings.

The Committee received a summary of the internal audit plan in effect for FY2016-2017 and moved to approve the plan as presented. The Audit and Compliance Committee adjourned at 10 a.m. to begin the scheduled Board of Trustees meeting. The next scheduled meeting of the committee will be Tuesday, January 12, 2016 at 9:00 a.m.