

MINUTES OF THE AUDIT & COMPLIANCE COMMITTEE MEETING

January 12, 2016

The Audit and Compliance Committee convened on Tuesday, January 12, 2016 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 October 27, 2015 Audit and Compliance Committee meeting. CIA Evans discussed the recently released external financial audit report including two material audit findings and one prior year finding that was not repeated. The System's compliance examination will be released in the spring of 2016 and the Board should expect the two findings in the financial audit report to be carried over to the compliance examination. In addition, CIA Evans explained that another compliance finding will likely be drafted as it relates to Trustee training required by the Pension Code. It was further explained that the Code requires Trustees to receive 8 hours of annual training and a certification must be provided to the Division of Insurance. An update will be given during the April board meeting at which time the System expects it will receive the full compliance report.

CIA Evans discussed recently completed internal audit projects including a petty cash and purchasing card audit covering FY2015 and FY2016. During this audit, one immaterial audit finding was provided which pertained to improving petty cash and purchasing card procedures. Five recommendations were provided which included developing new procedures, drafting a purchase card usage policy, documenting monthly reviews of statements and reconciliation, implementing a pre-approval process for purchasing card transaction and destroying historical records in accordance with the State Records Act. CIA Evans notes that the Administrative Service Division began implementing these recommendations.

CIA Evans moved on to discuss a recent benefit review involving a minor surviving child. It was explained that when internal audit reviewed outstanding and escheated warrants, it was noted that one minor surviving child had several outstanding benefit checks that had not been cashed. After performing some background, the internal auditor determined that the benefit had been suspended by staff due to the minor's failure to return continuing eligibility documents. Further, it was found that the address in which all correspondences and benefit payments were being sent to was that of a law firm that was handling the deceased member's estate on behalf of that minor. This law firm was now defunct and the firm never cashed any of the 12 the benefit checks that totaled over \$12,000. Upon learning this information, the internal auditor notified the Claims Division of this issue, and contact was made with the minor's current guardian to reinstate the benefits and reissue the checks that previously escheated.

CIA Evans discussed two recent allegations of benefit fraud received through the fraud hotline and further information was provided regarding ongoing benefit investigations. The committee received an update on current internal audit projects including an audit of State Property and Equipment that is nearing completion. Projects taking place in the spring of 2016, were discussed including the annual internal control certification and risk assessment. Finally, the group discussed the planning and first census data audit of SERS that will be completed in an effort to remedy the prior year audit finding and to provide assurance on the accuracy of the membership database.



OFFICE OF INTERNAL AUDIT

In discussion of old business, Trustee Friedman inquired to the developments since the voluntary life insurance audit was completed. CIA Evans stated unclaimed life insurance benefits exist which beneficiaries would be entitled to through filing of claims with the plan administrator. The Board will be provided periodic updates on the follow-up from this project. Seeing there was no new business, 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, April 19, 2016 at 9:00 a.m.