

MINUTES OF THE AUDIT & COMPLIANCE COMMITTEE MEETING

April 19, 2016

The Audit and Compliance Committee convened on Tuesday, April 19, 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 January 12, 2016 Audit and Compliance Committee meeting. CIA Evans discussed the recently released compliance audit report which contained 3 audit findings and stated that the external auditors would return in May to begin the FY2016 audit.

The Committee discussed a recently completed internal audit covering the System's property and equipment. The CIA noted that this was a very favorable audit with no findings, however the CIA did note the need for staff to archive or destroy records that were being held longer than their record retention period. The Executive Secretary discussed the plan for staff to review storage areas and perform clean-up work as necessary.

The Chief Internal Auditor discussed an ongoing project in which outstanding and escheated warrants have been reviewed. During this continued project, the CIA noted that management had determined that if four or more outstanding checks, known as warrants, remained outstanding, staff would attempt to contact the member to suggest direct deposit and inform them that they should hold no more than 4 outstanding checks to avoid suspension. Failure to respond to Claims mailings or reduce the number of outstanding checks would result in benefit suspension. From this project, 9 benefit recipients were suspended of the 78 individuals contacted due to failure to comply. Subsequently, 5 of the benefit recipients were reinstated, while 3 remain suspended and one recipient was recently passed away. The CIA noted the importance of investigating why multiple warrants remain outstanding or are escheating, which could be due to death, lost or misplaced checks, or possibly a bad address.

The CIA spoke to the Committee that it may be advisable to consider mandatory direct deposit for reoccurring benefit payments as this practice has many positive benefits. It was also noted that this is the practice of the U.S. Government for reoccurring benefit payments including that of the Social Security Administration. The group discussed if the mandatory direct deposit policy needed to be adopted during the meeting, in which it was determined that a policy would need to be research, drafted, considered and approved in the Executive Committee.

The Committee discussed recently completed census data audits in which CIA Evans explained the audits completed for the Judges' and General Assembly Retirement Systems. The audits were performed to ensure certain demographical and financial information maintained by SRS and utilized by the System's actuary was accurate. During these audits, no findings were drafted. CIA Evans noted that the Accounting Division is currently working to perform a similar audit of SERS Census Data which he hopes will remedy the prior year finding.

CIA Evans discussed a project in which he was asked by management to review the eligibility of all candidates seeking the annuitant trustee position. During this project, the CIA was responsible for reviewing the candidacy documents and the submitted petitions for the required number of signatures to determine eligibility. During this review, the CIA noted that of the three annuitants submitting petitions for candidacy, only two were eligible as one annuitant candidate did not collect the required number of petition signatures. The remaining two annuitants collected the required number of petition signatures and are eligible for the election. The CIA also noted all three of the active member trustee candidates are eligible as they have

received the required number of petition signatures, submitted all candidacy documents and meet eligibility requirements. Finally, all election results would be reviewed at the State Board of Elections in June.

The Committee discussed various disability investigations in which the CIA recapped a recent executive committee decision to suspend disability benefits due to gainful employment. CIA Evans explained that there is currently disability recipients that are being reviewed for suspected gainful employment that may make them ineligible for benefits.

The CIA also noted that currently he is working on wrapping up the System's Annual Internal Control Certification that is required by April 30th each year by statute. This certification will be submitted to the Office of the Auditor General ahead of that deadline. The CIA was also asked by the Accounting Division Manager to review the member contribution billing process to ensure that sharing of job duties amongst staff would not create any segregation of duties issues. The CIA also discussed upcoming audits which included the GAAP process audit, an audit of operating expenditures, an audit of personnel and payroll, a procurement audit and an external quality review.

The Executive Secretary discussed the plan to post an internal auditor staff position to assist the Chief Internal Auditor with audit work. After discussion, the Committee endorsed the need to hire additional staff in internal audit.

Seeing that there was no new business or old business for discussion, 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 Wednesday, July 13, 2016 at 9:00 a.m.