

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

October 27, 2016

The Audit and Compliance Committee convened on Thursday, October 27, 2016 at 9:00 a.m. in the System's Springfield office with a videoconference location at the Bilandic Building in Chicago.

A quorum of the committee members was present. The Committee approved the minutes from the July 13, 2016 Audit and Compliance Committee meeting. CIA Evans began the meeting with discussion of the external audit. The auditors of RSM US, LLP continue to work on the external audit and to date, no findings have been discussed but the System should have a better understanding of any financial audit findings to report during the January 2017 meeting. CIA explained a couple of noted issues during the audit. First, the external auditors performed after-hours walkthroughs of the SERS office to determine the security and control of personally identifiable information. During these walkthroughs the auditors noted confidential information was often times located in staff filing cabinets or desk drawers, however they were not always locked. In other instances, personally identifiable information was left in plain view on desks or in filing folders. Management was informed of the issues and took action by ordering keys for staff that did not already have keys to lock his or her drawers. In addition, manager offices were equipped with lockable office doors so each office can be locked after hours. Finally, staff was informed of the importance of locking up personally identifiable information each evening. CIA Evans noted that more sensitive business areas such as the Executive Offices, the Accounting Division, the files room, and the server room is locked each evening.

The external auditors also located personally identifiable member information in the System's internal IT help desk system. This was primarily attributable to staff submitting help desk tickets with member names along with identifying social security numbers to the IT Division that needed further review due to account problems. It was noted that staff should have used the member's identification number as a secure identifier. Upon learning of this, the CIA worked with staff to identify instances where help desk tickets should be purged from the system or required redaction. Staff was also reminded to use the member's identification number when submitting help desk tickets.

The Committee moved on to discuss recently completed internal audit projects which included an audit of operational expenditures and the annual audit completion report which is required by the Fiscal Control and Internal Audit Act. During the audit one finding was drafted related to travel vouchers. The finding noted that the travel vouchers did not always contain the trip departure and arrival times for each instance of travel. While this is a common issue that is encountered during travel voucher testing, it is a requirement per the Comptroller's Accounting Manual (SAMS Manual). It was noted this finding can be easily corrected going forward. No other findings were provided during this audit.

During the July committee meeting, CIA Evans was asked to provide a follow-up report on the number of delinquent performance evaluations noted in the personnel and payroll audit. It was noted that while improvements have been made, still 20 performance evaluation remain outstanding. It was noted that it appears that some individuals have several staff members that directly report to them which results in several annual performance evaluations. In addition, it was pointed out that Division managers can view upcoming and overdue performance evaluations through the SRS Central application.

The Committee moved on to discuss reviews and background performed by internal audit regarding the IRS required minimum distribution rules. CIA explained the required minimum distribution rule and noted that several of the public pension systems are forcing a refund or distribution when the member reaches age

seventy and a half year of age. Currently, the System notifies members of the required distribution before he or she reaches age seventy and a half years of age. Compliance with this IRS rule is important because noncompliance can result in a 50% excise tax for the member and significant noncompliance could jeopardize the plan's tax qualified status. SERS has recently drafted an Administrative Rule to address the IRS rules and the forced distribution. This is also important to the System because it removes some inactive member liabilities off of the books and prevents further interest accruing on these accounts. The CIA agreed to provide an additional update on the required minimum distributions during the next scheduled committee meeting.

The Committee briefly discussed recently disability cases that are being reviewed. CIA Evans discussed current disability recipients that are being given a closer look based on information discovered about his or her gainful employment. The Committee discussed when is a member considered gainfully employed, as it is possible that an individual could invest in a business and be a passive business partner that would not be directly participating in generating income for that business. It was agreed that each instance of suspected gainful employment is unique and requires gathering of information so that SERS has a complete understanding of each individual's situation. CIA Evans also noted that the System is looking into obtaining disability surveillance services and could possibly request income tax returns from disability recipients living out of State to detect gainful employment in calendar year 2017.

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 Tuesday, January 10, 2017 at 9:00 a.m.