

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

January 10, 2017

## Members Present:

David Morris, Vice Chairperson  
Renee Friedman, Appointed Trustee  
Loren Iglarsh, SERS Retiree

## Others in attendance:

Tim Blair, Executive Secretary  
Casey Evans, Chief Internal  
Staceyann Cabey-Kaufmann, Internal Auditor

The Audit and Compliance Committee convened on Tuesday, January 10, 2017 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 October 27, 2016 Audit and Compliance Committee meeting. CIA Evans began the meeting with first introducing Staceyann Cabey-Kaufmann to the Committee. Stacey recently joined SERS to assist in completion of internal audits. Stacey previously worked in the Illinois Department of Transportation's Internal Audit Division. Ms. Cabey-Kaufmann had the opportunity to greet the group and provide some background on her career as an auditor.

The Committee discussed the ongoing external financial audit report and compliance examination. CIA Evans stated the auditors were working to finalize the financial audit report which should be released in the coming weeks. The System expects a clean audit opinion on the SERS financial statements and expects one financial audit finding that will also be reported in the compliance examination regarding not completing all required internal audits. CIA Evans noted that he expects that adding Stacey will help in remedying this finding in the future while her addition also provides continuity to the internal audit function. CIA Evans stated at the current, potential audit findings have not been delivered for the external compliance examination, however he would be in a better position to inform the committee of the findings during the April meeting as the external auditors draft potential audit findings and discuss these with him.

The group began discussing recently completed internal audit projects including a review of the Alternative Retirement Cancellation Payment (ARCP). This program offered during 2004-2006 allowed members essentially a buyout option to terminate employment with the State and cease participation in the retirement plan. In exchange for the member's resignation from State service, he or she would receive a payment equal to two times the member's contributions and interest posted to their SERS account. This payment is drastically different than the contribution refund typically issued by SERS which consists of solely the member's contributions and no creditable interest. Provisions within the Pension Code states that should a member re-enter the State workforce after taking the ARCP payment, then the member must repay the ARCP excess benefit in order to receive any future retirement, survivor, disability or death benefits from SERS.

In the CIA's review of this program, he found that of the 1,084 members participating in this program, a small population of 21 members took this payment option and have subsequently re-entered the State workforce. In review of the program, the CIA determined that it appears members were generally unaware

of the provisions surrounding the ARCP payment as many of these members believe the ARCP repayment would allow him or her to re-establish forfeited service, when in fact this was not the case. A few of the members in this small sample were also nearing retirement eligibility, however they would be prevented from retiring due to non-payment of the ARCP portion that they previously received. In addition, it was found that currently 4 members are under bankruptcy protection and therefore the System is prevented from collecting on these delinquent accounts. The current receivable balance of this population is \$442,391 while \$166,914 of this balance is attributable to those members that are under bankruptcy protection.

From this review, management realized the need to communicate with members who previously received the ARCP payment and have re-entered State service. During December 2016, the System drafted and mailed letters to the ARCP participants to notify each member of their current ARCP repayment balance, the importance of completing the ARCP re-payment before retirement, and the process by which SERS will collect the ARCP repayment from any future death benefits. Recipients of this letter were also directed to call SERS' Benefit Support Section with any questions pertaining to their ARCP repayment. CIA Evans noted many of the ARCP recipients returning to work were on repayment contracts with repayment periods of five years or less.

The Committee briefly discussed required minimum distributions required by the IRS Code which was previously discussed during the October committee meeting. CIA Evans noted management is anticipating the draft rules pertaining to the required minimum distributions going into effect in the near future. This Rule would essentially allow the System to contact members prior to obtaining the seventy and half age requirement and inform them of their option to apply for a retirement annuity if vested, or the necessity of applying for a refund of contributions. If the member did not adequately respond to SERS correspondences, then SERS would force the refund of contributions in order to make a reasonable and good faith effort in complying with the IRS Code. CIA Evans clarified that this would not affect any active SERS members or members active in a reciprocal fund that are greater than seventy and a half years of age. This new practice allows the System greater assurance that it is complying with the IRS Code, while also potentially reducing the liability associated with inactive members.

CIA Evans closed his remarks with discussing potential improvements that have been identified through learning more about System processes and practices. Many of the potential improvements related to inactive and deceased member management, monitoring of claims receivable balances, and newly suggested internal controls and practices related to disability claims. Further, internal audit is currently working on completing an audit covering SRS purchasing and procurement and will then begin work on a much larger project covering optional service purchases and refunds.

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, April 25, 2017 at 9:00 a.m.