

MINUTES OF THE AUDIT & COMPLIANCE COMMITTEE MEETING

April 25, 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 Auditor
Staceyann Cabey-Kaufmann, Internal Auditor

The Audit and Compliance Committee convened on Tuesday, April 25, 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. Seeing that there were no public comments, the Committee moved to approve the minutes from the January 10, 2017 Audit and Compliance Committee meeting. CIA Evans began the meeting first discussing recent internal audit reports and projects.

A recently completed audit of optional service purchases and member contribution refunds was discussed. Internal Audit sampled 40 optional service purchases and 60 member contribution refunds occurring in Fiscal Year 2017 through February 1, 2017. The objectives of the audit included reviewing the accuracy and internal controls related to service purchases and refunds while also examining the business continuity, succession planning, and member education efforts.

From the audit work performed, three findings were drafted. Internal audit noted weaknesses in optional service purchases finding errors in 2 of the 40 (5%) of the transactions tested which resulted in the member underpaying the system for optional service purchases. In addition, internal audit noted that membership service transfers for downstate police resulted in the member's contributions being understated on the member's account due to staff calculation errors, and in one instance a member should have been billed for contributions and interest owed to the System but was not. Management stated that staff would review optional service purchases and membership transfers and bill members for any contributions or interest due from optional service purchases.

The audit also pointed to the need for the Service and Refunds Division to exercise good business continuity efforts to ensure that staff is capable of performing all job functions, procedures are well documented, and that rotation of job duties resumes. This finding stemmed from inquiries with staff in which it was found procedures were at times lacking and that certain staff had become specialized in their job functions. CIA Evans explained that it was necessary to encourage these practices to ensure staff is well-rounded and can complete certain job functions when separations, retirements, or extended staff leaves occur.

Finally, the third finding related to current policy which did not require members to submit photo identifications to receive termination refunds that were of high dollar value. Per current policy, photo identification was only being requested from the member in instances when he or she was separated from State payroll for more than one year and the refund was more than \$5,000. Internal Audit recommended the Division set a dollar threshold in which all refund applicants, regardless of time since separation from the State, would have to have their refund application notarized to substantiate the member's identity. This

appears to be a similar practice used by peer public pension funds. Management agreed with the recommendation and would work towards implementation.

The Committee began discussion of a released internal audit covering the Systems' purchasing and procurement function covering fiscal years FY2016 to FY2017. The purpose of the audit was to determine the Systems complied with the internal and external compliance requirements while exercising good fiscal responsibility in the procurement of goods and services. Internal Audit sampled nearly 17% of the entire contractual service expenditures and over \$4.4 million in contracts during this time period for testing. No findings were drafted for this audit but recommendations were provided for management's consideration. CIA Evans noted one recommendation pertained to the need to ensure all data sharing agreements in place contain provisions to reflect changes to the State's Personal Information Protection Act. In addition, Internal Audit also suggested management review the fiduciary insurance policy held by the System for possible adjustment of coverage. These recommendations have been given attention by staff and are in the process of being implemented.

CIA Evans noted that as a follow-up from previous discussion, staff has begun processing the forced member refunds to provide assurance that the System fully complies with the IRS' required minimum distribution provisions. This was important because it not only helps ensure the Systems' compliance with the Internal Revenue Code, but it also aids in maintenance of inactive member accounts, potentially decreases some liability related to inactive members, and may help ensure monies do not go unclaimed by these members.

In discussing upcoming work, the Committee inquired as to upcoming or current IT projects with Internal Audit's involvement. CIA Evans noted that both he and Stacey were actively testing the Judges' and General Assembly Retirement Systems' benefit setup module which would be a starting point for the eventual build out of the similar benefit setup module for SERS. Throughout this process, the internal auditors have been involved in several meetings while providing feedback and consultation. Internal audit is reviewing current internal controls and access rights in the benefit setup module and is also working sample retirement cases provided by the IT Division. JRS and GARS staff is also performing similar user acceptance testing to ensure the system will operate as intended. CIA Evans noted that during the July meeting an update would be provided on this development and future IT developments that will be reviewed.

Internal Audit will also be working on two larger projects during the spring and summer of 2017, including audits of survivor and death benefits and an audit of cash receipts and accounts receivables. It was noted that the survivor benefits audit would include recalculations of the retirement annuity and survivor annuity amounts to substantiate the accuracy of the benefits being provided. The audit of cash receipt and accounts receivables would examine the accuracy and record keeping of these asset accounts. In addition, a focus would be placed on reviewing accounts that may be delinquent or should be considered for write-off based on the inability to collect on these bad debts.

SERS has not received any recent allegations of disability fraud or abuse, however the Disability Section did notify Internal Audit that the Illinois Department of Transportation and the Attorney General are currently reviewing one disability recipient for possible gainful employment while on disability. From discussion with the disability supervisor, it appears that future subpoenas or requests may be forthcoming for the member to produce documentation. SERS disability will continue to monitor this case and will be informed by these other State agencies of action taken.

CIA Evans noted the external auditors would be beginning their work on the FY2017 external financial audit and compliance examination. Preliminary discussions and meetings have been held and the auditors are expected to be onsite beginning in the month of May. Updates on the external audit will be provided to the Committee during each meeting throughout the fiscal year.

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