

MINUTES OF THE AUDIT & COMPLIANCE COMMITTEE MEETING  
October 31, 2017

Members Present:

David Morris, Vice Chairperson  
Loren Iglarsh, SERS Retiree

Others in attendance:

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

Members Absent:

Renee Friedman, Appointed Trustee

The Audit and Compliance Committee convened on Tuesday, October 31, 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, Mr. Iglarsh moved to approve the minutes from the April 25, 2017, Audit and Compliance Committee meeting with Vice Chairperson Morris seconding the motion.

CIA Evans began the meeting by discussing internal audits recently completed. The first project discussed was an audit covering the Qualified Illinois Domestic Relations Order (QILDRO). During this project, the auditors tested QILDRO transactions for accuracy of payments and overall compliance with the Illinois Pension Code. During this audit, several good internal controls were reported and generally, the System complies with the Pension Code's provisions covering the administration of benefits due to a valid QILDRO. One finding was reported in which a system limitation exists which can cause an underpayment of survivor benefits when the member has a QILDRO on file.

The auditors noted that in 19 of 28 survivor benefits tested when a QILDRO existed, the survivors were underpaid due to the way the system was calculating the benefits. The total underpayment quantified from the group was \$53,189 and individual underpayments ranged from as little as \$286 to as large as \$9,036 on an aggregate basis. The auditors have informed the claims staff of the issue and survivors will be made whole. Internal audit is pursuing an additional system check to provide a warning message on calculation sheets which would notify staff that a manual calculation is needed. In the future, it is expected that the system modernization will correct this issue once completed.

Vice Chairperson Morris inquired into how the QILDRO worked and asked if there was a unique situation where the alternate payee of a QILDRO could also be a survivor. CIA Evans stated yes this was possible if the spouses legally separated but did not divorce. Further, the group discussed as to what would happen if a member had multiple QILDROs on file. CIA Evans explained that SERS will honor all QILDROs to the extent feasible on a first come, first serve basis and that the issuance of multiple QILDROs cannot ultimately extend or increase the member's overall gross benefit.

Following discussion of the QILDRO audit, Ms. Cabey-Kaufmann discussed a follow-up project from a previously completed FY2017 audit. She explained that when auditing survivor and death benefits the internal auditors learned that it may be possible for improper benefits to be paid when a widow-survivor

refund was paid to the member at the time of retirement but was not repaid prior to the member's death to qualify the survivor for a survivor's annuity. Understanding this risk, Internal Audit requested a data query from IT to search for survivor benefits paid when a widow survivor contribution refund was received by the member.

Ms. Cabey-Kaufmann explained that after reviewing the query results and performing testing, it was determined that 8 survivors were receiving benefits when they were not eligible. These survivors were overpaid from the time their benefits began to September 2017, the date of which the query was performed and the results were reported. The total overpayment quantified was \$188,147 but it was noted that because this issue was discovered, it is estimated that the potential cost savings could easily be greater than \$1 million when projecting forward benefits that would have been paid over the survivor's estimated lifetime using the Social Security Administration's Life Expectancy Calculator. During October 2017, these survivors were informed of their benefit suspension and appeal rights.

In discussing this project, Mr. Iglarsh inquired why this issue wasn't discovered sooner and CIA Evans explained that essentially, the benefits system is missing a simple edit check that would prevent this from occurring. The system should check a data field that signifies the member received the survivor contribution refund and if this is true, staff should be prevented from processing a survivor benefit for payment. Further, Mr. Iglarsh inquired if more of these issues could exist. CIA Evans stated that while it was possible, it was unlikely because the data query did not have a date limiter, meaning all active survivors were reviewed despite the member's retirement date.

During the 1<sup>st</sup> Quarter of FY2018, the internal auditors recalculated 107 benefits which consisted of retirement and survivor annuities and also payments to alternate payees. The total benefit recalculations totaled \$117,685 on a gross monthly basis or over \$1.4 million annually. No issues were noted during these benefit recalculations outside of the previously discussed audits. During this quarter, the auditors developed worksheet calculators and testing sheets which should allow for continued, systematic review of benefit accuracy, benefit eligibility, and compliance.

CIA Evans referred the Committee to a Summary of FY2017 Internal Audit Findings from the Annual End of the Year Audit Report required by the Fiscal Control and Internal Auditing Act. The summary contains a list of all audits completed, the audited area, number of findings, a description of the recommendations and status of the findings. During FY2017, the internal auditors completed projects which covered many of the business processes of the retirement system including benefit recalculations, purchasing and procurement, cash receipts and receivables, optional service purchases and refunds, and various compliance concerns such as the IRS required minimum distributions, and ARCP participants returning to work. CIA Evans stated that he was very pleased with the coverage of the audits and the final work product.

Upcoming internal audits were discussed including an IT Security Control review utilizing the federal government's IT standards known as NIST (National Institute of Standards and Technology). The audit will be fairly expansive and cover the 17 internal control families in the NIST standards some of which include security awareness training, systems maintenance, physical and environmental protection, incident handling and response, risk assessments, and media protection and sanitization. Mr. Iglarsh inquired if the auditors would be having third-party assistance on this audit as it pertains to ethical hacking. The internal auditors will not have third party assistance nor will they perform any type of penetration testing as this is a specialized skill set; however they will review the results of the latest penetration tests and determine whether vulnerabilities were remediated and inquiry as to the IT Division's plan for continued vulnerability

scanning and penetration testing. The audit is anticipated to be completed and to be discussed during the January Committee Meeting.

CIA Evans noted the external auditors are working to wrap-up their fieldwork for the annual financial audit and he expects them to be onsite through the middle of next week. The auditors have not yet discussed whether there would be any financial audit findings and the completion of the external compliance examination is far from completion. A more detailed update on the audit progress will be given during the January committee meeting.

The Committee moved on to the discussion of any new or old business. Seeing that there was no new business or old business for discussion, Retiree Iglarsh moved to adjourn the meeting with Trustee Morris seconding the motion. 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 9, 2018, at 9:00 a.m.