

MINUTES OF THE AUDIT & COMPLIANCE COMMITTEE MEETING  
April 24, 2018

Members Present:

David Morris, Vice Chairperson  
Shaun Dawson, SERS Trustee  
Loren Iglarsh, SERS Retiree

Others in attendance:

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

The Audit and Compliance Committee convened on Tuesday, April 24, 2018, at 9:00 a.m. in the System's Springfield office with a video conference 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 January 9, 2018, Audit and Compliance Committee meeting with Vice Chairperson Morris seconding the motion.

CIA Evans referred to an executive summary, noting that Ms. Cabey-Kaufmann and he had completed an audit in which disability recipients were required to provide tax return information to the retirement system to evaluate for possible gainful employment. CIA Evans explained the process by which individuals were selected to testing and the process by which individuals were notified to remit tax return information. It was explained that individuals were selected for testing on a judgmental basis which included the member's injury, length of time on disability, perceived likelihood that the member could return to their former position, and potential indicators for gainful employment.

Twelve members of the approximately 120 members receiving disability benefits and residing outside of the State of Illinois were requested to remit tax return documents to evaluate benefit eligibility. During this process 9 members responded by sending tax returns for review and ultimately no member was found to be gainfully employed. Of these 9 members, it was found that 4 members did have income which was not previously reported to SERS, however the income was below established dollar thresholds set in Administrative Rule. In addition, none of the work reported appeared to refute the member's injury or illness for which they were receiving disability.

The remaining 3 members responded directly to the CIA via phone and email. They did not file a tax return because their only taxable income was from SERS disability benefits and/or Social Security disability benefits, both of which are nontaxable. Through research, it was determined that it is possible that a member would not have to file a tax return if they did not have any taxable income, was not married, had a dependent, or needed to file for any potential tax credits. Therefore, the CIA elected to clear these members based upon discussions with the members and the likelihood that no tax return would have been filed for the requested fiscal years. The Committee discussed the potential for a member to be receiving disability benefits while

residing within Illinois and then working in another state such as Missouri or Indiana. It was explained that this was possible, and that in the future the auditors may expand their sample to any individuals living near the state border in which it is suspected that they may be gainfully employed.

The Committee began discussing the IT Security Audit which was recently completed. CIA Evans explained that the criteria from the National Institute of Science and Technology (NIST) was used for evaluating various IT controls and that this criterion generally applied to agencies and departments of the Federal government. The audit scope included a review of access controls, access rights reviews, business continuity and incident response, a review of policies and procedures, and an examination of physical and IT related controls.

During testing in the IT audit, 21 computers located on the inventory listing were found to not be receiving regular updates. It was explained that 9 of the 21 were mobile devices were not always connected to the network and therefore they were not receiving scheduled updates. This resulted in one audit finding drafted for the audit report regarding patch management weaknesses. CIA Evans explained the process by which computers are setup to receive system and security updates through a patch manager and stated that if there is an error in the process, or if the machine is not connected to the network then the computer will not receive the updates.

An additional 10 computers were found to have abnormally high patch failure rates which was believed to be due to connectivity issues. Finally, just 3 of 84 servers were found to be running an operating system which is no longer supported by the vendor which may make them vulnerable to new exploits or vulnerabilities since new patches are not being released. CIA concluded discussion on the report on discussing 4 vulnerabilities which had not yet be remedied since the last vulnerability assessment. Management agreed with the finding and began putting into place a plan to update all PCs and correct known vulnerabilities.

Mr. Iglarsh inquired as to the other recommendations provided in the full audit report. CIA Evans recapped some of the recommendations including the need to lock down USB ports to prevent staff from transporting viruses via their mobile devices or eliminating the exfiltration of SERS data. Further, the Committee discussed the need to ensure only staff has access to one software application in which they CIA felt was the biggest exposure risk for the retirement system due to the amount of information maintained. Finally, the CIA noted the need for additional security cameras to cover certain areas of the building and grounds. Management was receptive to the findings and additional recommendations.

Ms. Cabey-Kaufmann discussed the Imaging Audit in which the auditors reviewed the process by which physical paper documents are converted and retained in a digital format. It was explained that no findings were drafted for this audit, however several recommendations were provided which the auditors felt that process improvements could be made. Generally, several good internal controls were noted in review of the imaging process. CIA Evans explained that the move from paper files to digital files has several advantages and discussed the backup of digital records which occurs nightly on-site and also off-site.

It was explained that the internal auditors spent one day sitting in and reviewing a Field Services pre-retirement workshop, Investing in Your Future. This workshop which is geared primarily towards newer members discusses retirement benefits, deferred compensation, financial planning, and estate planning. The auditors hope to review all field service workshops during 2018 and provide any recommendations on the

programs while also performing some background on educational efforts by peer public pension funds. During this review, the auditors initially noticed that it may be recommended to divide this workshop into two separate training by retirement tier and formula type since members can become confused when discussing eligibility and benefits.

CIA Evans noted that the external financial audit was released on February 8, 2018. No findings were presented in the financial audit report and a clean opinion was given to the fiscal year 2017 financial statements. Currently, the fiscal year 2017 compliance examination has not yet been released but it is anticipated that it will be made publicly available in the next few weeks. SERS is aware of three compliance findings that will be presented in this report. CIA Evans stated that he expects the external auditors of RSM will begin their fieldwork for the fiscal year 2018 audit beginning in June.

The Committee moved on to the discussion of any old and new business. Seeing that there was no old or new business for discussion, Retiree Iglarsh moved to adjourn the meeting with Trustee Morris seconding the motion. The Audit and Compliance Committee adjourned at 9:52 a.m. ahead of the scheduled Board of Trustees meeting. The next scheduled meeting of the committee will be Tuesday, July 24, 2018, at 9:00 a.m.