

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

Members Present:

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

Others in attendance:

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

The SERS Audit and Compliance Committee convened on Tuesday, July 24, 2018 at 9:00 a.m. in the System's Springfield office. The meeting was called to order at 9:05 a.m. with a quorum being established to conduct business.

Vice Chairperson Morris asked if there were any members of the public who wished to comment. Seeing that there were none, the Committee moved on to the review and approval of the April 24, 2018 Committee meeting minutes. With there being no revisions to the meeting minutes, Retiree Iglarsh moved to approve the minutes as presented and Vice Chairperson Morris seconded the motion. The meeting minutes were approved.

Vice Chairperson Morris turned the meeting over to Chief Internal Auditor (CIA) Evans to discuss the presentation and approval of the internal audit charter and two-year internal audit plan. CIA Evans explained the purpose of the audit charter and discussed the responsibilities of the internal auditors, management, and the audit committee. In addition, a key change was made to the charter which included the committee's responsibility related to the appointment and removal of the CIA and its participation in the performance evaluation process. It was noted that this change more closely resembles processes in the corporate environment and further defines the dual-reporting relationship that internal audit has with management and the Audit Committee. CIA Evans then began discussing several of the planned internal audits for FY2019.

The first planned internal audit discussed covers retirement eligibility and the auditors have already begun working on this project. CIA Evans explained the goal of the audit would be to look at retirement data, specifically using the member's age at retirement and service credit data to determine if the member was eligible at time of retirement. Trustee Morris inquired specifically how the auditors would find errors through looking at data. Ms. Cabey-Kaufmann explained that by examining the member's age and service credit at time of retirement, an edit check was placed in the auditor's data set to provide an indicator if that member met eligibility requirements. Those members that did not appear to meet eligibility would then be part of the

population that would be sampled and tested. She continued by stating that a common reason why a member may appear to be ineligible from the analysis but were in fact eligible for a retirement benefit would be due to the member retiring following their non-occupational disability ceasing. She further explained that this is a special eligibility requirement within the Pension Code where the member could retire when they had not met the traditional eligibility requirements. Ms. Cabey-Kaufmann stated that thus far her testing has not revealed any errors but work was not yet complete and a full report will be provided once work is concluded on this project.

CIA Evans stated that another FY2019 audit that is in process is the retirement tier determination audit. In this project, the auditors will also be looking at large amounts of member data to determine if each member's membership date corresponds to the correct retirement tier. Essentially, the auditors are trying to locate any Tier 1 members that may be incorrectly coded as a Tier 2 member or vice versa. Ms. Cabey-Kaufmann provided an explanation of the process and stated that in her initial analysis, there are times where the membership date does not correspond with the correct retirement tier, which could be indicative of an issue. However, there are several reasons why this could also be a false positive. Several scenarios were discussed including the clarification that Tier 2 members cannot purchase military service to make them a Tier 1 member. Ms. Cabey-Kaufmann concluded by stating work is still ongoing on this project and an update would be provided during the next meeting.

CIA Evans moved on to discuss the annual risk assessment and the risk assessment process. It was explained that there are several risks that the retirement system can actively manage and work to mitigate and then there are also those risks which cannot be managed well. The committee reviewed and discussed risks presented in this assessment.

The Committee reviewed the executive summary of the administrative expenditures audit that was recently completed. This audit covered all operating costs of the retirement system aside from benefit and refund payments. CIA Evans explained that the retirement systems' administrative costs are a fraction of a percent of the retirement systems' total expenditures each fiscal year, but that they are required by statute to review these areas which is primarily due to the many financial reporting and compliance requirements of the State. Ms. Cabey-Kaufman then highlighted the two audit findings which she drafted for this audit.

The Committee was directed to an executive summary of the benefit recalculations audit performed over the course of fiscal year 2018. This audit included a mixture of benefit calculations over the last three calendar years including retirement, survivor, and disability benefits. Of all the recalculations performed during fiscal year 2018, the only errors noted were from very specific benefit situations. CIA Evans noted that potential underpayments can occur when survivor benefits are being paid and a QILDRO exists. Further, potential overpayments could occur when survivor benefits are improperly paid due to the member receiving a widow-survivor contribution refund and not repaying that refund to qualify a survivor for benefits. CIA Evans

explained that warning messages were implemented on the benefit calculation sheets that would alert staff of these potential issues. It was explained that most retirement, survivor, and disability calculations are very straight forward and at low risk for calculation errors, but that some more complex benefit scenarios may pose a greater risk of a calculation error.

CIA Evans discussed the remaining audits planned for fiscal year 2019 including audits covering accounts receivables, optional service purchases, and termination refunds. Trustee Dawson inquired as if the internal auditors would be looking at back wage claims and step increases that will presumably be paid in the near future. Trustee Dawson stated that once the Department of Corrections and Department of Human Services back pay was made, it would be a considerable sum of money and that there will likely be adjustments to member pensions based on this payment.

CIA Evans stated that while he and Ms. Cabey-Kaufmann cannot audit the back-wage payments made by the payroll agencies or the payroll adjustments for step increases, it would be feasible and prudent to audit the related pension adjustments. The auditors have discussed possibly recalculating step increases due to SERS staff since the auditors would have the records to do so. Trustee Morris inquired as to if this might be outside the scope of the internal audit work, and CIA Evans clarified that they would be performing an audit after the payroll transactions have been processed and that the internal auditors do not serve as a final reviewer in any payment process. CIA Evans stated that this audit would be included in either late fiscal year 2019 or early fiscal year 2020 depending on when the payments occur and as time allows.

Trustee Morris stated that reviewing previous back wage claims would be helpful to ensure the system and methods in place already are adequate. The group was in agreement, and CIA Evans then asked for a motion to approve the internal audit charter and two-year internal audit plan which will be amended to include an audit of back wage claims after the payments have been made and when data is available to the auditors. The motion was made by Trustee Dawson and was seconded by Trustee Iglarsh. The internal audit charter and audit plan was approved.

CIA Evans stated that IT pre-implementation audits were scheduled for fiscal year 2018, but that no significant implementations were placed into production during this time period. The auditors expect significant modules to be placed into production during fiscal year 2019 to the SRS Central application, and as such, have requested the IT development staff give the auditors adequate notice of the releases so that audit testing can be performed on these systems. CIA Evans noted that IT staff is working on developing the retirement setup and calculation process, optional service purchases functionality, and accounting arrearages module during the current development.

The various staff of the retirement system have been reviewing new functionality as it is released in the quality assurance testing environment and then report various bugs to the development staff to remedy. While there

has been some new functionality available to staff in the quality assurance environment, currently none of recent changes in 2018 have taken over for existing processes in the legacy systems. During FY2019, the auditors will be reviewing controls within the new system and the overall accuracy of the transactions for any modules released into production. CIA Evans stated that he and Ms. Cabey-Kaufmann receive regular updates on the IT developments and at times are ask their opinions or thoughts on certain processes and system functionality.

Chairman Morris asked if there was any old or new business for discussion. Seeing that there was no new or old business for discussion, Retiree Iglarsh moved to adjourn the meeting with the motion seconded by Chairman Morris. The meeting was adjourned at 9:50 a.m. ahead of the Board of Trustees quarterly meeting. The next scheduled meeting for the Audit and Compliance Committee will be Tuesday, October 30, 2018 at 9:00 a.m.