

MINUTES OF THE AUDIT & COMPLIANCE COMMITTEE MEETING  
October 29, 2019

Members Present:

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

Others in attendance:

Tim Blair, Executive Secretary (via video conference)  
Casey Evans, Chief Internal Auditor (CIA)  
Andrew Van Leer, Internal Auditor

The SERS Audit and Compliance Committee met on Tuesday, October 29, 2019 at 9:00 a.m. in the System's Springfield office. The meeting was called to order at 9:00 a.m. with a quorum being established to conduct business.

Seeing that there were no members of the public present for comment, the Committee moved on to the review and approval of the January 15, 2019 Committee meeting minutes. With there being no significant discussion or revisions to the meeting minutes, Retiree Iglarsh moved to approve the minutes as presented and Trustee Dawson seconded the motion. The meeting minutes were approved.

Vice Chairperson Morris turned the meeting over to Chief Internal Auditor (CIA) Evans who introduced Mr. Andrew Van Leer, who recently joined SERS as a staff internal auditor. Mr. Van Leer introduced himself and explained that he previously worked for the Office of the Auditor General and has a background in governmental auditing. The Committee welcomed Mr. Van Leer and CIA Evans explained that Mr. Van Leer has already greatly contributed to recent internal audits including the cash receipts and receivables audit and the disability benefits audit which is currently in progress.

It was noted that the Internal Audit Charter for FY2020 was previously provided to the Committee members and CIA Evans briefly recapped the importance of this document, the auditing standards of the Institute of Internal Auditors (IIA), and the IIA Code of Ethics. The Charter provides the mission, purpose, authority, responsibility, and scope of the internal auditing function of the retirement system. CIA Evans also highlighted the responsibilities of the Committee and management of the retirement system in the internal auditing process. Annually, the internal auditors review the charter and CIA Evans explained that per internal auditing standards the CIA must present and discuss key concepts within the internal auditing charter with the governing board or committee. Following discussion of the FY2020 Internal Audit Charter, Vice Chairperson Morris moved to approve the Internal Audit Charter as presented and the motion was seconded by Retiree Iglarsh. Seeing no objections, the Internal Audit Charter for FY2020 was approved.

CIA Evans asked the Committee to review the Two-Year Internal Auditing Plan for fiscal years 2020 and 2021 which was previously provided. The Committee recapped the audits scheduled to be performed for these two fiscal years. It was explained that the audits are determined based upon an annual risk assessment while also giving consideration to audits asked by management and the Committee. Further, there are also audits that may be required by statute that the internal auditors must perform. CIA Evans explained that the internal auditors have also placed a much larger emphasis in completing audits related to the payment of retirement system benefits or claims-based audits. Following discussion of the two-year internal auditing plan, Vice Chairperson Morris moved to approve the plan as presented which was seconded by Retiree Iglarsh. The two-year internal audit plan for FY2020 and FY2021 was approved by the Committee.

CIA Evans explained that by statute, The Fiscal Control and Internal Auditing Act requires Chief Internal Auditors must make available a report to management and any governing body how the previous fiscal year's internal auditing plan was carried out. The Committee was directed to the FY2019 Internal Audit Completion Report which was previously provided. The report briefly summarizes each audit project and the results of the audit. CIA Evans and Mr. Van Leer briefly recapped the audit projects completed during fiscal year 2019 and answered questions regarding specific audit projects and results during FY2019.

Following discussion of the Internal Audit Completion Report for FY2019, the Committee began discussing recently completed internal audit reports. CIA Evans explained that the Cash Receipts and Receivables Audit for FY2018 and FY2019 was one of the larger projects completed during the fiscal year and the first in which Mr. Van Leer significantly contributed towards as a new staff auditor. One repeated finding was drafted in this report related to weaknesses in account receivable collections. Mr. Van Leer and CIA Evans summarized the noted issues and briefly discussed recommendations from the report.

The Committee discussed an audit of the Accelerated Pension Payment Option, commonly known as the COLA Buyouts. CIA Evans reminded the group that this topic was previously discussed during the January 2019 Committee Meeting in which the Committee was presented cost savings analyses of members who have elected this payment option and approximate "break-even points". Additional work was performed to determine the accuracy of the payments being issued and the internal controls of the new system development. CIA Evans reported that no issues were noted in buyout recalculations and no internal control weaknesses were uncovered in this process. The Committee discussed current participation rates for the COLA Buyout program.

CIA Evans explained that in a prior internal audit report covering optional service purchases and contribution refunds contained findings covering both optional service purchases and termination refunds. During the most recent audit covering these two areas, Internal Audit found that previous recommendations had been implemented and as a result no testing exceptions or audit findings were drafted. CIA Evans explained that this positive outcome was attributed to management in the Accounting and Claims Support Section reviewing

the audit recommendations in the prior report and proactively putting in place procedures to prevent errors or other unintended consequences previously noted.

CIA Evans explained that while it was a lower risk area, Internal Audit did perform a review or comparison of workshops and member education programs of peer public pension funds across the United States. In this review, 25 peer pension funds were selected in which internal audit independently reviewed each retirement system's website to determine how members are educated on plan benefits and what educational delivery methods are utilized. It was noted that in comparison of peer funds, SERS does not leverage technology in its delivery methods such as online educational videos or on-demand workshops. Further, SERS workshops which can be one to two days in duration appear to be much more detailed and longer in duration than most peer funds. Finally, CIA Evans pointed out that in comparison to peer funds, SERS was one of the few retirement systems that did not appear to have a more modernized website and did not offer appointments for benefit consultations.

The Committee briefly discussed internal audit's involvement in the 2019 Board of Trustees Election. Mr. Van Leer and CIA Evans performed ballot canvassing with staff and worked with management prior to the trustee election to develop procedures and internal controls for the 2019 trustee election. Internal Audit certified the results of this election following a reconciliation of ballots mailed, received, and counted. The results of the election were previously reported to the Board and posted on the SERS website.

The Committee briefly discussed a comparison of administrative expenditures between the peer State funds of SERS, SURS, and TRS. The information compiled for this review was derived from each System's Comprehensive Annual Financial Report (CAFR). The Committee discussed how SERS' expenditure line items compare to these reciprocal retirement systems. Generally, the variations in expenditure lines can be explained by current priorities of each fund, various statutory responsibilities, or the number of members and benefit recipients served.

Vice Chairperson Morris moved to adjourn the meeting with the motion seconded by Trustee Dawson. The meeting was adjourned at 9:55 a.m. ahead of the Board of Trustees quarterly meeting. The next scheduled meeting for the Audit and Compliance Committee is tentatively scheduled for Tuesday, January 14, 2020 at 9:00 a.m.