

MINUTES OF THE AUDIT & COMPLIANCE COMMITTEE MEETING  
July 28, 2020

Members Present:

Shaun Dawson, Committee Chairperson  
Barbara J.C. Baird, SERS Trustee  
Loren Iglarsh, SERS Retiree

Others in attendance:

Tim Blair, Executive Secretary  
Jeff Houch, Assistant to the Executive Secretary  
Casey Evans, Chief Internal Auditor (CIA)  
Andrew Van Leer, Internal Auditor

The SERS Audit and Compliance Committee met on Tuesday, July 28, 2020 at 9:00 a.m. in the System's Springfield office and by videoconference as allowed under Executive Orders 2020-07, as amended and re-issued by Executive Order 2020-33. 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 October 29, 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.

CIA Evans presented the Internal Audit Charter and explained its importance in establishing 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. Following discussion of the FY2021 Internal Audit Charter, Committee Chairperson Dawson moved to approve the Internal Audit Charter as presented and the motion was seconded by Trustee Baird. Seeing no objections, the Internal Audit Charter for FY2021 was approved.

The Two-Year Internal Audit Plan was presented to the Committee. Planned fiscal year 2021 audits were discussed. Committee Chair Dawson inquired as to the planned IT audit and the security of the information systems. CIA Evans explained the methods, policies and procedures used to safeguard the information systems. Following discussion of the audit plan and scheduled audits, Retiree Iglarsh moved to approve the audit plan as presented. Chairperson Dawson seconded the motion and the Two-Year Internal Auditing Plan was approved. CIA Evans stated that if it becomes necessary to return to working remotely from home during FY2021 due to the COVID-19 disaster, the internal auditors would modify the current audit plan as needed to focus on work that can be more easily completed in that setting. This would primarily include testing of

retirement system benefits which the auditors can work independently without interfering with essential claims, accounting, and IT operations.

The Committee began a discussion of the current risk assessment and identified risks. Following discussion of long-term risks, the Committee was provided a refresher on the Internal Auditing Standards, the Internal Audit Code of Ethics, and the State's Fiscal Control and Internal Auditing Act.

Following approval of the charter and audit plan, the Committee began discussing recently completed internal audit reports. CIA Evans explained that due to the State's COVID-19 Disaster Declaration, both he and Mr. Van Leer continued internal audit projects by working remotely from home from approximately March 16<sup>th</sup> to May 29<sup>th</sup>. During this time, the auditors had access to all work resources and several scheduled audit projects were completed during this time. It was recognized that some projects were not feasible to be conducted remotely and therefore they were deferred to fiscal year 2021. The Audit Committee was notified of the change in the Plan on April 20, 2020.

The group began discussion of the Frozen and Back Wage Pension Adjustment Audit covering fiscal year 2020. CIA Evans provided a brief background on the frozen and back wages and its impact on benefit recipient's final average compensation (FAC). Since additional pensionable wages were posted after members had retired, in many cases, these wages would have increased the member's FAC at retirement and as a result would have increased the member's initial gross monthly pension amount. When the FAC had changed as a result of these frozen or back wages, SERS would need to adjust the retiree's pension and provide a "catch-up" payment which represents the difference between what the retiree was paid and what he or she should have been paid had the wages been posted prior to retirement.

CIA Evans explained that these issues appear to have impacted approximately 7,000 members. In the audit, no findings were issued, however one small overpayment of \$861 was found by the auditors and forwarded on to the Pension Section for correction. Trustee Baird inquired as to the difficulty of performing the back-wage calculations. Executive Secretary Blair stated that the back-wage adjustment work is a large undertaking by Pension staff and calculations do take a fair amount of time and effort to perform. Additional tools have also been developed to aid staff in performing these calculations.

Mr. Van Leer began discussing a recently completed Financial Reporting and GAAP Audit. He noted the procedures performed and explained that this was a routine audit covered by the Fiscal Control and Internal Auditing Act. No findings were issued in this audit and two recommendations were provided.

The Committee discussed in detail an executive summary report on the progress made of a survivor and death benefits audit that is in progress. Mr. Van Leer explained that while the audit was still in the process of being wrapped up, issues had been identified through analysis. The issues noted thus far have primarily

resulted in benefit underpayments, in which, once confirmed by the Pension Section, would result in lump sum payments and benefit adjustments being made to these survivors. CIA Evans explained that while routine survivor benefits calculations were correct and without exception, certain unique or more complicated scenarios can be problematic. A full audit report and executive summary for this project will be provided to the Committee ahead of the next meeting.

Mr. Van Leer explained a continued internal audit project regarding retirement recalculations and lump sum payments for unused benefit time of former SRS staff. Approximately 1 to 2 months following a staff member's retirement the internal auditors would recalculate each staff member's gross pension benefit and lump sum payment for unused accumulated benefit time. This was done to ensure no staff member received a greater total benefit than was owed under statute and to provide assurance as to the integrity of the claims process. During FY2020, Internal Audit did not find any payment discrepancies or noncompliance in the retirement claims and payments to the nine total retirees.

CIA Evans provided a background on the purpose and importance of business continuity planning. An executive summary was discussed which included updates and recommendations to the business continuity plan. Trustee Baird inquired about use of greenbar reports and reliance on paper by the retirement. CIA Evans explained that since the drafting of this report, the IT Division has worked hard to digitize and archive these hard copy reports into digitally archived reports. It was noted that this should greatly improve ease of access and performance of staff job duties while working remotely. It was noted that the retirement system should continue to work towards digital document submissions, digital signatures, and front-end scanning of claims documents.

Retiree Iglarsh moved to adjourn the meeting with the motion being seconded by Trustee Baird. 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 scheduled for Tuesday, October 27, 2020 at 9:00 a.m.