

MINUTES OF THE AUDIT & COMPLIANCE COMMITTEE MEETING
October 27, 2020

Members Present:

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

Others in attendance:

John Tilden, SERS Trustee
Marvin Becker, Office of the Comptroller
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, October 27, 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 July 28, 2020 Committee meeting minutes. Trustee Baird noted a date error in the meeting minutes presented. Following the change to the meeting minutes and 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 FY20 End of the Year Audit Report required by the Fiscal Control and Internal Auditing Act (FCIAA). It was explained that by statute internal auditors must draft a report which details how the previous fiscal year's audit plan was carried out. The Committee briefly recapped and discussed notable audits performed during fiscal year 2020.

The Committee began discussion on the completed survivor and death benefits audit covering fiscal years 2018 through fiscal year 2020. CIA Evans and Mr. Van Leer recapped the audit objectives and the one internal audit finding drafted. The finding pertained to legacy system limitations and weaknesses in the survivor and death benefit processes which resulted in benefit underpayment being identified by the auditors.

CIA Evans explained that Internal Audit concluded that while routine survivor and death benefit scenarios are processed without error, there are some unique and less frequently encountered scenarios which can be

problematic and result in errors, including underpayments. It was explained that the auditors approached this project by first considering what potential scenarios can be problematic and then designing data queries to determine if these potential errors exist. Among the errors found, the auditors located 9 survivors who were also named reversionary annuitants. When reviewing the system data, the auditors found that while these survivors were receiving a monthly survivor annuity, they were not receiving a monthly reversionary annuity payment. CIA Evans stated that to date 4 of the 9 annuitants have been setup to receive the monthly reversionary annuity and the total lump sum payment made was \$345,038.

CIA Evans explained that he and Mr. Van Leer specifically searched for suspended disabled adult and minor surviving children benefits during this audit. As a result of a query, the auditors identified 5 disabled adult or minor children which staff should follow-up with guardians or powers of attorney for potential reinstatement. It was noted that these benefits were suspended due to failure to return continued eligibility documents. Trustee Baird noted that another potential group to consider for suspension testing would be surviving children that are full-time students. It was explained that an analysis of this group would be difficult because there is often a legitimate reason for the suspension, including instances when the surviving child is no longer a full-time college student.

Mr. Van Leer noted that a very small group of survivors were underpaid by a marginal amount due to an error in the Tier 2 AAI automatic annual increase percentage. Generally, this amount to errors of less than \$1 per month to each member. Internal Audit identified the impacted population and provided information to the Pension Section for necessary updates and payments. Mr. Van Leer then explained that two occupational death benefits did not have the Illinois Worker's Compensation benefit offset removed resulting in a total calculated underpayment of \$108,509. He continued by clarifying the process by which SERS offsets occupational death benefits and when the offset is removed. CIA Evans then concluded the discussion regarding the survivor and death audit by summarizing the two prior year audit findings that were not repeated and noted the controls put into place by staff to remedy these prior issues.

Mr. Van Leer and the Committee began discussion of the recently completed contribution refunds audit covering fiscal years 2018 through 2020. He explained the objectives of the audit, summarized the testing performed and stated that no audit findings were drafted. Through testing, CIA Evans noted that small error refunds may be due to former members due to the receipt of member contributions following the payment of frozen wage or back step increase payments. Through analysis, the auditors also noted that a significant decrease in SERS contribution refunds paid from fiscal year 2019 to fiscal year 2020. This decrease is primarily attributed to the COVID-19 pandemic.

The Committee began discussing upcoming or in progress audits. CIA Evans explained that October is designated as cybersecurity month and that all retirement system staff in completing annual security awareness training as part of their statutory responsibility. Internal Audit is planning audit work focusing on

the security of member information. This testing would include attempts to obtain member information through various tactics. CIA Evans then recapped planned testing procedures for this audit and asked if there were any concerns regarding these planned procedures. Seeing no concern, the auditors would begin this project in November and would provide an update during the January 2021 committee meeting.

The group briefly discussed other audits in progress or in the planning phases including audits of member retirement statements and an audit of the system readiness for Tier 2 benefits. CIA Evans concluded his remarks by stating that the auditors continue to obtain continued professional education hours through online webinars during the pandemic and are on track to meet the required number of training hours before the end of the calendar year.

The Committee moved on to discuss the annual external financial and compliance audits. Currently, the external auditors continue to perform their work remotely. The external auditors were approved for 6 days of onsite work which SERS was able to accommodate this staff in a safe work setting. It was explained that a more detailed update of the audit would be provided in January 2021.

With there being no old or new business being brought to the Committee, Retiree Iglarsh moved to adjourn the meeting with the motion being seconded by Trustee Baird. 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 is scheduled for Tuesday, January 12, 2021 at 9:00 a.m. being held by Zoom videoconference.