

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS
MINUTES OF THE AUDIT & COMPLIANCE COMMITTEE MEETING

April 21, 2015

The Audit and Compliance Committee convened on Tuesday, April 21, 2015 at 9:00 a.m. in the System's Springfield office at 2101 S. Veterans Parkway with a videoconference location at the Bilandic Building, Room N-703, 160 N. LaSalle Street, Chicago, IL.

Chairman Morris asked if there were any public comments. Seeing there were no public comments, the Committee moved and approved the minutes of the January 13, 2015 Audit and Compliance Committee meeting.

Casey Evans, Chief Internal Auditor (CIA), discussed the results of the 2014 external financial audit performed by the firm BKD, LLP working for the Auditor General's Office. The financial statements were given a clean opinion, however the external auditors noted 3 material findings. The findings were summarized and discussed by the Committee. Information was provided regarding the Systems' ongoing efforts to remedy the findings noted in the external audit reports. The three findings related to the vacancy of the internal auditor position during FY14, weaknesses in controls over member census data, and the lack of a capitalization policy for internally generated computer software. The Committee also discussed two draft immaterial audit findings of the 2014 external compliance examination.

Following discussion of the external audit reports, the Committee discussed ongoing and completed internal audit projects. CIA Evans first discussed a completed Succession Planning Review at SRS. The review was conducted after an internal analysis revealed that many long-time staff were eligible for retirement. In the review, it was noted the agency had many good practices in place to minimize the effects of losing staff to separation or retirement, although several recommendations for improvements were provided to help the System ensure that adequate planning and knowledge transferring is constantly occurring between staff. CIA Evans noted that SERS, like most of the State agencies was at risk of losing many key, career employees as a result of retirement. Because of this risk, it is necessary that SERS continue in its succession planning efforts and ready its staff for future challenges. During our meeting, he provided statistical information regarding the SERS and State of Illinois retirement eligibility along with demographic information on active SERS members.

CIA Evans also provided information related to a consultation on improving controls over annuitants residing outside of the United States. This consultation focused on identifying annuitants living outside of the United States in which it could be difficult to properly administer benefit payments. CIA Evans stated that it could be likely that if a member residing outside of the U.S. passed away that an overpayment could occur due to SERS not having the knowledge of a death occurring abroad. Amongst the recommendations, CIA Evans recommended that alive and well verifications are sent to annuitants living abroad to verify their contact information, to substantiate annuitant identify, and to mitigate the risk of any improper or overpayments.

CIA Evans discussed ongoing projects including coordinating the Systems' annual internal control certification due to the Auditor General's Office each year. Casey further discussed internal audits in progress including a required internal audit of the GAAP and Financial Statement Process required by the Financial Reporting Standards Board Act. In April 2015, a review of SERS outstanding and escheated warrants was also performed. In this project, the internal auditor was working to identify another method



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to identify potentially lost or deceased annuitants by determining if an annuitant had outstanding or uncashed checks which have been ordered into the Warrant Escheat Fund. This new review provided SERS with new information that will allow staff to make necessary inquiries to determine if benefits should be suspended or to discuss with the annuitant the benefits of utilizing direct deposit.

The Audit and Compliance Committee adjourned at 10 a.m. to begin the scheduled Board of Trustees meeting. The next scheduled meeting of the committee will be Tuesday, July 14, 2015 at 9:00 a.m.