

**MINUTES OF THE AUDIT & COMPLIANCE COMMITTEE MEETING**

July 14, 2015

The Audit and Compliance Committee convened on Tuesday, July 14, 2015 at 9:00 a.m. in the System's Chicago office within the Bilandic Building with a videoconference location at the Springfield office.

Chairman Morris asked if there were any public comments. Seeing there were no public comments, the Committee moved and approved the minutes of the April 21, 2015 Audit and Compliance Committee meeting.

Casey Evans, Chief Internal Auditor (CIA), discussed the current status of the external financial audit and compliance examination. Currently, Casey has been working to provide requested documents to the auditors and at this time SERS is not aware of any audit exceptions or findings. An update on the external audit progress will be provided during the October committee meeting.

Following discussion of the external audit reports, the Committee discussed ongoing and completed internal audit projects. CIA Evans first discussed cybersecurity which has been previously discussed as a concern of the committee given recent high-profile data breaches. The group discussed recent cybersecurity trainings and vulnerability assessments performed at SERS. CIA Evans noted the vulnerability and penetration testing performed by industry professionals is a good continued practice that can provide assurance on the security of computerized systems and point to areas that need strengthening.

The Committee moved on to discuss a recent internal audit project covering disability fraud. The review focused on providing information including how to spot red flags of fraud, agencies and regions with a high number of disability claims, and background on a recent fraud case. From this review, the internal auditor provided recommendations to improve the System's posture to detect and deter fraudulent disability claims. Among these recommendations, it was noted that the addition of a fraud hotline could help the System become aware of possible fraud. In addition, the internal auditor recommended that all applications be amended to include strong anti-fraud language which communicates to our members that SERS takes fraud very seriously and defrauding the System is a Class 3 felony punishable with jail time. It was noted that the Claims staff has already started the process of updating standard agency forms with anti-fraud language and several changes were planned that coincide with the recommendations.

The Committee discussed other audit activity since the last meeting, which included a required GAAP and Financial Reporting Process Audit and completion of the Annual Internal Control Certification required by the FCIAA Act. CIA Evans noted the GAAP process audit did not yield any findings, however recommendations were provided to help mitigate future risks, including Division staffing. The Accounting Division recently experienced two key retirements leaving the current division manager as the only staff member with significant financial and GAAP preparation experience. It was recommended that additional professional staff be added to the Accounting Division to help support the Division Manager in financial statement preparation. The internal auditor also noted that many of the computerized systems used in the financial statement preparation process are outdated and inefficient, however despite these obstacles which are outside of the retirement system's control, SERS has continued to produce timely and accurate financial statements.

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, October 27, 2015 at 9:00 a.m.