The Audit and Compliance Committee convened on Wednesday, July 13, 2016 at 9:00 a.m. in the System’s Springfield office with a videoconference location at the Bilandic Building in Chicago.

The Committee moved and approved the minutes of the April 19, 2016 Audit and Compliance Committee meeting. A quorum of the committee members was present and CIA Evans began the meeting with discussion of the external audit. The auditors of RSM US, LLP began fieldwork during late May. This is the firm’s first year auditing SRS, as the predecessor auditors were from the firm of BKD, LLP. CIA Evans stated that initially, he has been introducing the auditors to staff and helping them understand the key processes, policies, and business functions of the System. CIA Evans further explained his role as the audit liaison and mentioned that a follow-up report would be given during the October meeting to discuss any potential audit issues.

The Committee moved on to discuss recently completed internal audit projects which included the GAAP process audit required by the Financial Reporting Standards Board and a personnel and payroll audit. CIA Evans explained that two recommendations were provided during the GAAP Audit which included the need to continue training supervisor level accounting staff to assist in the GAAP preparation process. This would be key as the Division once had 3 CPAs and now with the addition of another staff member, the System now has two. CIA Evans noted this would take time to implement as it is difficult to replace career employees, he also noted that staff within the division assist in preparing various schedule and reconciliations which ultimately roll-up into the financial statements. The other recommendation pertained to the need to release the Annual Financial Report Summary timely. CIA Evans noted that although not required, the Report Summary provides high level detail and graphical information that can easily be understood by the SERS membership. The Division should work to release this summary shortly after the release of the CAFR. It was noted that both the CAFR and the summary report is made publicly available on the System’s website.

CIA Evans began discussing the Personnel & Payroll audit that was recently issued. During this audit, the CIA drafted on finding pertaining to untimely performance evaluations. The Committee discussed the finding and noted that this finding needed action from management. Trustee Friedman asked that a follow-up report be made by the CIA during the October meeting to discuss what improvements have been made and what evaluations are outstanding by business division. CIA Evans noted that he would provide such follow-up during the October meeting.

The Chief Internal Auditor discussed the continued outstanding and escheated warrant project noting that as of June, three annuitants remain suspended due to the inability to locate or comply with reducing the number of outstanding checks. Currently, one annuitant has 6 outstanding checks totaling over $21,000. Claims staff would be following-up with this annuitant and several other noted during the monthly review.

The Committee discussed the Systems’ annual internal control certification process and risk assessment inquiries performed with various business managers and supervisors used to evaluate the top five continued risks to SRS. CIA Evans mentioned the annual internal control certification was timely filed and by working with managers he was able to identify key risks. CIA Evans highlighted the top 5 continued risks and explained why they were included in the analysis. Trustee Friedman inquired as to how does the System prevent an individual from inflating a colleague or friend’s benefit payment amount. CIA Evans and Executive Secretary Blair explained some of the key internal controls in place including the three levels of...
reviews within the pension section, the segregation of duties involved in the process, and the importance of user access rights. Trustee Friedman also inquired about the security of the computerized systems and how they are reviewed. CIA Evans explained that the computerized systems will be audited this year by the external auditors, in addition the System has previously contracted for security vulnerability and penetration testing to discover weakness which staff can remediate. CIA Evans noted he would be testing in FY17 the modernization system’s benefit setup module which is being developed and not yet deployed. The purpose of the testing would be to review the accuracy of calculations, segregation of duties and access controls, and ensuring there are adequate audit trails to review benefit calculations.

The Committee briefly discussed recently disability cases that are being reviewed. CIA Evans noted one disability fraud case went to court with the member facing felony charges. The member pleaded guilty to a misdemeanor with probation and restitution to the System. The member is currently making monthly payments to the System as a result of paying benefits in which she obtained through fraudulent eligibility documents. CIA Evans discussed current disability recipients that are being given a closer look based on information discovered about his or her gainful employment. Trustee Friedman inquired as to whether the cases can be handled by law enforcement agencies. CIA Evans mentioned that if the Board knows that fraud has occurred, it can involve State’s Attorneys who work with law enforcement to prosecute. It was noted that this was the exact scenario that was followed in the recently discussed case.

The CIA discussed at length the internal audit charter that was endorsed by the Executive Secretary and gave a detailed report of the FY2017 and FY2018 internal audit plan. Each internal audit for FY17 was discussed. Following discussion, the Committee approved the internal audit plan as presented.

Seeing that there was no new business or old business for discussion, 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 Thursday, October 27, 2016 at 9:00 a.m.