

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

MINUTES OF THE
AUDIT AND COMPLIANCE COMMITTEE

April 8, 2014

A meeting of the Audit and Compliance Committee of the State Employees' Retirement System of Illinois convened on Tuesday, April 8, 2014, at 9:00 a.m. in the System's Springfield office located at 2101 South Veterans Parkway with a videoconference location at the Bilandic Building, Room N-703, 160 North LaSalle Street, Chicago, IL.

The following trustees were in attendance:

David Morris, Chairperson
Renee Friedman, Vice-Chairperson
Alexis Sturm, Proxy for Comptroller Topinka

Others in attendance were:

Timothy Blair, Executive Secretary
Alan Fowler, Manager, Accounting Division
Gerry Mitchell, Chief Information System Officer
Kevin Rademacher, Manager, IT Division

Chairperson Morris presided and called the meeting to order at 9:00 a.m. with a quorum present.

PUBLIC COMMENTS

Chairperson Morris asked if there were any members of the public in either the Springfield or Chicago location who wished to address the Board. There were none.

REPORT OF CHAIRMAN MORRIS

As this was the initial meeting, Chairman Morris had no report.

REPORT OF ANY MEMBER

No other members of the Committee had anything to report.

REVIEW OF THE JUNE 30, 2013 FINANCIAL AUDIT

The committee reviewed the only finding in the 2013 Financial Audit, which related to the System's Accounts Receivable. Alan Fowler, Accounting Division Manager, explained to the committee that the finding states the System did not maintain an adequate allowance for uncollectible accounts receivable. Effectively, this means the receivables total reflected on the financial statements could include accounts that will never be recovered by SERS and, therefore the receivables would be overstated.

Mr. Fowler continued by noting that considering a receivable "uncollectible" does not deter SERS staff from actively pursuing the collection of the amount due SERS and it does not

result in a “write-off” of the account. He noted the uncollectible amount would be an estimate based on experience that at a particular age, a certain amount of receivables may never be collected. Effectively, it is an offset (reduction) of the receivable asset on the financial statements.

Mr. Fowler noted that the method to estimate the uncollectible receivable must be auditable. It has to be supported by the review of the accounts receivable at a point in time. A process is now in place to measure the collectability of the claims accounts receivable over time. This measurement will support or allow an adjustment to the uncollectible allowance applied to Accounts Receivable in future financial statements.

REVIEW OF JUNE 30, 2013 COMPLIANCE AUDIT

Gerry Mitchell, SERS CISO, informed the Board the FY 13 Compliance Audit contained one material finding regarding the need to improve project management over the development of computer systems. He noted the finding related to planning documents used in project management, such as the project charter, that existed for the project, but were not finalized. Mr. Mitchell noted there had not been a previous immaterial audit finding and that the only similar prior finding was the lack of a formal systems development methodology, which had been corrected.

Kevin Rademacher, IT Division Manager, reported to the Committee that he met with the External Auditors from BKD on this and other potential areas of concern. At that meeting Mr. Rademacher questioned the verbiage about the project running 5 years with 20% complete and a cost of \$2 million. He indicated to the auditors that he felt the project was 30% to 40% complete when considering other factors, such as the infrastructure upgrades and the creation of an imaging system, that need to be considered in the timeline.

Regarding the expenditure of \$2 million, Mr. Rademacher explained that the estimated total project cost is \$10 million to \$12 million. The \$2 million were not misspent, but rather a portion of the larger project. He noted that several systems have been developed and are already in production and of great value to the agency. Mr. Fowler attested to the usefulness and value of the systems that have been implemented to date.

Mr. Mitchell added the ongoing modernization project is successful and living within cost and time projections. Controls exist for project success, but were previously not formalized as the auditors are looking for. He added the finding has been thoroughly addressed and assured the Committee there will be no repeat finding and that the ongoing modernization project is successful.

REVIEW OF INTERNAL AUDIT CHARTER

Secretary Blair noted the distribution of the Internal Audit Charter which would be reviewed, due to time constraints, at the July Audit and Compliance Committee meeting.

REVIEW OF FY 14-15 INTERNAL AUDIT PLAN

Secretary Blair noted the distribution of the FY 14 – 15 Internal Audit Plan which would be reviewed, due to time constraints, at the July Audit and Compliance Committee meeting.

NEW BUSINESS

There was no new business to report.

ADJOURNMENT

Chairman Morris thanked everyone for their time and moved for adjournment at 9:55 a.m. The motion was seconded by Vice-Chairperson Friedman and all members voted in the affirmative. Chairman Morris noted the next meeting of the Audit and Compliance Committee would be held at 9 a.m. on July 15, 2014.

David Morris, Chairperson

Date: _____

ATTEST:

Timothy Blair, Executive Secretary

Date: _____