



MINUTES

**Meeting of the Audit Committee
of the Board of Trustees of the
State Universities Retirement System
9:00 a.m., Friday, September 3, 2010
The Northern Trust, London Room B9
50 South LaSalle Street, Chicago, Illinois 60603**

The following Trustees were present: Dr. John Engstrom, Chair; Mr. Matthew Berns, Dr. J. Fred Giertz, Ms. Carrie Hightman, Ms. Dorinda Miller, Mr. Steven Rogers, Mr. Antonio Vasquez, Mr. Mitchell Vogel and Dr. Marva Williams.

Others present were: Mr. William Mabe, Executive Director; Ms. Judith Parker, Associate Executive Director; Mr. Daniel L. Allen, Chief Investment Officer; Mr. Douglas C. Wesley, Deputy Chief Investment Officer; Ms. Stefanie Rice, Executive Assistant; Mr. Terrin Krantz, Director of Human Resources; Mr. Joseph Duncan, Investment Officer; Ms. Mary Pat Burns, Burke, Burns & Pinelli; Ms. Shelley Porter, Chief Financial Officer; Mr. Steve Hayward, Director of Internal Audit; Ms. Patti Somerville-Koulouris, The Northern Trust Company; Mr. Curt Fielder, Morrill & Associates; Mr. Steve Zahn, Governmental Consulting Solutions; Mr. Dick Lockhart, State Universities Annuitant Association.

Trustee Engstrom called the meeting to order at approximately 9:00 a.m.

Roll call attendance was taken. Trustee Beaulieu, absent; Trustee Berns, present; Trustee Cassidy, absent; Trustee Engstrom, present; Trustee Giertz, present; Trustee Hightman, present; Trustee Miller, present; Trustee Rogers, present; Trustee Vasquez, present; Trustee Vogel, present; Trustee Williams, present.

APPROVAL OF MINUTES

Trustee Engstrom presented the Minutes from the Audit Committee meeting of June 11, 2010. Trustee Giertz moved that:

- The Minutes of June 11, 2010, be approved as presented.

Motion seconded and carried with all Trustees present voting in favor.

MASTER CUSTODIAN RISKS AND CONTROLS

Trustee Engstrom noted the purpose of The Northern Trust presentation was to discuss the operational risks of custodians and the controls established to minimize these risks. Mr. Steve Hayward introduced Ms. Patti Somerville-Koulouris of The Northern Trust (NT) to discuss the custody risk management process with the Committee. Ms. Somerville-Koulouris reviewed the services NT provides and noted that controlling operational risks is key in protecting the assets custodied for SURS. She outlined the major operational risks that are involved and explained the controls in place. The Committee noted that the last custodian search was completed in 2007 with searches being conducted every five years. Ms. Somerville-Koulouris remarked that NT has been providing services to SURS for 25 years as of 2010. A copy of Northern Trust's presentation entitled "Global Custody and Risk Management" is attached to these Minutes as [Exhibit 1](#).

INTERNAL AUDIT

a. Approval of Internal Audit Plan FY'11 & '12

Mr. Hayward presented the Internal Audit Plan for fiscal years 2011 & 2012 by reviewing the detailed plan and supporting documents from the internal audit risk assessment. He specifically remarked that, according to the FCIAA law, major audit areas such as accounting, claims, and disbursements/pay benefits need to be completed every two years.

Trustee Hightman moved that:

- The Internal Audit Plan for FY 2011 & 2012 be approved as presented.

Motion seconded and carried with all Trustees present voting in favor.

b. Information Systems General Controls Report

Although a few minor internal control concerns were noted, Mr. Hayward advised that Internal Audit formed the opinion that the general information system controls reasonably conform to accepted internal control standards. The findings and recommendations were reviewed.

c. Investments Compliance Review

Results of the Investment Compliance Review were presented. Mr. Hayward advised that Internal Audit formed the opinion that the Investment Department's procedures are in compliance with state statutes and internal investment policies, and there were no findings noted during the review.

The Committee discussed the issue of “spiking” and how to monitor these issues with the universities. Additional discussions were had in regard to the approving signature on the auditor independence statement, and the Committee agreed to have the Executive Director review and approve all future statements.

CHIEF INTERNAL AUDITOR APPOINTMENT ISSUE

Trustee Engstrom noted changes to the Fiscal Control Internal Auditing Act (FCIAA) were recently passed; one of which guarantees the internal auditor immunity from dismissal for noting any findings. Ms. Mary Pat Burns discussed the Act, noting the requirement of each public retirement system to appoint a Chief Internal Auditor. This requirement would change Mr. Hayward’s title from Internal Auditor to Chief Internal Auditor. The FCIAA law now requires the Chief Executive Officer to appoint the Chief Internal Auditor to a five-year term wherein that person can only be released from that position for cause. The Act further states that the Chief Internal Auditor cannot have any operational responsibilities. Ms. Burns advised that SURS is in compliance with the law and noted Trustee Engstrom’s concern regarding changes from a Civil Service position to an appointed position. She remarked that SURS worked with the State Civil Service Board and discussed the five year appointment issue, continued annual reviews and removal only due to cause issues with that office. There was continued discussion regarding the reversion from an appointed employee to a Civil Service employee and what impact, if any that would have on the internal auditor himself. The Committee continued discussions regarding the appointment of the Chief Internal Auditor and requested Ms. Burns obtain a written opinion from Civil Service regarding Mr. Hayward’s appointment.

Trustee Vogel moved that:

- The Committee concurs with the appointment of Steve Hayward for a term of five years as the Chief Internal Auditor of SURS.

Motion seconded and carried with all Trustees present voting in favor.

EXTERNAL AUDIT

Mr. Hayward announced that the external auditors will be back at SURS September 13, 2010, for phase two of the field work which will focus on financial statements.

Since no further business was to come before the Committee, Trustee Vogel moved that the meeting be adjourned. The motion was seconded and it carried.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "William E. Mabe".

Mr. William E. Mabe
Secretary, Board of Trustees

WEM:ssr