



MINUTES

**Meeting of the Audit & Risk Committee
of the Board of Trustees of the
State Universities Retirement System
Friday, December 9, 2016, 9:30 a.m.
Northern Trust
Global Conference Center – 1st Floor
50 S. LaSalle St., Chicago, IL**

The following Trustees were present: Dr. John Engstrom, Chair; Mr. Aaron Ammons, Mr. Tom Cross, Mr. Dennis Cullen, Dr. Fred Giertz, Mr. Paul R.T. Johnson Jr., Ms. Dorinda Miller, Dr. Steven Rock, Mr. Antonio Vasquez.

Others present: Mr. Martin Noven, Executive Director; Mr. Andrew Matthews, Chief Operating Officer; Ms. Bianca Green, General Counsel; Mr. Douglas Wesley, Interim Chief Investment Officer; Mr. Steve Hayward, Director of Internal Audit; Ms. Kristin Houch, Legislative Liaison; Ms. Allison Kushner, Compliance and Corporate Governance Officer; Ms. Lori Kern and Ms. Whitney Jones, Executive Assistants; Ms. Mary Pat Burns of Burke, Burns & Pinelli; Mr. Steve Zahn of Zahn Governmental Solutions, Ms. Patti Summerville-Koulouris of the Northern Trust Company; Ms. Linda Brookhart of the State Universities Annuitants Association and Ms. Renaye Manley of SEIU.

Audit & Risk Committee roll call attendance was taken. Trustee Ammons, present; Trustee Cullen, present; Trustee Engstrom, present; Trustee Giertz, present; Trustee Johnson, present.

APPROVAL OF MINUTES

Trustee John Engstrom presented the Minutes from the Audit & Risk Committee meeting of September 16, 2016. Trustee Aaron Ammons made the following motion:

- That the Minutes from the September 16, 2016 Audit & Risk Committee Meeting be approved as presented.

Trustee Fred Giertz seconded and the motion carried with all Trustees present voting in favor.

CHAIRPERSON'S REPORT

Trustee Engstrom remarked that he did not have a chair report at this time.

INTERNAL AUDIT UPDATE

Disability Retirement Annuity Audit

Mr. Steve Hayward presented the results of recent Internal Audits. He explained that the Disability Retirement Annuity audit (DRA), which is conducted every four years, was recently completed. As

part of the objectives, Mr. Hayward noted that the disability retirement annuity calculations, payment of benefits, insurance, federal income tax withholdings, earnings limitations and recheck processing were reviewed. The audit concluded that there were no errors found and that the computer calculations of the DRA reasonably conform to the Illinois Pension Code and the rules of the system

2016 Employer Audit

Mr. Hayward informed the Board that census, earnings and contribution data were reviewed as part of these audits conducted at seven employers. He noted that the opinion given by Sikich stated that the above mentioned were presented fairly and submitted to SURS. Mr. Hayward mentioned that the audits conducted by Sikich were more involved than typical “agreed upon procedures” reviews since SURS requires the higher level of assurance resulting in an audit opinion. A summary of findings by employer were also reviewed. Mr. Hayward addressed questions and thoughts shared by trustees.

External Quality Assessment Review

Mr. Hayward informed the Board that this review is completed every five years to assess SURS’ Internal Audit department’s conformance with the Institute of Internal Auditors (IIA) Internal Auditing Standards. Mr. Hayward shared that he performed a Self-Assessment with Independent External Validation (SAIV) which was validated by Stacy Smith, the Chief Internal Auditor at the Teachers Retirement System. The joint opinion stated that SURS’ Chief Internal Auditor performed an adequate SAIV and that the internal audit activity generally conforms with the IIA’s Definition of Internal Auditing, Code of Ethics, International Standards and the Fiscal Control and Internal Auditing Act. Trustee Engstrom commended Mr. Hayward for performing the assessment and meeting the standards outlined.

EXTERNAL AUDIT UPDATE

FY ’15 External Audit Recommendation Tracking

Mr. Hayward gave a brief update on the implementation status of the recommendations noted by the auditors during the FY ’15 audit. It was noted that the material finding recommendations requiring employer audits and other census data verifications are mostly complete and expected to be fully implemented by February 2017.

FY ’16 Draft Audit Findings

Mr. Hayward informed the Board that the new auditors from BKD completed their onsite work on November 23, 2016. It was noted that a few draft audit findings were identified but appear to be immaterial. The findings related to reporting vehicle accidents, completion of purchase orders and contract exceptions.

INFORMATION SYSTEMS SECURITY UPDATE

Mr. Andrew Matthews noted a series of positive security related changes that have recently been completed as well as plans to implement other changes during the second half of the fiscal year. He attributed these positive changes to the efforts and hard work of IS staff including the SURS

employee of year for 2015 who is a member of the IT department. The planned security changes include phases II and III of the Network Backbone upgrade, USB device restrictions, annual security awareness training for staff, physical building security improvements and video surveillance.

INFORMATIONAL ITEMS NOT REQUIRING COMMITTEE ACTION

Mr. Hayward presented the Internal Audit Recommendation Tracking Worksheet and the Internal Audit Recommendation Implementation Detail Report. The Mission of Internal Audit and the mandatory elements of the IIA's International Professional Practices Framework were briefly reviewed. It was also noted the IIA Internal Auditing Standards will change effective January 2017 and staff is in the process of reviewing these new Standards to determine if changes are needed in the IA charter, policies or procedures.

PUBLIC COMMENT

There were no public comments presented to the Audit Committee.

Since there was no further business before the Committee, Trustee Ammons moved that the meeting be adjourned. The motion was seconded by Trustee Cullen and carried with all Trustees present voting in favor.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'M. Noven', with a long horizontal flourish extending to the right.

Mr. Martin Noven
Secretary, Board of Trustees

MMN:wj