



## MINUTES

**Meeting of the Audit Committee  
of the Board of Trustees of the  
State Universities Retirement System  
9:00 a.m., Friday, June 11, 2010  
The Northern Trust, London Room B9  
50 South LaSalle Street, Chicago, Illinois 60603**

The following Trustees were present: Dr. John Engstrom, Chair; Dr. Jeffrey Beaulieu, Mr. Matthew Berns, Ms. Patricia Cassidy, Dr. J. Fred Giertz, Ms. Carrie Hightman, Ms. Dorinda Miller, Mr. Antonio Vasquez and Dr. Marva Williams.

Others present were: Ms. Judith Parker, Interim Executive Director; Mr. Daniel L. Allen, Chief Investment Officer; Mr. Douglas C. Wesley, Deputy Chief Investment Officer; Ms. Lori Kern and Ms. Stefanie Rice, Executive Assistants; Mr. Terrin Krantz, Director of Human Resources; Ms. Mary Pat Burns, Burke, Burns & Pinelli; Ms. Shelley Porter, Chief Financial Officer; Ms. Angie Lieb, Director of Member Services; Mr. Douglas Steele, Application Development Manager; Mr. Chris Hansen, Information Systems & Building Services Manager; Mr. Michael Sheppard, Assistant Deputy Director of SMP; Mr. Steve Hayward, Director of Internal Audit; Ms. Patti Somerville-Koulouris, The Northern Trust Company; Ms. Leslie Thompson, Gabriel, Roeder, Smith & Company; Dick Erkhart, SUAA.

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

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

## APPROVAL OF MINUTES

Trustee Engstrom presented the Minutes from the Audit Committee meeting of March 10, 2010. Trustee Vasquez moved that:

- The Minutes of March 10, 2010, be approved as presented.

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

## **EXTERNAL AUDIT UPDATE**

Mr. Steve Hayward provided an update of the implementation of the findings from the fiscal year '09 external audit. He noted the two remaining recommendations will be completed by August 2010.

The fiscal year '10 entrance conference outline from the May 11 meeting was reviewed which names Mr. Hayward as the engagement liaison. Trustee Engstrom advised the Committee that he attended the entrance conference via teleconference and intends to do the same for the exit conference. Mr. Hayward reviewed the fiscal year 2010 compliance and financial audit entrance conference agenda and discussed the scope and timeline set forth by the audit firm McGladrey & Pullen, LLP. Mr. Hayward summarized the audit communication letter from McGladrey & Pullen noting the firm's desire to establish open communications with the Board and encouraged the Board to contact them with any questions. He further outlined the objectives of the financial audit which will document whether SURS' financial statements are fairly presented in conformity with U.S. generally accepted accounting principles. Mr. Hayward concluded noting the expectations and responsibilities of staff and the external auditors.

## **INTERNAL AUDIT REPORTS**

Mr. Hayward presented the Internal Audit Fraud Risk Assessment which was implemented as a result of a finding two years ago. He noted that the assessment lists each department's risks for fraud for each activity along with suggested risk preventative controls. The assessment also describes SURS' existing controls and determines a final fraud impact risk after assessing the strengths of each control. It was deemed that all final fraud risks were scored in the lower medium to low range. It was noted that staff planned to enhance controls in some areas as a result of this assessment. Trustee Giertz inquired whether the investment audit is directed to SURS' internal controls or the custodian's. Mr. Hayward responded that the assessment takes into account the controls used by SURS and the custodians.

Mr. Hayward reported that an audit of retirement benefits was conducted on claims calculated between March 1, 2008, and February 28, 2010. He remarked that the audit specifically examines the calculation of retirement benefits; however, other audit procedures were also completed in order to verify the entire claim calculation, including the insurance withholding amounts, federal income tax withholding, and the checking process. There was one minor finding noted during this audit on a tax withholding form.

**LEGAL REVIEW OF INTERNAL AUDIT  
CHARTER & POLICIES**

Mr. Hayward noted that at the March meeting, the Committee requested a review of the Internal Audit charter and policies to verify compliance with federal and state laws. Ms. Mary Pat Berns remarked that Mr. Bryan Perrero reviewed the charter and policies on behalf of SURS and concluded that they do conform to Illinois law with one suggested revision to the charter specifying the appointment of the Director of Internal Audit be five years and reappointed at the end of each five year period. Trustee Engstrom reported that this change came as a result of new legislation under the Fiscal Control and Internal Auditing Act requiring all agencies covered by the Act appoint a Director of Internal Audit with a five year term. The Act provides protection for the internal auditor from dismissal without cause. Ms. Berns noted that SURS' current Director of Internal Audit is also protected by the State Universities Civil Service System of Illinois. Discussions were held regarding the implementation of the suggested revision to the Director of Internal Audit's term and the Board agreed to wait until the new Executive Director is in office before implementing any changes. It was noted that SURS' Director of Internal Audit currently holds the position of Interim Ethics Officer as well.

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

Respectfully submitted,



Ms. Judith A. Parker  
Secretary, Board of Trustees

JAP:ssr