MINUTES OF THE AUDIT & COMPLIANCE COMMITTEE MEETING

January 13, 2026

Members Present:
Arnold Black, Vice Chairperson
Barbara J.C. Baird, SERS Trustee
John Tilden, SERS Trustee
Marvin Becker, Comptroller Designee

Others in attendance:
Casey Evans, Chief Internal Auditor
Tim Blair, Executive Secretary

A meeting of the Audit and Compliance Committee of the Illinois State Employees' Retirement System was held on Tuesday, January 13, 2026, at 9:00 a.m. in the System's Springfield office located at 2101 South Veterans Parkway with a video conference location in Chicago, IL.

The meeting was called to order at 9:06 a.m. with a quorum established to conduct business. There were no members of the public present, and no public comments were submitted in advance of the meeting. The October 28, 2025, meeting minutes were provided to the committee in advance of the meeting. A summary of the last meeting was provided by Chief Internal Auditor Evans. Vice Chairperson Black moved to approve the committee minutes. The motion was seconded by Trustee Tilden. A voice vote was taken and the motion passed unanimously.

CIA Evans provided a summary of the internal audit activity performed during the 2nd quarter of fiscal year 2026. The discussion began on IT system testing new features within SERS' modernized member and benefit system. It was explained that the internal auditors had performed work testing the functionality and controls of death benefits payable after retirement which are being processed from the modernized application as opposed to the legacy benefit system. Through this process, the auditors provided feedback to the IT developers including various edit checks that may aid in avoiding benefit overpayments. At this time this benefit module is not yet in production. The auditors continue to work on testing new applications as they become ready for production.

The auditors also re-examined a previously known issue of potentially missed lump sum death benefits payable following a survivor's death. 28 instances were located where lump sum death benefits were payable after the survivor's death which is estimated to be $638,000 in total. CIA Evans moved on to explain another survivor benefit issue raised during the ongoing external financial audit. During the external audit, an instance was located whereby a surviving spouse had been underpaid due to staff failing to transfer accumulated increases earned on a minor surviving child's account to the surviving mother's benefit following the surviving child's benefit ceasing due to age or benefit eligibility. This scenario is commonly known as split-survivor benefits, and it occurs when SERS pays benefits to both a surviving mother and to one or more surviving children.

It was explained that this error appears to be a legacy issue related to a policy change that was put into place in June 2006. CIA Evans explained that prior to this date, accumulated survivor benefit increases would not be transferred from one ceased survivor's record to another continued survivor benefit from the same family based upon an interpretation of the Pension Code. Simply put, prior to June 2006, it is possible that as a minor survivor's benefit ended, the survivor spouses' benefits which continued did not receive the accumulated increases and proper benefit adjustment after another family benefit ended.

Through the external auditors benefit testing, they had located a survivor benefit that they could not properly recalculate. They then asked the CIA to review, assist in the benefit recalculation, and provide an explanation to the error. From this instance, the external auditors were provided with historical information of this policy change and how the benefit should have been properly adjusted. Ultimately, the underpayment of approximately $18,000 was substantiated and a catch-up payment was issued to the survivor impacted.

The external auditors then asked SERS to provide an estimation or potential survivors that could have been impacted by this policy change related to accumulated survivor increases. This was being requested to determine if there is potential for a material understatement of survivor benefits paid on the financial statements. The CIA spent a considerable amount of time in performing data queries and analysis, concluding that potentially 26 current surviving spouses may be impacted due to this policy change over 19 years ago. Rationale and steps performed to arrive at this population were provided to the external auditors along with a listing of survivors who may or may not be impacted.

Currently, it does not appear that this is a material issue that would impact the accuracy of the financial statements, however it is possible that benefit underpayments could exist for recipients who began benefits prior to this policy change. It was noted that the complete recalculation of split survivor benefits from over 20 years prior does take a considerable amount of time, often multiple hours to complete, given the number of adjustments and events over that time period which may include multiple survivor benefits starting or ceasing, suspension and reinstatements, deaths, and applying increases to one or more benefit accounts over a long time period. CIA Evans explained that it is important to point out that this does not appear to be a current issue with survivor benefits being processed given SERS' policy.

The Committee began discussing a review of disability recipients for gainful employment. It was explained that management began a project to mail tax return requests to recipients residing outside of the State of Illinois to determine if the member was gainfully employed while on disability and therefore ineligible for benefits. Internal audit's role in this process was to review tax returns for indicators of gainful employment, substantiate the earner and source of all income reported, and provide information to management in instances where the member appeared to be gainfully employed. It was explained that this was not an audit of the member’s tax return, but rather a method to locate unreported earnings and self-employment of disability recipients. Through this initial mailing and work performed by the auditors, it was learned that two out of state disability recipients were found to be gainfully employed after reviewing tax returns and gathering additional documentation. This resulted in termination of the disability benefits in question. Internal Audit also aided in calculation of overpayment amounts owed in this process. It was noted that additional work over gainful employment of disability recipients would be performed in the coming months with assistance being provided by the auditors. The Committee discussed the various controls used by SERS to locate gainful employment of disability recipients and the commitment to ensuring that only eligible recipients receive SERS disability benefits.

CIA Evans concluded the report on internal activity providing some background on the census data reconciliation for FY2025 and briefly discussing certain member contributions issues located through targeted work at certain state agencies. The Committee was informed that the external financial and compliance examination is still in process and there is nothing to report at this time.

Seeing no new or old business before the Committee, the meeting was adjourned after a motion by Truste Baird and second to the motion by Vice Chairperson Black. The meeting was adjourned at 9:45 a.m. in advance of the SERS Board of Trustees meeting.