

## MINUTES OF THE AUDIT & COMPLIANCE COMMITTEE MEETING

October 29, 2024

### Members Present:

Barbara J.C. Baird, SERS Trustee (via video conference)

Arnold Black, SERS Trustee

Marvin Becker, Comptroller Designee

### Others in attendance:

Casey Evans, Chief Internal Auditor (CIA)

A meeting of the Audit and Compliance Committee of the Illinois State Employees' Retirement System was held on Tuesday, October 29th, 2024, at 9:00 a.m. in the System's Springfield office located at 2101 South Veterans Parkway.

The meeting was called to order at 9:00 a.m. with a quorum established to conduct business. There were no members of the public present, and no public comments were submitted. The July 30, 2024, committee meeting minutes were provided to the Committee in advance of the meeting. Following review of the minutes, Mr. Becker moved to approve the committee minutes. The motion was seconded by Trustee Black. The meeting minutes were approved.

The Committee began discussing internal audit activities including fraud monitoring. CIA Evans explained that some members have been targeted with a variety of scams through DocuSign and text messages which attempt to gather personal or financial information. It is the goal of the retirement system to work towards creating a video on common scams encountered by members and create a separate page on the website with additional fraud and identity theft. It was explained that Internal Audit would work with the Field Services staff regarding the content and design of the video and the webpage.

CIA Evans stated that he continues to monitor all pending COLA and Total Buyout claims for potential indicators of fraud in the Paycheck Protection Program (PPP). To date, SERS has identified 95 members allegedly involved in the PPP fraud, and it is believed that as many as 300 total members may be implicated. Approximately 100 to 150 COLA and total buyout applicants are reviewed each month to search for indicators of PPP fraud.

An update on the member services registration was provided. To date, 14,350 users have been transitioned to the new authentication portal known as iLogin. Just over 34,000 initial letters were mailed in this process

to active users who previously utilized the legacy login portal and approximately 79,000 users will still need to complete conversion to the new authentication portal. It was explained that additional mailings would resume in the Spring to retirees and survivors following the creation of the annual statements. Active, inactive, retirees, and survivors continue to register for iLogin and SRS Member Services each day with SERS staff assisting members in this process. It was noted that this conversion will take some time and progress would be incremental. Future updates will be provided.

The Committee discussed IT Disaster Recovery as a planned internal audit. It was noted that internal audit would sit in and review a future disaster recovery exercise as part of this audit. Internal audit would also make inquiries with staff to determine what important systems, files, and staff accounts would need to be prioritized in a disaster. It was noted that the IT Division is working to finalize the implementation of an additional disaster recovery system which will provide immutable backups. The Committee discussed backup processes and how SERS is reliant on other agencies in the disaster recovery process. The group briefly discussed potential worst-case scenarios and existing plans to ensure continued benefit payments during a serious IT disaster. This audit is expected to be completed in the Spring of 2025.

The Committee discussed a review of the active trustee vacancy. CIA Evans explained that during each active or retiree trustee election he performs testing to ensure each candidate has met the eligibility requirements as outlined in the Pension Code and Administrative Rules. One candidate that applied for a vacant trustee position and who was to be seated notified the Board that she was taking a leave of absence and thus would be an inactive member. It was noted that since the member was not yet seated by the Board, this candidate would not be eligible.

To ensure this vacancy was filled, SERS publicized the Trustee vacancy in the active member trustee position on its website along with the eligibility requirements and details on how to apply. Only one candidate submitted all required eligibility documents and obtained the requisite number of petition signatures to SERS. Based on review of the documents and petition signatures, trustee candidate David Schultz was deemed to meet all eligibility requirements. Documentation on this review was provided to Executive Secretary Blair and was included in the Board meeting packet to all trustees.

The Committee briefly discussed the optional service purchase audit which is in progress. It was noted that thus far the testing has found that the optional service purchase calculations of owed contributions and charged interest were very accurate, with the auditor's calculations often being exact or just several cents different than the calculations performed by staff in the new optional service purchase module. CIA Evans recapped the optional service purchase that is available to members online where they can request, receive, and then choose to accept an optional service purchase offer.

It was explained that the auditors may have located one issue which pertained to the manual updating of service credit, in which the auditors believe that a small group of accounts may have had their service credit updated twice on accident. It was explained that this did not appear to be a widespread issue and was an oversight by staff likely due to communication issues. The auditors are still looking at this issue and will begin working with staff on how these matters should be resolved. Work continues on this project.

The Committee was briefed on active member issues and payroll monitoring reports reviewed by Internal Audit. The internal auditors continue to review payroll reports developed to help locate member contribution issues. CIA Evans provided a few examples of the issues detected and explained that catching the issues sooner, would result in better outcomes for both SERS and the members since the potential errors were being more timely detected. Mr. Becker asked if it was possible to use similar logic in the payroll system to prevent the errors from reaching SERS. The group discussed the possibility of improving controls in the payroll systems in the future but noted that there are some nuances at each agency that could make this difficult.

The Committee discussed the external financial compliance audit. It was noted that the audit is currently ongoing but thus far the retirement system has not been informed of any significant issues. The external auditors are currently focusing most of their efforts in testing member census data at various agencies and performing benefit recalculations. The external auditors have reported that the financial audit is progressing well to finalize the audit before December 31<sup>st</sup>. It is expected that a more detailed update on this audit will be provided during the January 2025 Committee meeting.

CIA Evans provided a brief background on the Quality Assurance Review (QAR) process and noted that he was asked to perform a QAR for the Teachers' Retirement System (TRS). He noted that the QAR review would take about a week to complete and stated that SERS' peer review is due in 2026.

With there being no new or old business brought before the Committee, Trustee Black made a motion to adjourn the meeting, which was seconded by Trustee Baird. The meeting was adjourned at 9:55 a.m.