STATE OF ILLINOIS

AUDITOR GENERAL

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

STATE EMPLOYEES' RETIREMENT SYSTEM

Financial Audit Release Date: January 26, 2017
For the Year Ended June 30, 2016

FINDINGS THIS AUDIT: 1			AGING SCHEDULE OF REPEATED FINDINGS				
	New	Repeat	<u>Total</u>	Repeated Since	Category 1	Category 2	Category 3
Category 1:	0	0	0	2014		16-1	
Category 2:	0	1	1				
Category 3:	0	_0	0				
TOTAL	0	1	1				
FINDINGS LAST AUDIT: 2							

INTRODUCTION

This digest covers the financial statement audit of the State Employees' Retirement System of the State of Illinois (System) as of and for the year ended June 30, 2016. The State Employees' Retirement System's Compliance Examination covering the year ended June 30, 2016 will be issued in a separate report at a later date.

Governmental Accounting Standards Board (GASB) Statement No. 67, Financial Reporting for Pension Plans requires the System to disclose the total pension liability and net pension liability in the financial statement notes as well as other related information as required supplementary information. The System's total pension liability is \$49.2 billion at June 30, 2016. The net pension liability at June 30, 2016 is \$34.2 billion, which is the difference between the System's fiduciary net position of \$15.0 billion and the total pension liability. The System's funded ratio is 30.58%. The criteria used for computing pension liability information in the financial report in accordance with GASB Statement No. 67 differs from the criteria used to compute the actuarial accrued liability and actuarial unfunded liability under the State's funding plan, therefore this information under the State's funding plan is no longer reported in the financial statements.

FINDINGS SYNOPSIS

• (16-1) The State Employees' Retirement System was not in compliance with the Fiscal Control and Internal Auditing Act.

Category 1: Findings that are material weaknesses in internal control and/or a qualification on compliance with State laws and regulations (material noncompliance).

Category 2: Findings that are significant deficiencies in internal control and noncompliance with State laws and regulations.

Category 3: Findings that have no internal control issues but are in noncompliance with State laws and regulations.

{Financial information is summarized on next page.}

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS FINANCIAL AUDIT

For the Years Ended June 30, 2016 and 2015

Additions: Contributions - Participants Contributions - State Agencies and Appropriations Total Contributions Net Appreciation (Depreciation) in Fair Value of Investments Investment Income Investment Expense Net Investment Income Total Additions Deductions: Benefits	\$	256,198,172 1,882,243,268 2,138,441,440 (536,994,456) 449,946,153 (38,394,629) (125,442,932)	\$	266,139,156 1,804,319,356 2,070,458,512 240,297,223 483,264,772
Contributions - State Agencies and Appropriations Total Contributions Net Appreciation (Depreciation) in Fair Value of Investments Investment Income Investment Expense Net Investment Income Total Additions Deductions: Benefits	\$	1,882,243,268 2,138,441,440 (536,994,456) 449,946,153 (38,394,629)	\$	1,804,319,356 2,070,458,512 240,297,223 483,264,772
Total Contributions Net Appreciation (Depreciation) in Fair Value of Investments Investment Income Investment Expense Net Investment Income Total Additions Deductions: Benefits	<u> </u>	2,138,441,440 (536,994,456) 449,946,153 (38,394,629)	_	2,070,458,512 240,297,223 483,264,772
Net Appreciation (Depreciation) in Fair Value of Investments Investment Income Investment Expense Net Investment Income Total Additions Deductions: Benefits	_	(536,994,456) 449,946,153 (38,394,629)		240,297,223 483,264,772
Investment Income Investment Expense Net Investment Income Total Additions Deductions: Benefits		449,946,153 (38,394,629)		483,264,772
Investment Expense Net Investment Income. Total Additions. Deductions: Benefits.		(38,394,629)		
Net Investment Income Total Additions Deductions: Benefits				
Total Additions Deductions: Benefits		(125.442.932)		(42,184,943)
Deductions: Benefits				681,377,052
Benefits		2,012,998,508		2,751,835,564
		2,190,501,203		2,034,858,435
Refunds		26,708,730		23,128,975
Administrative Expenses		16,126,997		16,547,823
Total Deductions		2,233,336,930		2,074,535,233
Net Increase (Decrease) in Net Position	\$	(220,338,422)	\$	677,300,331
STATEMENT OF NET POSITION AND INVESTMENT SUMMARY -				
(All investments held in the Illinois State Board of Investment Commingled				
Fund at fair value)		June 30, 2016		June 30, 2015
U.S. Government and Agency Obligations	\$	2,349,026,919	\$	907,835,826
Foreign Obligations		80,165,287		892,854,266
Corporate Obligations		746,537,021		814,440,237
Common Stock & Equity Funds		4,317,909,601		4,748,492,740
Commingled Funds		961,730,986		770,805,046
Foreign Equity Securities (including Preferred Stock)		2,244,023,753		2,380,176,737
Hedge Funds		1,181,203,258		1,576,250,129
Real Estate Funds		1,704,064,846		1,610,826,230
Private Equity		582,943,357		667,080,662
Money Market Instruments		356,617,721		231,115,398
Real Assets		592,736,380		532,718,107
Bank Loans		449,925,261		697,836,613
Foreign Currency Forward Contracts		(1,337,420)		979,645
Total Investment Portfolio		15,565,546,970		15,831,411,636
Other ISBI Assets Less Liabilities		36,121,555		14,481,914
ISBI Net Position	-	15,601,668,525		15,845,893,550
Investments owned by other retirement systems and other entities		(860,613,893)		(878,639,497)
State Employees' Retirement System Investments	-	14,741,054,632		14,967,254,053
Cash, Receivables and Other Assets		458,065,874		369,445,228
Less: Total Liabilities		(160,592,356)		(77,832,709)
Net Position - Restricted for Pensions	\$	15,038,528,150	\$	15,258,866,572
ADMINISTRATIVE EXPENSES		2016		2015
Personal Services.	\$	5,353,647	\$	5,733,871
Retirement, Group Insurance & Social Security		4,443,709		4,361,535
Electronic Data Processing		3,800,444		3,817,148
Contractual Services		1,768,448		1,812,450
Depreciation and Amortization.		651,528		628,781
Other Expenses (Net)		109,221		194,038
Total Administrative Expenses	\$	16,126,997	\$	16,547,823
SUPPLEMENTARY INFORMATION		June 30, 2016		June 30, 2015
Benefit Recipients		70,031		67,954
Active Members		61,317		63,273
		4,107		4,180
Inactive Members		135,455		135,407
Inactive Members				June 30, 2015
Total		June 30, 2016		June 30, 2013
Total PENSION LIABILITY	\$	June 30, 2016 49 183 947 656	\$	
Total PENSION LIABILITY Total Pension Liability	\$	49,183,947,656	\$	43,267,055,628
Total		49,183,947,656 15,038,528,150		43,267,055,628 15,258,866,572
Total	\$	49,183,947,656 15,038,528,150 34,145,419,506	\$	43,267,055,628 15,258,866,572 28,008,189,056
Total		49,183,947,656 15,038,528,150		43,267,055,628 15,258,866,572 28,008,189,056 35.27%
Total		49,183,947,656 15,038,528,150 34,145,419,506		43,267,055,628 15,258,866,572 28,008,189,056

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

NONCOMPLIANCE WITH THE FISCAL CONTROL AND INTERNAL AUDITING ACT

Noncompliance with Act

The State Employees' Retirement System (System) was not in compliance with the Fiscal Control and Internal Auditing Act (the Act).

Internal audits of all major internal control systems to be conducted every two years

The Act (30 ILCS 10/2003) requires the chief executive officer to ensure that internal audits of all major systems of internal control are conducted at least once every two years. The System was unable to complete internal audits of all major systems of internal control at least every two years as required by the Act.

System was unable to complete required internal audits

System officials indicated the System was not able to provide additional resources to the internal audit function and therefore the current internal auditor did not have adequate time during the fiscal year to complete internal audits as required. (Finding 1, page 39). **This finding has been repeated since 2014.**

Additional resources needed

System officials accepted our recommendation to develop a plan to ensure the internal audit function has the resources necessary to comply with the Act. (For the previous System response, see Digest Footnote #1.)

System officials agree with auditors

AUDITOR'S OPINION

Our auditors stated the financial statements of the State Employees' Retirement System as of June 30, 2016, and for the year then ended, are fairly stated in all material respects.

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO Auditor General

FJM:JAF

SPECIAL ASSISTANT AUDITORS

Our Special Assistant Auditors for this audit were RSM US LLP.

DIGEST FOOTNOTES

#1 - Noncompliance with the Fiscal Control and Internal Audit Act - Previous System Response

The System accepts the finding and will develop a plan to ensure that the internal audit function continues in the event of another vacancy within the position over a significant period of time.