

STATE OF ILLINOIS OFFICE OF THE AUDITOR GENERAL

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

STATE UNIVERSITIES RETIREMENT SYSTEM

Compliance Examination For the Year Ended June 30, 2017 Release Date: January 11, 2018

FINDINGS THIS AUDIT: 1				AGING SCHEDULE OF REPEATED FINDINGS			
	New	<u>Repeat</u>	<u>Total</u>	Repeated Since	Category 1	Category 2	Category 3
Category 1:	0	0	0	2016			16-1
Category 2:	0	0	0				
Category 3:	0	0	1				
TOTAL	0	0	1				
FINDINGS LAST AUDIT: 1							

INTRODUCTION

This digest covers our compliance examination of the State Universities Retirement System (System) for the year ended June 30, 2017. A separate Financial Audit as of and for the year ending June 30, 2017, was previously released on December 21, 2017. In total, this report contains one finding, which was not reported in the Financial Audit.

SYNOPSIS

• (17-01) The System did not always obtain fully completed disclosures from investment managers as required in the Illinois Pension Code.

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 data is summarized on next page summarized on next page.}

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STATE UNIVERSITIES RETIREMENT SYSTEM COMPLIANCE EXAMINATION For the Year Ended June 30, 2017

FINANCIAL OPERATIONS	2017	2016
Additions		
Contributions		
Participants	\$ 363,859,687	\$ 355,341,100
Employer	1,717,467,545	1,647,664,587
Total Contributions	2,081,327,232	2,003,005,687
Investment Income		
Net appreciation (depreciation) in fair market value	1,967,912,694	(256,708,352)
Interest	114,131,741	113,996,822
Dividends	236,551,585	220,725,192
Securities lending	5,885,222	4,215,195
Less: Investment expense	(63,821,279)	(61,993,569)
Net Investment Income	2,260,659,963	20,235,288
Total Additions	4,341,987,195	2,023,240,975
Deductions		
Benefits	2,383,819,393	2,281,769,695
Refund of contributions	118,929,259	111,646,866
Administrative expense	15,303,608	15,210,543
Total Deductions	2,518,052,260	2,408,627,104
Net Increase (Decrease)	\$ 1,823,934,935	\$ (385,386,129)
INVESTMENTS USED FOR BENEFITS AND		
EXPENSES (Defined Benefit Plan)(Unaudited)	JUNE 30, 2017	JUNE 30, 2016
Contributions		
Participants	\$ 278,642,830	\$ 278,883,776
State of Illinois.	1,612,164,501	1,542,946,474
Federal/Trust and other sources	38,386,209	39,348,478
Total Contributions	1,929,193,540	1,861,178,728
Deductions		
Benefits	2,339,897,357	2,235,812,995
Refunds	89,569,617	85,015,923
Administrative Expenses	14,847,009	14,731,372
Total Deductions	2,444,313,983	2,335,560,290
Investments Used to Pay Benefits and Expenses	\$ (515,120,443)	\$ (474,381,562)
SUPPLEMENTARY INFORMATION	JUNE 30, 2017	JUNE 30, 2016
Asset management expenses	\$ 63,291,609	\$ 61,614,201
Investment return	12.2%	0.2%
Average number of employees (Unaudited)	127	125
Number of active members	75,969	78,125
Number of inactive members	90,819	88,536
Number of retirement benefit recipients (Unaudited)	54,902	53,596
Number of survivor benefit recipients (Unaudited)	8,614	8,481
Number of disabilities benefit recipients (Unaudited)	643	671
Number of disabilities retirement allowance recipients (Unaudited)	386	398
EXECUTIVE DIRECTOR		
During Audit Period: W. Bryan Lewis (through 7-5-16), William Mabe (Martin Noven (11-2-16 through current)	Interim 7-1-16 through 1	1-14-16),
Current: Martin Noven		

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

NONCOMPLIANCE WITH THE ILLINOIS PENSION CODE

The State Universities Retirement System (System) did not always obtain fully completed disclosures from investment managers as required in the Illinois Pension Code.

During testing, the auditors noted two of nine (22%) investment manager disclosures returned to the System where the investment manager did not properly disclose the number of contracts with minority, women and disabled person owned businesses and the number of contracts with other than those businesses owned by minority, women or disabled persons. (Finding 1, pages 11-13)

We recommended the System comply with the Illinois Pension Code or seek legislative remedy.

System management disagreed with the finding. In their response to the finding System management stated they are required by law to operate under the broad financial and fiduciary standards set forth in 40 ILCS 5/1-109. They further stated that some of the investment managers indicated that they did not know or did not track the requested information.

AUDITOR'S OPINION

The auditors stated the financial statements of the System as of June 30, 2017, and for the year then ended, are fairly stated in all material respects.

ACCOUNTANT'S OPINION

The accountants conducted a compliance examination of the System for the year ended June 30, 2017, as required by the Illinois State Auditing Act. The accountants stated the System complied, in all material respects, with the requirements described in the report.

Need to comply with the Illinois Pension Code

2 of 9 (22%) investment managers did not properly disclose information required by the Illinois Pension Code

System disagrees with the auditors

This financial audit and compliance examination were conducted by BKD LLP.

SIGNED ORIGINAL ON FILE

Jane Clark Division Director

This report is transmitted in accordance with Section 3-14 of the Illinois State Auditing Act.

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO Auditor General

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