



STATE OF ILLINOIS
**OFFICE OF THE
AUDITOR GENERAL**

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

**FINANCIAL AUDIT
For the Year Ended: June 30, 2011**

Release Date: February 21, 2012

Summary of Findings:

Total this audit:	1
Total last audit:	0
Repeated from last audit:	0

INTRODUCTION

This digest covers our financial audit of the State Employees' Retirement System, State of Illinois (System) for the year ended June 30, 2011. A compliance examination report covering the year ending June 30, 2011 will be issued separately.

FUNDED RATIO

The actuarial accrued liability was valued at \$31.4 billion at June 30, 2011. The actuarial value of assets (at smoothed value) totaled approximately \$11.2 billion at June 30, 2011. The method for determining the actuarial value of the assets was changed beginning with the June 30, 2009 valuation. The method was changed from the market value to a smoothed value where the actuarial investment gains or losses for each year are recognized in equal amounts over the ensuing five-year period.

The difference between the actuarial accrued liability and the actuarial value of assets of \$20.2 billion reflects the unfunded liability of the System at June 30, 2011. The System had a funded ratio (at smoothed value) of 35.6% at June 30, 2011. When using the market value, the System would have had a funded ratio of 34.9% at June 30, 2011.

SYNOPSIS

- The State Employees' Retirement System does not have a policy or procedure for the review of financial journal entries by a person independent of the person that initiates them.

LEGISLATIVE CHANGE TO PENSION CODE

Public Act 96-0889, which was signed into law April 2010, adds a new section to the Pension Code that applies different benefits to anyone first hired in a position covered by the System on or after January 1, 2011. Changes in the pension law include initiating a cap on the salaries used to calculate retirement benefits, raising the minimum eligibility to draw a retirement benefit to age 67 with at least 10 years of service or age 62 with at least 10 years of service credit with a reduced annuity, and limiting cost-of-living annuity adjustments to the lesser of 3% or ½ the annual increase in the Consumer Price Index, whichever is less. The pension law changes do not apply to anyone who has System service prior to January 1, 2011.

{Financial Statement information is summarized on the reverse page}

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

FINANCIAL AUDIT

For The Year Ended June 30, 2011

STATEMENT OF CHANGES IN PLAN NET ASSETS	FY 2011	FY 2010
ADDITIONS: Contributions - Participants.....	\$ 254,201,379	\$ 246,172,971
Contributions - State Agencies and Appropriations.....	1,127,886,796	1,095,545,856
Total Contributions.....	<u>\$ 1,382,088,175</u>	<u>\$ 1,341,718,827</u>
Increase / (Decrease) in Fair Value of Investments.....	1,708,270,995	598,899,494
Investment Income - Net of Management Expenses.....	221,489,114	200,200,994
Interest Earned on Cash Balances.....	448,284	795,373
Total Investment Income / (Loss).....	<u>\$ 1,930,208,393</u>	<u>\$ 799,895,861</u>
Total Revenues.....	<u>\$ 3,312,296,568</u>	<u>\$ 2,141,614,688</u>
DEDUCTIONS: Benefits.....	\$ 1,492,063,647	\$ 1,390,641,192
Refunds.....	37,575,929	15,274,174
Administrative Expenses.....	13,734,961	11,720,755
Total Expenses.....	<u>\$ 1,543,374,537</u>	<u>\$ 1,417,636,121</u>
Net Increase.....	<u>\$ 1,768,922,031</u>	<u>\$ 723,978,567</u>

INVESTMENT SUMMARY - (All investments held in the Illinois State Board of Investment commingled fund at fair value)	June 30, 2011	June 30, 2010
Government and Agency Obligations.....	\$ 1,367,098,751	\$ 810,739,312
Foreign Obligations.....	37,951,769	44,409,906
Corporate Obligations.....	762,833,382	925,668,388
Common Stock & Equity Funds (including Commingled Funds).....	3,637,016,232	3,127,655,201
Preferred Stock.....	40,032	697,600
Foreign Equity Securities.....	2,195,201,185	1,733,177,670
Hedge Funds.....	1,075,584,754	917,854,201
Real Estate Investments.....	819,053,366	750,210,957
Private Equity.....	629,256,286	542,441,291
Money Market Instruments.....	303,501,465	270,231,935
Infrastructure Funds.....	417,267,415	320,293,041
Bank Loans.....	253,447,070	222,623,999
Forward Foreign Currency Contracts.....	(353)	(266,410)
Total Investment Portfolio.....	<u>\$ 11,498,251,354</u>	<u>\$ 9,665,737,091</u>
Other ISBI Assets Less Liabilities.....	29,373,670	12,966,711
ISBI Net Assets.....	<u>\$ 11,527,625,024</u>	<u>\$ 9,678,703,802</u>
Investments owned by other retirement systems, GARS & JRS.....	(645,141,020)	(558,102,108)
State Employees' Retirement System Investments.....	<u>\$ 10,882,484,004</u>	<u>\$ 9,120,601,694</u>

ADMINISTRATIVE EXPENSES	FY 2011	FY 2010
Personal Services.....	\$ 4,464,468	\$ 4,248,014
Electronic Data Processing.....	3,523,259	2,665,507
Retirement, Insurance & Social Security.....	2,688,879	2,510,826
Contractual Services.....	2,370,364	1,777,453
Depreciation.....	370,227	272,329
Other Expenses (Net).....	124,214	56,662
Telecommunication.....	76,199	67,333
Printing.....	50,517	42,225
Commodities.....	28,453	27,108
Travel.....	24,080	39,497
Operation of Automotive Equipment.....	14,301	13,801
Total Administrative Expenses.....	<u>\$ 13,734,961</u>	<u>\$ 11,720,755</u>

FUNDING PROGRESS - at smoothed value	June 30, 2011	June 30, 2010
Actuarial Accrued Liability.....	\$ 31,395,007,782	\$ 29,309,464,296
Actuarial Value of Assets.....	11,159,836,617	10,961,540,164
Unfunded Actuarial Accrued Liability.....	<u>\$ 20,235,171,165</u>	<u>\$ 18,347,924,132</u>
Funded Ratio.....	35.6%	37.4%

EXECUTIVE SECRETARY

During Engagement Period: Timothy B. Blair

Currently: Timothy B. Blair

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

JOURNAL ENTRY REVIEW

System has no policy for review of financial journal entries

The State Employees' Retirement System (System) does not have a policy or procedure for the review of financial journal entries by a person independent of the person that initiates them.

During our audit testing, we noted the same individual prepares and records the financial journal entries without an independent review by another individual.

System officials indicated it lacked appropriate personnel to perform a meaningful review

System officials indicated the management staff preparing the journal entries are not involved in the preparation and/or processing of the underlying transactions. Due to the relatively small size of the Accounting Division, however, there has been a lack of appropriate personnel to perform a meaningful review of financial journal entries. (Finding #1, page 30)

We recommended the System develop a policy and procedure for someone independent of the individual preparing and recording financial journal entries to document their review of the financial journal entries and related supporting documentation.

System officials accepted our recommendation

System officials indicated that the System would reallocate the review function of financial journal entries to other management staff which are independent of the person that initiates them.

AUDITORS' OPINION

The auditors stated the financial statements of the State Employees' Retirement System of Illinois as of June 30, 2011, and for the year then ended, are fairly stated in all material respects.



WILLIAM G. HOLLAND
.. Auditor General

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SPECIAL ASSISTANT AUDITORS

Our special assistant auditors for this audit were BKD LLP.