

STATE UNIVERSITIES RETIREMENT SYSTEM
COMPLIANCE EXAMINATION
For the Year Ended June 30, 2018

FINANCIAL OPERATIONS	2018	2017
Additions		
Contributions		
Participants.....	\$ 366,944,715	\$ 363,859,687
Employer.....	1,677,312,471	1,717,467,545
Total Contributions.....	<u>2,044,257,186</u>	<u>2,081,327,232</u>
Investment Income		
Net appreciation (depreciation) in fair market value.....	1,467,434,542	1,967,912,694
Interest.....	127,396,974	114,131,741
Dividends.....	232,971,148	236,551,585
Securities lending.....	4,741,875	5,885,222
Less: Investment expense.....	(73,708,756)	(63,821,279)
Net Investment Income.....	<u>1,758,835,783</u>	<u>2,260,659,963</u>
Total Additions.....	<u>3,803,092,969</u>	<u>4,341,987,195</u>
Deductions		
Benefits.....	2,497,944,964	2,383,819,393
Refund of contributions.....	123,842,578	118,929,259
Administrative expense.....	14,848,138	15,303,608
Total Deductions.....	<u>2,636,635,680</u>	<u>2,518,052,260</u>
Net Increase (Decrease).....	<u>\$ 1,166,457,289</u>	<u>\$ 1,823,934,935</u>
INVESTMENTS USED FOR BENEFITS AND EXPENSES (Defined Benefit Plan)(Unaudited)	JUNE 30, 2018	JUNE 30, 2017
Contributions		
Participants.....	\$ 282,726,126	\$ 278,642,830
State of Illinois.....	1,568,220,976	1,612,164,501
Federal/Trust and other sources.....	39,659,344	38,386,209
Total Contributions.....	<u>1,890,606,446</u>	<u>1,929,193,540</u>
Deductions		
Benefits.....	2,446,291,238	2,339,897,357
Refunds.....	93,492,132	89,569,617
Administrative Expenses.....	14,396,609	14,847,009
Total Deductions.....	<u>2,554,179,979</u>	<u>2,444,313,983</u>
Investments Used to Pay Benefits and Expenses.....	<u>\$ (663,573,533)</u>	<u>\$ (515,120,443)</u>
SUPPLEMENTARY INFORMATION	JUNE 30, 2018	JUNE 30, 2017
Asset management expenses.....	\$ 73,281,987	\$ 63,291,609
Investment return.....	8.2%	12.2%
Average number of employees (Unaudited).....	129	127
Number of active members.....	74,950	75,969
Number of inactive members.....	91,874	90,819
Number of retirement benefit recipients (Unaudited).....	56,293	54,902
Number of survivor benefit recipients (Unaudited).....	8,844	8,614
Number of disabilities benefit recipients (Unaudited).....	651	643
Number of disabilities retirement allowance recipients (Unaudited).....	381	386
EXECUTIVE DIRECTOR		
During Audit Period: Martin Noven		
Current: Martin Noven		

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

**NONCOMPLIANCE WITH THE ILLINOIS PENSION
CODE**

**Need to comply 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.

**1 of 7 (14%) investment managers
did not properly disclose
information required by the Illinois
Pension Code**

During testing, the auditors noted one of seven (14%) 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. The investment manager informed the System that not all of this information was tracked. (Finding 1, pages 11-13) **This finding has been repeated since 2016.**

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

System disagrees with the auditors

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 the investment manager referenced in the finding supplied a numerical response of 0 but supplemented their response that they do not track all of the requested information. (*For the previous System response, see Digest Footnote #1.*)

ACCOUNTANT'S OPINION

The accountants conducted a compliance examination of the System for the year ended June 30, 2018, 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.

This compliance examination was 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

FJM:TLK

DIGEST FOOTNOTES

#1 – Noncompliance with the Illinois Pension Code – Previous System Response

2017 The System respectfully disputes this finding again this year. The reasons for the System’s position were noted in last year’s response and are repeated below; however supporting references were not repeated. Investments staff was aware of this mandate last year and continues its formal process established last year that requests prospective service providers to disclose this information. The RFP form SURS uses, documents each data element required by this law and all prospective managers must submit a disclosure as required by 40 ILCS 5/1-113.21(a). Prior to last year’s audit, some of the manager responses did not contain numerical responses. Instead, a few of the managers indicated that they did not know, did not track or could not legally provide all of the requested information. Prior to last year, SURS accepted non-numerical responses. SURS process for new RFP’s has been updated and now requires a numerical response with no additional notations. Of the two findings noted this year, one was for a contract completed prior to the drafting of last year’s finding. The other finding was for a manager which supplied a numerical answer, however footnoted they don’t track all of the requested information. As their response stated 0, the actual number could not possibly be lower. The decision to retain the firm was based on the worst possible case.

SURS is required by law to operate under the broad financial and fiduciary standards set forth in 40 ILCS 5/1-109. SURS believes the intent of 40 ILCS 5/1-113.21(a) is not to exclude managers solely on the basis of this reporting requirement. This is supported by the language in subsection (b) of the statute which requires these disclosures to be “considered within the bounds of financial and fiduciary prudence...” Finalist candidate RFP forms documenting the required disclosures are given, in their entirety, to each Board member for their use in the selection process. Therefore, all responses received (numeric or explanatory in nature) were given full fiduciary consideration prior to the awarding of each contract, consistent with 40 ILCS 5/1-113.21 (b) and 40 ILCS 5/1-109.

In addition, 40 ILCS 5/1-113.21(a) does not require investment managers to create information they do not already possess. If they respond to the RFP by indicating that they do not track the requested information or do not have access to it, they are still making a disclosure as required by the statute even if they do not have specific numbers to include in their response to the RFP. Although their

inability to provide the requested information is considered as part of the overall selection process, it should not be deemed to be noncompliance with the statutory disclosure requirements.

SURS maintains its position that it complies with this law given the nature and intent of the statute when combined with the fiduciary prudence used by SURS in its manager selection process, as required by 40 ILCS 5/1-113.21(b) and 40 ILCS 5/1-109, however with the recent changes, believes it complies with the letter of the law as interpreted by the auditors.