



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

Frank J. Mautino, Auditor General

**SUMMARY REPORT DIGEST**

**JUDGES' RETIREMENT SYSTEM**

Compliance Examination  
 For the Year Ended June 30, 2016

Release Date: May 11, 2017

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

**INTRODUCTION**

This digest covers our Compliance Examination of the Judges' Retirement System for the year ended June 30, 2016. A separate Financial Audit as of and for the year ending June 30, 2016, was previously released on January 26, 2017. In total, this report contains 2 findings, 1 of which was also reported in the Financial Audit.

**SYNOPSIS**

- (16-2) The State Retirement System, which administers the Judges' Retirement System, has weaknesses in their change management procedures.

**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.

{Expenditures and Activity Measures are summarized on next page.}

**JUDGES' RETIREMENT SYSTEM OF ILLINOIS**  
**COMPLIANCE EXAMINATION**  
**For the Year Ended June 30, 2016**

EXPENSE AND RECEIPT STATISTICS	FY 2016	FY 2015
<b>Total Expenditures</b> .....	<b>\$ 273,127,249</b>	<b>\$ 284,428,469</b>
General Revenue Fund - 001:		
Continuing appropriation for pension contributions.....	132,060,000	133,982,000
Kanerva vs. State Trust Fund - 0234:		
Annuitant disbursement.....	-	1,897,535
Judges' Retirement System Fund - 477:		
Pensions, annuities and benefits.....	131,156,743	124,685,037
Purchase of investments.....	6,500,000	20,700,000
Refunds.....	759,905	956,998
Personal services.....	521,580	626,250
Other payroll costs.....	398,724	437,191
Contractual services.....	173,555	134,293
Electronic data processing.....	124,920	15,706
All other expenses.....	9,733	11,962
Judges' Retirement Excess Benefit Fund - 787:		
Pensions, annuities and benefits.....	1,422,089	981,497
<b>Total Receipts</b> .....	<b>\$ 157,568,734</b>	<b>\$ 149,695,023</b>
CHANGES IN INVESTMENT BALANCES	June 30, 2016	June 30, 2015
Balance at beginning of year, at fair value.....	\$ 795,296,831	\$ 738,704,938
Net cash transferred to (from) investments, net.....	(3,500,000)	20,700,000
Net investments.....	791,796,831	759,404,938
Investment income - interest, dividends and other.....	23,921,071	25,343,901
Investment expenses.....	(2,045,207)	(2,215,206)
Net investment income.....	21,875,864	23,128,695
Net unrealized gain (loss) on investments.....	(35,296,036)	(12,932,887)
Net realized gain on sales of investments.....	6,799,503	25,696,085
Net appreciation (depreciation) in fair value of investments.....	(28,496,533)	12,763,198
Total net investment income (loss).....	(6,620,669)	35,891,893
Balance at end of year, at fair value.....	\$ 785,176,162	\$ 795,296,831
CONTRIBUTIONS/DEDUCTIONS AND EFFECT ON INVESTMENTS (UNAUDITED)	FY 2016	FY 2015
<b>CONTRIBUTIONS:</b>		
Participant.....	\$ 14,962,055	\$ 15,431,105
Employer.....	132,060,000	134,039,684
Total Contributions.....	147,022,055	149,470,789
<b>DEDUCTIONS:</b>		
Benefits.....	132,571,796	125,654,349
Refunds.....	658,051	945,807
Administration.....	942,950	982,656
Total Deductions.....	134,172,797	127,582,812
Contributions in Excess of Deductions (Investments used to pay Benefits and Expenses).....	\$ 12,849,258	\$ 21,887,977
SUPPLEMENTARY INFORMATION (UNAUDITED)	June 30, 2016	June 30, 2015
Number of System employees.....	6	6
Retirees and beneficiaries receiving benefits.....	1,144	1,121
Total members.....	959	985
Total active members.....	947	961
Money-weighted rate of return.....	-0.57%	5.08%
<b>EXECUTIVE SECRETARY</b>		
During Engagement Period: Timothy Blair		
Currently: Timothy Blair		

## FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

### CHANGE MANAGEMENT WEAKNESSES

The State Retirement System, which administers the Judges' Retirement System (System), has weaknesses in their change management procedures.

**The System develops and deploys custom software to manage pension accounts**

The System develops and deploys custom software to manage pension accounts of Illinois members and collects, stores, and processes confidential and protected information related to this mission.

**Change management procedures did not address migrating changes into the production environment**

The System had established formal change management procedures; however, the procedures did not address migrating changes into the production environment. In addition, programmers developing and making changes to applications had access to the production environment and the capability to implement changes. Furthermore, monitoring tools were not in place to detect unauthorized code migrations. (Finding 2, page 10)

**Programmers had access to the production environment**

We recommended the System update its change management procedures to address specific procedures for migrating changes into the production environment. The procedures should include a standard form for requesting a change be moved into production and include user and management approval. In addition, programmers should be prevented from migrating changes into the production environment. If the Office determines that programmer access is necessary in some situations, it should establish and enforce compensating controls to ensure appropriate and documented management oversight and approval.

**System officials accepted auditor's recommendation**

System officials accepted the auditor's recommendation and indicated a change control process has been implemented for all legacy systems and the State Retirement System IT Division is currently working towards implementing an automated approval and deployment process which it hopes to achieve in calendar year 2017.

### OTHER FINDINGS

The remaining finding pertains to noncompliance with the Fiscal Control and Internal Auditing Act. We will review the System's progress towards the implementation of our recommendations in our next State compliance examination.

**ACCOUNTANT'S OPINION**

The accountants conducted a compliance examination of the System for the year ended June 30, 2016, 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 State compliance examination was conducted by RSM US LLP.

**SIGNED ORIGINAL ON FILE**

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BRUCE L. BULLARD  
Division Director

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

**SIGNED ORIGINAL ON FILE**

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FRANK J. MAUTINO  
Auditor General

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