



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, 2017

Release Date: April 26, 2018

FINDINGS THIS AUDIT: 2	AGING SCHEDULE OF REPEATED FINDINGS						
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
Category 1:	0	0	0	2016		17-1	
Category 2:	1	1	2				
Category 3:	0	0	0				
TOTAL	1	1	2				
FINDINGS LAST AUDIT: 2							

INTRODUCTION

This digest covers our Compliance Examination of the Judges' Retirement 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 February 8, 2018. In total, this report contains 2 findings, none of which were reported in the Financial Audit.

SYNOPSIS

- (17-1) 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, 2017

EXPENSE AND RECEIPT STATISTICS	FY 2017	FY 2016
Total Expenditures.....	\$ 290,926,545	\$ 273,127,249
General Revenue Fund - 001:		
Continuing appropriation for pension contributions.....	131,334,000	132,060,000
Judges' Retirement System Fund - 477:		
Pensions, annuities and benefits.....	138,808,919	131,156,743
Purchase of investments.....	17,000,000	6,500,000
Refunds.....	973,609	759,905
Personal services.....	514,392	521,580
Other payroll costs.....	382,045	398,724
Contractual services.....	144,614	173,555
Electronic data processing.....	68,720	124,920
All other expenses.....	11,958	9,733
Judges' Retirement Excess Benefit Fund - 787:		
Pensions, annuities and benefits.....	1,688,288	1,422,089
Total Receipts.....	\$ 135,850,315	\$ 157,568,734
CHANGES IN INVESTMENT BALANCES	June 30, 2017	June 30, 2016
Balance at beginning of year, at fair value.....	\$ 785,176,162	\$ 795,296,831
Net cash transferred to (from) investments, net.....	17,000,000	(3,500,000)
Net investments.....	<u>802,176,162</u>	<u>791,796,831</u>
Investment income - interest, dividends and other.....	21,440,508	23,921,071
Investment expenses.....	(1,558,942)	(2,045,207)
Net investment income.....	<u>19,881,566</u>	<u>21,875,864</u>
Net unrealized gain (loss) on investments.....	54,117,000	(35,296,036)
Net realized gain on sales of investments.....	23,477,390	6,799,503
Net appreciation (depreciation) in fair value of investments.....	<u>77,594,390</u>	<u>(28,496,533)</u>
Total net investment income (loss).....	<u>97,475,956</u>	<u>(6,620,669)</u>
Balance at end of year, at fair value.....	<u>\$ 899,652,118</u>	<u>\$ 785,176,162</u>
CONTRIBUTIONS/DEDUCTIONS AND EFFECT ON INVESTMENTS (UNAUDITED)	FY 2017	FY 2016
CONTRIBUTIONS:		
Participant.....	\$ 14,770,467	\$ 14,962,055
Employer.....	131,334,000	132,060,000
Total Contributions.....	<u>146,104,467</u>	<u>147,022,055</u>
DEDUCTIONS:		
Benefits.....	140,497,204	132,571,796
Refunds.....	974,665	658,051
Administration.....	914,405	942,950
Total Deductions.....	<u>142,386,274</u>	<u>134,172,797</u>
Contributions in Excess of Deductions (Investments used to pay Benefits and Expenses).....	<u>\$ 3,718,193</u>	<u>\$ 12,849,258</u>
SUPPLEMENTARY INFORMATION (UNAUDITED)	June 30, 2017	June 30, 2016
Number of System employees.....	5	6
Retirees and beneficiaries receiving benefits.....	1,175	1,144
Total members.....	964	959
Total active members.....	953	947
Money-weighted rate of return.....	12.4%	-0.6%
EXECUTIVE SECRETARY		
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 1, page 10)

Programmers had access to the production environment

We recommended the System continue to update its change management procedures to address specific procedures for migrating changes into the production environment. We also recommended, the procedures include a standard form for requesting a change be moved into production and include user and management approval and ensure programmers are prevented from migrating changes into the production environment. Lastly, we recommended 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 they are working to implement an upgrade to existing software in calendar year 2018 which will remedy the change management weaknesses noted.

OTHER FINDING

The remaining finding pertains to the System not properly monitoring its contracts during the engagement period. 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 State compliance examination of the Judges' Retirement 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.

This State compliance examination was conducted by RSM US 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:JAF