



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

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

STATE EMPLOYEES' RETIREMENT SYSTEM

**COMPLIANCE EXAMINATION
For the Year Ended: June 30, 2013**

Release Date: March 20, 2014

Summary of Findings:

• Compliance Examination	1
• Financial Audit (previously reported 1-8-14)	<u>1</u>
Total findings:	2
Total last report:	1
Repeated from last audit:	0

SYNOPSIS

This digest covers our compliance examination of the State Employees' Retirement System (System) for the year ended June 30, 2013. A financial audit covering the year ending June 30, 2013 was previously released on January 8, 2014. In total this report contains two finding, one of which was previously reported in the Financial Audit.

- The System lacked an adequate project management framework, and the development process over computer system projects was not properly controlled and documented.

{Financial data is summarized on the reverse page.}

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS
COMPLIANCE EXAMINATION
For the Year Ended June 30, 2013

EXPENDITURE STATISTICS	FY 2013	FY 2012
Total Expenditures.....	\$ 2,913,366,784	\$ 2,593,396,827
General Revenue Fund - 001:		
Continuing appropriation for pension contributions.....	1,041,371,800	899,504,680
Continuing appropriation fiscal year shortfall.....	7,397,876	4,630,573
All other expenses.....	53,218	94,443
State Employees' Retirement System Fund - 479:		
Pensions, annuities and benefits.....	1,775,907,400	1,603,234,431
Refunds.....	43,532,480	40,254,114
Payments to General Obligation Retirement Fund.....	27,690,883	29,941,271
Electronic data processing.....	5,212,094	4,930,573
Personal services.....	5,197,643	4,802,680
Other payroll costs (Retirement, Social Security and Group Insurance).....	4,028,423	3,262,800
Contractual services.....	2,628,497	2,409,792
All other expenses.....	228,969	267,911
State Employee Retirement System Excess Benefit Fund - 788:		
Pensions, annuities and benefits.....	117,501	63,559
Total Receipts.....	\$ 1,852,878,884	\$ 1,744,371,291
ANALYSIS OF PLAN INVESTMENTS	June 30, 2013	June 30, 2012
Balance at beginning of year, at fair value.....	\$ 10,675,772,261	\$ 10,882,484,004
Net cash added (withdrawn) from investments.....	-	(212,000,000)
Net investments.....	<u>10,675,772,261</u>	<u>10,670,484,004</u>
Investment income - interest, dividends and other.....	351,536,458	288,329,452
Investment expenses.....	(35,850,179)	(34,422,808)
Net investment income.....	<u>315,686,279</u>	<u>253,906,644</u>
Net realized gain (loss) on sales of investments.....	234,134,905	318,388,993
Net unrealized gain (loss) on investments.....	950,865,746	(567,007,380)
Net appreciation (depreciation) in fair value of investments.....	<u>1,185,000,651</u>	<u>(248,618,387)</u>
Total net investment income.....	<u>1,500,686,930</u>	<u>5,288,257</u>
Balance at end of year, at fair value.....	<u>\$ 12,176,459,191</u>	<u>\$ 10,675,772,261</u>
INVESTMENTS USED FOR BENEFITS AND EXPENSES (UNAUDITED)	FY 2013	FY 2012
CONTRIBUTIONS:		
Participant.....	\$ 248,169,706	\$ 259,122,881
Employer.....	1,531,932,137	1,391,416,375
Total Contributions.....	<u>1,780,101,843</u>	<u>1,650,539,256</u>
DEDUCTIONS:		
Benefits.....	1,799,965,655	1,627,373,601
Refunds.....	24,290,402	23,500,325
Administration.....	17,471,327	15,705,561
Total Deductions.....	<u>1,841,727,384</u>	<u>1,666,579,487</u>
Investments used to pay Benefits and Expenses.....	<u>\$ (61,625,541)</u>	<u>\$ (16,040,231)</u>
SUPPLEMENTARY INFORMATION (UNAUDITED)	June 30, 2013	June 30, 2012
Number of System employees.....	99	87
Retirees and beneficiaries receiving benefits	65,050	62,788
Total members	85,529	85,373
Total active members	61,545	62,732
Total return on investments	14.1%	0.1%
EXECUTIVE SECRETARY		
During Engagement Period: Timothy Blair		
Currently: Timothy Blair		

FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS

**NEED TO IMPROVE PROJECT MANAGEMENT
OVER THE DEVELOPMENT OF COMPUTER
SYSTEMS**

The State Employees' Retirement System (System) did not have an adequate project management framework, and had not ensured the development process over computer system projects was properly controlled and documented.

Project ongoing for five years

During our examination we noted that there were problems with the Modernization - Re-Engineering Project. The project has been ongoing for five years, is only 20% complete, and over \$2,000,000 has been expended by the State Retirement Systems collectively. Due to staffing issues and the lack of a project management framework and the associated documentation, the project has not been fully implemented. In addition, formal documentation to provide detailed information on the current status and projected completion date is lacking.

Lack of documentation

**System development methodologies
were not instituted**

We also found that the generally accepted practices and steps associated with an effective system development methodology were not instituted. System management stated a lack of adequate staffing led to the delays in the re-engineering project. (Finding 2, pages 13-14)

We recommended the System:

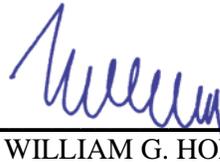
- Develop and implement a project management framework and tools to ensure projects are adequately monitored and documented.
- Ensure all required documentation is developed, reviewed, and approved by the System prior to system implementation.
- Ensure all system and user testing is properly conducted, reviewed, approved and documented prior to system implementation.
- Ensure all changes are adequately reviewed, tested, approved and documented prior to system implementation.

System agrees with auditors

System officials agreed with our recommendation and indicated that a project management framework, application development methodologies, and change management controls have since been implemented to address these issues.

ACCOUNTANTS' REPORT

The auditors conducted a compliance attestation examination of the System for the year ended June 30, 2013 as required by the Illinois State Auditing Act. The accountants' report does not contain any scope limitations, disclaimers or other significant non-standard language.



WILLIAM G. HOLLAND
Auditor General

WGH:JAF

SPECIAL ASSISTANT AUDITORS

Our special assistant auditors for the compliance examination were BKD LLP.