



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, 2013

Release Date: January 8, 2014

Summary of Findings:

Total this audit:	1
Total last audit:	1
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, 2013. A compliance examination report covering the year ending June 30, 2013 will be issued in a separate report at a later date.

FUNDED RATIO

The actuarial accrued liability was valued at \$34.7 billion at June 30, 2013. The actuarial value of assets (at smoothed value) totaled approximately \$11.9 billion at June 30, 2013. The method for determining the actuarial value of the assets was changed beginning with the June 30, 2009 valuation 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 \$22.8 billion reflects the unfunded liability of the System at June 30, 2013. The System had a funded ratio (at smoothed value) of 34.2% at June 30, 2013. When using the market value, the System would have had a funded ratio of 35.7% at June 30, 2013.

SYNOPSIS

- The State Employees' Retirement System did not maintain an adequate allowance for uncollectible accounts receivable.

{Financial Statement information is summarized on the reverse page}

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS
FINANCIAL AUDIT
For the Year Ended June 30, 2013

STATEMENT OF CHANGES IN PLAN NET POSITION	2013	2012
Additions:		
Contributions - Participants.....	\$ 248,169,706	\$ 259,122,881
Contributions - State Agencies and Appropriations.....	1,531,932,137	1,391,416,375
Total Contributions.....	<u>1,780,101,843</u>	<u>1,650,539,256</u>
Net Appreciation / (Depreciation) in Fair Value of Investments.....	1,185,000,651	(248,618,387)
Net Investment Income.....	315,686,279	253,906,644
Interest Earned on Cash Balances.....	551,261	687,112
Total Investment Income / (Loss).....	<u>1,501,238,191</u>	<u>5,975,369</u>
Total Additions.....	<u>3,281,340,034</u>	<u>1,656,514,625</u>
Deductions:		
Benefits.....	1,799,965,655	1,627,373,601
Refunds.....	24,290,402	23,500,325
Administrative Expenses.....	17,471,327	15,705,561
Total Deductions.....	<u>1,841,727,384</u>	<u>1,666,579,487</u>
Net Increase/(Decrease).....	<u>\$ 1,439,612,650</u>	<u>\$ (10,064,862)</u>

INVESTMENT SUMMARY - (All investments held in the Illinois State Board of Investment Commingled Fund at fair value)	June 30, 2013	June 30, 2012
U.S. Government and Agency Obligations.....	\$ 887,400,073	\$ 958,131,279
Foreign Obligations.....	415,070,013	385,628,617
Corporate Obligations.....	674,154,128	656,977,663
Common Stock & Equity Funds.....	3,916,478,305	3,253,103,566
Commingled Funds.....	317,408,396	225,608,712
Foreign Equity Securities (including Preferred Stock).....	2,329,869,123	2,013,366,729
Hedge Funds.....	1,166,602,482	1,026,725,785
Real Estate Funds.....	1,294,600,976	967,346,450
Private Equity.....	643,775,529	679,423,383
Money Market Instruments.....	237,649,781	255,922,180
Real Assets.....	550,739,042	507,019,665
Bank Loans.....	416,649,247	328,593,596
Forward Foreign Currency Contracts.....	(412,825)	(43,859)
Total Investment Portfolio.....	<u>12,849,984,270</u>	<u>11,257,803,766</u>
Other ISBI Assets Less Liabilities.....	16,472,966	26,132,919
ISBI Net Assets.....	<u>12,866,457,236</u>	<u>11,283,936,685</u>
Investments owned by other retirement systems and other entities.....	(689,998,045)	(608,164,424)
State Employees' Retirement System Investments.....	<u>\$ 12,176,459,191</u>	<u>\$ 10,675,772,261</u>

ADMINISTRATIVE EXPENSES	2013	2012
Personal Services.....	\$ 5,197,492	\$ 4,802,680
Electronic Data Processing.....	4,758,679	4,619,087
Retirement, Group Insurance & Social Security.....	4,028,423	3,262,116
Contractual Services.....	2,691,900	2,381,755
Depreciation.....	394,875	340,997
Other Expenses (Net).....	189,097	116,512
Telecommunications.....	92,329	79,703
Printing.....	61,649	35,672
Commodities.....	26,742	31,180
Travel.....	19,977	20,095
Operation of Automotive Equipment.....	10,164	15,764
Total Administrative Expenses.....	<u>\$ 17,471,327</u>	<u>\$ 15,705,561</u>

FUNDING PROGRESS - at smoothed value	June 30, 2013	June 30, 2012
Actuarial Accrued Liability.....	\$ 34,720,764,557	\$ 33,091,186,194
Actuarial Value of Assets.....	11,877,418,896	11,477,264,329
Unfunded Actuarial Accrued Liability.....	<u>\$ 22,843,345,661</u>	<u>\$ 21,613,921,865</u>
Funded Ratio.....	34.2%	34.7%

EXECUTIVE SECRETARY
During Engagement Period: Timothy B. Blair
Currently: Timothy B. Blair

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

**ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS
RECEIVABLE**

The System did not maintain an adequate allowance for uncollectible accounts

The State Employees' Retirement System (System) did not maintain an adequate allowance for uncollectible accounts receivable.

The System had \$3.1 million in delinquent accounts

During testing, we noted the System had delinquent accounts receivable of \$3,100,000 at June 30, 2013. Of the delinquent balance \$540,000 was over ten years old. Based on a review of receivable aging and other risk factors identified, we determined that the System should have evaluated the delinquent receivables to estimate the allowance for the portion of the receivables that it believes might be uncollectible and to determine its potential impact on the fair presentation of the financial statements.

No formal methodology to evaluate uncollectible accounts

The System did not have a formal methodology to review and evaluate the allowance for uncollectible accounts receivable that takes into account historical factors, such as collections, along with other qualitative factors. The System passed on recording any adjustment for an estimated allowance to accounts receivable because the delinquent balance was not material to the financial statements.

System officials stated they do not write-off accounts receivable amounts until notified by the Attorney General they are not collectible. (Finding #1, pages 36-37)

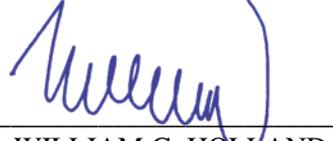
We recommended the System develop and adopt a methodology to review and evaluate an estimate for the allowance for uncollectible accounts receivable.

System officials agree with auditors

System officials indicated that they concur with the finding and have already developed and adopted a methodology to review and evaluate an estimate for the allowance for uncollectible accounts receivable.

AUDITORS' OPINION

The auditors stated the financial statements of the State Employees' Retirement System of Illinois as of June 30, 2013 and for the year then ended, are fairly stated in all material respects.



WILLIAM G. HOLLAND
Auditor General

WGH:JAF

SPECIAL ASSISTANT AUDITORS

Our special assistant auditors for this audit were BKD LLP.