



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

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

STATE EMPLOYEES' RETIREMENT SYSTEM

**Financial Audit
 For the Year Ended June 30, 2014**

Release Date: January 22, 2015

FINDINGS THIS AUDIT: 3			
	<u>New</u>	<u>Repeat</u>	<u>Total</u>
Category 1:	0	0	0
Category 2:	3	0	3
Category 3:	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL	3	0	3
FINDINGS LAST AUDIT: 1			

INTRODUCTION

This digest covers the financial statement audit of the State Employees' Retirement System of the State of Illinois (System) as of and for the year ended June 30, 2014. The State Employees' Retirement System's Compliance Examination covering the year ended June 30, 2014 will be issued in a separate report at a later date.

During fiscal year 2014 the System implemented Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans*. Implementation of the new statement requires the System to disclose the total pension liability and net pension liability in the financial statement notes as well as other related information as required supplementary information. The System's total pension liability is \$41.7 billion at June 30, 2014. The net pension liability at June 30, 2014 is \$27.1 billion, which is the difference between the System's fiduciary net position of \$14.6 billion and the total pension liability. The System's funded ratio is 34.98%. The criteria used for computing pension liability information in the financial report in accordance with GASB Statement No. 67 differs from the criteria used to compute the actuarial accrued liability and actuarial unfunded liability under the State's funding plan. The pension information under the State's funding plan is no longer reported in the financial statements.

FINDINGS SYNOPSIS

- (14-2) The State Employees' Retirement System has weaknesses in controls over creditable earnings and member census data reported by its participating State agencies.

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.

{Financial information is summarized on next page.}

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS
FINANCIAL AUDIT
For the Year Ended June 30, 2014

STATEMENT OF CHANGES IN PLAN NET POSITION	2014	2013
Additions:		
Contributions - Participants.....	\$ 269,232,241	\$ 248,169,706
Contributions - State Agencies and Appropriations.....	1,699,447,826	1,531,932,137
Total Contributions.....	<u>1,968,680,067</u>	<u>1,780,101,843</u>
Net Appreciation in Fair Value of Investments.....	1,809,958,589	1,185,000,651
Investment Income **.....	399,860,754	316,237,540
Investment Expense	(40,473,085)	-
Net Investment Income.....	<u>2,169,346,258</u>	<u>1,501,238,191</u>
Total Additions.....	<u>4,138,026,325</u>	<u>3,281,340,034</u>
Deductions:		
Benefits.....	1,917,062,639	1,799,965,655
Refunds.....	23,082,814	24,290,402
Administrative Expenses.....	16,615,105	17,471,327
Total Deductions.....	<u>1,956,760,558</u>	<u>1,841,727,384</u>
Net Increase.....	<u>\$ 2,181,265,767</u>	<u>\$ 1,439,612,650</u>
** - Investment income is presented net of investment expenses in fiscal year 2013.....		
INVESTMENT SUMMARY - (All investments held in the Illinois State Board of Investment Commingled Fund at fair value)	June 30, 2014	June 30, 2013
U.S. Government and Agency Obligations.....	\$ 784,475,648	\$ 887,400,073
Foreign Obligations.....	832,282,402	415,070,013
Corporate Obligations.....	799,514,242	674,154,128
Common Stock & Equity Funds.....	4,553,283,316	3,916,478,305
Commingled Funds.....	733,010,980	317,408,396
Foreign Equity Securities (including Preferred Stock).....	2,346,576,036	2,329,869,123
Hedge Funds.....	1,485,145,060	1,166,602,482
Real Estate Funds.....	1,483,445,971	1,294,600,976
Private Equity.....	667,730,266	643,775,529
Money Market Instruments.....	217,737,000	237,649,781
Real Assets.....	524,284,793	550,739,042
Bank Loans.....	689,256,558	416,649,247
Foreign Currency Forward Contracts.....	(637,600)	(412,825)
Total Investment Portfolio.....	<u>15,116,104,672</u>	<u>12,849,984,270</u>
Other ISBI Assets Less Liabilities.....	(6,729,297)	16,472,966
ISBI Net Position.....	<u>15,109,375,375</u>	<u>12,866,457,236</u>
Investments owned by other retirement systems and other entities.....	(822,876,362)	(689,998,045)
State Employees' Retirement System Investments.....	<u>\$ 14,286,499,013</u>	<u>\$ 12,176,459,191</u>
ADMINISTRATIVE EXPENSES	2014	2013
Personal Services.....	\$ 5,693,130	\$ 5,197,492
Retirement, Group Insurance & Social Security.....	4,268,112	4,028,423
Electronic Data Processing.....	4,029,536	4,758,679
Contractual Services.....	2,068,488	2,691,900
Depreciation.....	445,114	394,875
Other Expenses (Net).....	110,725	399,958
Total Administrative Expenses.....	<u>\$ 16,615,105</u>	<u>\$ 17,471,327</u>
SUPPLEMENTARY INFORMATION	June 30, 2014	June 30, 2013
Benefit Recipients.....	66,609	65,050
Active Members.....	62,844	61,545
Inactive Members.....	4,178	4,376
Total.....	<u>133,631</u>	<u>130,971</u>
PENSION LIABILITY	June 30, 2014	June 30, 2013
Total Pension Liability.....	\$ 41,685,086,183	*
Plan Fiduciary Net Position.....	<u>14,581,566,241</u>	*
Net Pension Liability.....	<u>\$ 27,103,519,942</u>	*
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability.....	34.98%	*
* - With the implementation of GASB Statement No. 67 during fiscal year 2014 comparable amounts for fiscal year 2013 were not available.		
EXECUTIVE SECRETARY		
During Engagement Period: Timothy B. Blair		
Currently: Timothy B. Blair		

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

CONTROLS OVER CENSUS DATA

Weaknesses noted in controls over member census data

The State Employees' Retirement System of the State of Illinois (System) has weaknesses in controls over creditable earnings and member census data reported by its participating State agencies.

Data accumulated from multiple State agencies

During our current fiscal year testing we noted 3 errors in certain demographic census data reported to the System out of 240 active members tested. There were no errors in the creditable earnings information tested. During a review of the System's internal controls over creditable earnings and member census data, it was noted that creditable earnings and member census data for the System is accumulated from multiple State agencies which increases the likelihood of errors within the data. The System's current processes and controls for verifying the data rely heavily on the reporting of the information by the participating State agencies and there are limited controls in place by the System to verify the creditable earnings and member census information.

Increases likelihood of error

Limited controls in place to verify the census information

System officials agree with auditors

System officials indicated the System did not have procedures in place to conduct State agency audits to verify census data. (Finding 2, pages 39-40)

The System accepted our recommendation to update current processes and controls to include the verification of significant elements of census data.

OTHER FINDINGS

The remaining findings are reportedly being given attention by the System. We will review the System's progress towards the implementation of our recommendations in our next financial audit.

AUDITOR'S OPINION

Our auditors stated the financial statements of the State Employees' Retirement System as of June 30, 2014, 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.