



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

STATE EMPLOYEES' RETIREMENT SYSTEM

Compliance Examination
 For the Year Ended June 30, 2015

Release Date: April 14, 2016

FINDINGS THIS AUDIT: 3	AGING SCHEDULE OF REPEATED FINDINGS						
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
Category 1:	0	0	0	2014		15-1,15-2	
Category 2:	1	2	3				
Category 3:	0	0	0				
TOTAL	1	2	3				
FINDINGS LAST AUDIT: 3							

INTRODUCTION

This digest covers our Compliance Examination of the State Employees' Retirement System for the year ended June 30, 2015. A separate Financial Audit as of and for the year ending June 30, 2015, was previously released on January 12, 2016. In total, this report contains 3 findings, 2 of which were also reported in the Financial Audit.

SYNOPSIS

- (15-3) The State Employees' Retirement System failed to comply with the Ethics training provisions of the Illinois Pension Code.

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 data and Activity Measures are summarized on next page.}

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS
COMPLIANCE EXAMINATION
For the Year Ended June 30, 2015

EXPENDITURE STATISTICS	FY 2015	FY 2014
Total Expenditures.....	\$ 3,280,624,019	\$ 3,135,844,031
General Revenue Fund - 001:		
Continuing appropriation for pension contributions.....	1,136,479,500	1,097,360,220
Continuing appropriation fiscal year shortfall.....	12,130,929	-
All other expenses.....	70,707	95,685
Kanerva vs.State Trust Fund - 0234:		
Annuitant disbursement.....	34,749,730	-
State Employees' Retirement System Fund - 479:		
Pensions, annuities and benefits.....	2,011,149,454	1,890,147,996
FY13 Overpayment Gen'l Revenue Fund employer contribution.....	-	58,607,580
Refunds.....	38,921,908	41,951,369
Payments to General Obligation Retirement Fund.....	28,977,468	29,456,449
Personal services.....	5,737,994	5,693,842
Electronic data processing.....	5,502,099	5,404,834
Other payroll costs.....	4,362,220	4,267,426
Contractual services.....	1,782,465	2,062,621
All other expenses.....	418,604	648,658
State Employee Retirement System Excess Benefit Fund - 788:		
Pensions, annuities and benefits.....	340,941	147,351
Total Receipts.....	\$ 2,041,971,789	\$ 2,067,456,966
ANALYSIS OF PLAN INVESTMENTS	June 30, 2015	June 30, 2014
Balance at beginning of year, at fair value.....	\$ 14,286,499,013	\$ 12,176,459,191
Net cash added (withdrawn) from investments.....	-	(58,607,580)
Net investments.....	14,286,499,013	12,117,851,611
Investment income - interest, dividends and other.....	482,642,760	399,161,898
Investment expenses.....	(42,184,943)	(40,473,085)
Net investment income.....	440,457,817	358,688,813
Net realized gain (loss) on sales of investments.....	490,289,530	1,255,567,547
Net unrealized gain (loss) on investments.....	(249,992,307)	554,391,042
Net appreciation in fair value of investments.....	240,297,223	1,809,958,589
Total net investment income.....	680,755,040	2,168,647,402
Balance at end of year, at fair value.....	<u>\$ 14,967,254,053</u>	<u>\$ 14,286,499,013</u>
INVESTMENTS USED FOR BENEFITS & EXPENSES (UNAUDITED)	FY 2015	FY 2014
CONTRIBUTIONS:		
Participant.....	\$ 266,139,156	\$ 269,232,241
Employer.....	1,804,319,356	1,699,447,826
Total Contributions.....	2,070,458,512	1,968,680,067
DEDUCTIONS:		
Benefits.....	2,034,858,435	1,917,062,639
Refunds.....	23,128,975	23,082,814
Administration.....	16,547,823	16,615,105
Total Deductions.....	2,074,535,233	1,956,760,558
Contributions in Excess of Deductions (Investments Used to pay Benefits and Expenses).....	<u>\$ (4,076,721)</u>	<u>\$ 11,919,509</u>
SUPPLEMENTARY INFORMATION (UNAUDITED)	June 30, 2015	June 30, 2014
Number of System employees.....	99	98
Retirees and beneficiaries receiving benefits	67,954	66,609
Total members	88,581	87,023
Total active members	63,273	62,844
Money-weighted rate of return.....	4.79%	17.90%
EXECUTIVE SECRETARY		
During Engagement Period: Timothy Blair		
Currently: Timothy Blair		

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

**NONCOMPLIANCE WITH ETHICS TRAINING
REQUIREMENTS**

The State Employees' Retirement System of the State of Illinois (System) did not comply with the Ethics training provision of the Illinois Pension Code.

Ethics training not tracked

The auditors noted the System did not track the ethics training completed by its Board members and did not submit the required annual certification of compliance certifying ethics training completed by its Board members with the Department of Insurance. (Finding 3, page 15)

**Annual certification of compliance
not submitted**

We recommended the System develop a process to track ethics training completed by its Board members to insure its Board members complete 8 hours annually and submit the required annual certification to the Department of Insurance.

System agrees with auditors

System officials agreed with the auditors and indicated they are working on procedures to better track, report and certify the required ethics training of each of the members of the Board of Trustees.

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 engagement.

ACCOUNTANT'S OPINION

The auditors conducted a State compliance examination of the State Employees' Retirement System for the year ended June 30, 2015, as required by the Illinois State Auditing Act. The accountants stated the System complied, in all material respect, with the requirements described in the report.

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

FJM:JAF

SPECIAL ASSISTANT AUDITORS

Our Special Assistant Auditors for this examination were BKD LLP.