



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

STATE EMPLOYEES' RETIREMENT SYSTEM

**Financial Audit
 For the Year Ended June 30, 2015**

Release Date: January 12, 2016

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	2014		15-1, 15-2	
Category 2:	0	2	2				
Category 3:	0	0	0				
TOTAL	0	2	2				
FINDINGS LAST AUDIT: 3							

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, 2015. The State Employees' Retirement System's Compliance Examination covering the year ended June 30, 2015 will be issued in a separate report at a later date.

Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans* 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 \$43.3 billion at June 30, 2015. The net pension liability at June 30, 2015 is \$28.0 billion, which is the difference between the System's fiduciary net position of \$15.3 billion and the total pension liability. The System's funded ratio is 35.27%. 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, therefore this information under the State's funding plan is no longer reported in the financial statements.

FINDINGS SYNOPSIS

- **(15-2)** 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 Years Ended June 30, 2015 and 2014

STATEMENT OF CHANGES IN PLAN NET POSITION	2015	2014
Additions:		
Contributions - Participants.....	\$ 266,139,156	\$ 269,232,241
Contributions - State Agencies and Appropriations.....	1,804,319,356	1,699,447,826
Total Contributions.....	<u>2,070,458,512</u>	<u>1,968,680,067</u>
Net Appreciation in Fair Value of Investments.....	240,297,223	1,809,958,589
Investment Income.....	483,264,772	399,860,754
Investment Expense.....	(42,184,943)	(40,473,085)
Net Investment Income.....	<u>681,377,052</u>	<u>2,169,346,258</u>
Total Additions.....	<u>2,751,835,564</u>	<u>4,138,026,325</u>
Deductions:		
Benefits.....	2,034,858,435	1,917,062,639
Refunds.....	23,128,975	23,082,814
Administrative Expenses.....	16,547,823	16,615,105
Total Deductions.....	<u>2,074,535,233</u>	<u>1,956,760,558</u>
Net Increase.....	<u>\$ 677,300,331</u>	<u>\$ 2,181,265,767</u>
STATEMENT OF NET POSITION AND INVESTMENT SUMMARY -		
(All investments held in the Illinois State Board of Investment Commingled Fund at fair value)		
	June 30, 2015	June 30, 2014
U.S. Government and Agency Obligations.....	\$ 907,835,826	\$ 784,475,648
Foreign Obligations.....	892,854,266	832,282,402
Corporate Obligations.....	814,440,237	799,514,242
Common Stock & Equity Funds.....	4,748,492,740	4,553,283,316
Commingled Funds.....	770,805,046	733,010,980
Foreign Equity Securities (including Preferred Stock).....	2,380,176,737	2,346,576,036
Hedge Funds.....	1,576,250,129	1,485,145,060
Real Estate Funds.....	1,610,826,230	1,483,445,971
Private Equity.....	667,080,662	667,730,266
Money Market Instruments.....	231,115,398	217,737,000
Real Assets.....	532,718,107	524,284,793
Bank Loans.....	697,836,613	689,256,558
Foreign Currency Forward Contracts.....	979,645	(637,600)
Total Investment Portfolio.....	<u>15,831,411,636</u>	<u>15,116,104,672</u>
Other ISBI Assets Less Liabilities.....	14,481,914	(6,729,297)
ISBI Net Position.....	<u>15,845,893,550</u>	<u>15,109,375,375</u>
Investments owned by other retirement systems and other entities.....	(878,639,497)	(822,876,362)
State Employees' Retirement System Investments.....	14,967,254,053	14,286,499,013
Cash, Receivables and Other Assets.....	369,445,228	390,289,675
Less: Total Liabilities.....	<u>(77,832,709)</u>	<u>(95,222,447)</u>
Net Position - Restricted for Pensions.....	<u>\$ 15,258,866,572</u>	<u>\$ 14,581,566,241</u>
ADMINISTRATIVE EXPENSES		
	2015	2014
Personal Services.....	\$ 5,733,871	\$ 5,693,130
Retirement, Group Insurance & Social Security.....	4,361,535	4,268,112
Electronic Data Processing.....	3,817,148	4,029,536
Contractual Services.....	1,812,450	2,068,488
Depreciation and Amortization.....	628,781	445,114
Other Expenses (Net).....	194,038	110,725
Total Administrative Expenses.....	<u>\$ 16,547,823</u>	<u>\$ 16,615,105</u>
SUPPLEMENTARY INFORMATION		
	June 30, 2015	June 30, 2014
Benefit Recipients.....	67,954	66,609
Active Members.....	63,273	62,844
Inactive Members.....	4,180	4,178
Total.....	<u>135,407</u>	<u>133,631</u>
PENSION LIABILITY		
	June 30, 2015	June 30, 2014
Total Pension Liability.....	\$ 43,267,055,628	\$ 41,685,086,183
Plan Fiduciary Net Position.....	<u>15,258,866,572</u>	<u>14,581,566,241</u>
Net Pension Liability.....	<u>\$ 28,008,189,056</u>	<u>\$ 27,103,519,942</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability.....	35.27%	34.98%
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 2 errors in certain census data reported to the System out of 240 active members 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 indicated they have added some additional controls to verify census data on an ad hoc basis, however the System is still working to determine the best method for it to conduct State agency audits to verify census data to personnel files. (Finding 2, pages 39-41)

System officials agree with auditors

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

OTHER FINDING

The remaining finding is 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, 2015, and for the year then ended, are fairly stated in all material respects.

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

FJM:JAF

SPECIAL ASSISTANT AUDITORS

Our Special Assistant Auditors for this audit were BKD LLP.