



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, 2016

Release Date: May 11, 2017

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		16-1	
Category 2:	2	1	3				
Category 3:	0	0	0				
<b>TOTAL</b>	<b>2</b>	<b>1</b>	<b>3</b>				
FINDINGS LAST AUDIT: 3							

**INTRODUCTION**

This digest covers our Compliance Examination of the State Employees' Retirement System for the year ended June 30, 2016. A separate Financial Audit as of and for the year ending June 30, 2016, was previously released on January 26, 2017. In total, this report contains 3 findings, 1 of which was also reported in the Financial Audit.

**SYNOPSIS**

- (16-2) The State Retirement System, which administers the State Employees' Retirement System, has weaknesses in their change management procedures.

**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.

{Expenditures and Activity Measures are summarized on next page.}

**STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS**  
**COMPLIANCE EXAMINATION**  
**For the Year Ended June 30, 2016**

EXPENSE AND RECEIPT STATISTICS	FY 2016	FY 2015
<b>Total Expenditures.....</b>	<b>\$ 3,620,073,270</b>	<b>\$ 3,280,624,019</b>
General Revenue Fund - 001:		
Continuing appropriation for pension contributions.....	1,329,170,050	1,136,479,500
Continuing appropriation fiscal year shortfall.....	37,968,539	12,130,929
All other expenses.....	41,380	70,707
Kanerva vs.State Trust Fund - 0234:		
Annuitant disbursement.....	-	34,749,730
State Employees' Retirement System Fund - 479:		
Pensions, annuities and benefits.....	2,162,995,037	2,011,149,454
Refunds.....	46,668,909	38,921,908
Payments to General Obligation Retirement Fund.....	24,872,635	28,977,468
Electronic data processing.....	5,998,051	5,502,099
Personal services.....	5,365,920	5,737,994
Other payroll costs.....	4,453,934	4,362,220
Contractual services.....	1,740,943	1,782,465
All other expenses.....	329,826	418,604
State Employee Retirement System Excess Benefit Fund - 788:		
Pensions, annuities and benefits.....	468,046	340,941
<b>Total Receipts.....</b>	<b>\$ 2,361,620,664</b>	<b>\$ 2,041,971,789</b>
CHANGES IN INVESTMENT BALANCES	June 30, 2016	June 30, 2015
Balance at beginning of year, at fair value.....	\$ 14,967,254,053	\$ 14,286,499,013
Net cash added (withdrawn) from investments.....	(100,000,000)	-
Net investments.....	14,867,254,053	14,286,499,013
Investment income - interest, dividends and other.....	449,189,664	482,642,760
Investment expenses.....	(38,394,629)	(42,184,943)
Net investment income.....	410,795,035	440,457,817
Net realized gain (loss) on sales of investments.....	127,975,145	490,289,530
Net unrealized gain (loss) on investments.....	(664,969,601)	(249,992,307)
Net appreciation (depreciation) in fair value of investments.....	(536,994,456)	240,297,223
Total net investment income (loss).....	(126,199,421)	680,755,040
Balance at end of year, at fair value.....	<u>\$ 14,741,054,632</u>	<u>\$ 14,967,254,053</u>
CONTRIBUTIONS/DEDUCTIONS AND EFFECTS ON INVESTMENTS (UNAUDITED)	FY 2016	FY 2015
<b>CONTRIBUTIONS:</b>		
Participant.....	\$ 256,198,172	\$ 266,139,156
Employer.....	1,882,243,268	1,804,319,356
Total Contributions.....	<u>2,138,441,440</u>	<u>2,070,458,512</u>
<b>DEDUCTIONS:</b>		
Benefits.....	2,190,501,203	2,034,858,435
Refunds.....	26,708,730	23,128,975
Administration.....	16,126,997	16,547,823
Total Deductions.....	<u>2,233,336,930</u>	<u>2,074,535,233</u>
Contributions in Excess of Deductions (Investments Used to pay Benefits and Expenses).....	<u>\$ (94,895,490)</u>	<u>\$ (4,076,721)</u>
SUPPLEMENTARY INFORMATION (UNAUDITED)	June 30, 2016	June 30, 2015
Average number of System employees.....	97	99
Retirees and beneficiaries receiving benefits .....	70,031	67,954
Total members .....	87,437	88,581
Total active members .....	61,317	63,273
Money-weighted rate of return.....	-0.86%	4.79%
<b>EXECUTIVE SECRETARY</b>		
During Engagement Period: Timothy Blair		
Currently: Timothy Blair		

## FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

### CHANGE MANAGEMENT WEAKNESSES

The State Retirement System, which administers the State Employees' Retirement System (System), has weaknesses in their change management procedures.

**The System develops and deploys custom software to manage pension accounts**

The System develops and deploys custom software to manage pension accounts of Illinois members and collects, stores, and processes confidential and protected information related to this mission.

**Change management procedures did not address migrating changes into the production environment**

The System had established formal change management procedures; however, the procedures did not address migrating changes into the production environment. In addition, programmers developing and making changes to applications had access to the production environment and the capability to implement changes. Furthermore, monitoring tools were not in place to detect unauthorized code migrations. (Finding 2, page 11)

**Programmers had access to the production environment**

We recommended the System update its change management procedures to address specific procedures for migrating changes into the production environment. The procedures should include a standard form for requesting a change be moved into production and include user and management approval. In addition, programmers should be prevented from migrating changes into the production environment. If the Office determines that programmer access is necessary in some situations, it should establish and enforce compensating controls to ensure appropriate and documented management oversight and approval.

**System officials accepted auditor's recommendation**

System officials accepted the auditor's recommendation and indicated a change control process has been implemented for all legacy systems and the State Retirement System IT Division is currently working towards implementing an automated approval and deployment process which it hopes to achieve in calendar year 2017.

### OTHER FINDINGS

The remaining findings pertain to noncompliance with the Fiscal Control and Internal Auditing Act and a Board of Trustees vacancy. We will review the System's progress towards the implementation of our recommendations in our next State compliance examination.

### ACCOUNTANT'S OPINION

The accountants conducted a compliance examination of the System for the year ended June 30, 2016, as required by the Illinois State Auditing Act. The accountants stated the System complied, in all material respects, with the requirements described in the report.

This State compliance examination was conducted by RSM US LLP.

**SIGNED ORIGINAL ON FILE**

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BRUCE L. BULLARD  
Division Director

This report is transmitted in accordance with Section 3-14 of the Illinois State Auditing Act.

**SIGNED ORIGINAL ON FILE**

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FRANK J. MAUTINO  
Auditor General

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