



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, 2017

Release Date: April 26, 2018

FINDINGS THIS AUDIT: 3	New	Repeat	Total	AGING SCHEDULE OF REPEATED FINDINGS			
				Repeated Since	Category 1	Category 2	Category 3
Category 1:	0	0	0	2016		17-1, 17-2	
Category 2:	1	2	3				
Category 3:	<u>0</u>	<u>0</u>	<u>0</u>				
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, 2017. A separate Financial Audit as of and for the year ending June 30, 2017, was previously released on February 8, 2018. In total, this report contains 3 findings, none of which were reported in the Financial Audit.

SYNOPSIS

- (17-1) The State Retirement System, which administers the State Employees' Retirement System, has weaknesses in their change management procedures.
- (17-2) The State Employees' Retirement System of the State of Illinois has had a vacancy in one of its thirteen required trustees of the Board for more than two years.

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, 2017

EXPENSE AND RECEIPT STATISTICS	FY 2017	FY 2016
Total Expenditures.....	\$ 3,783,120,408	\$ 3,620,073,270
General Revenue Fund - 001:		
Continuing appropriation for pension contributions.....	1,309,399,650	1,329,170,050
Continuing appropriation fiscal year shortfall.....	-	37,968,539
All other expenses.....	43,955	41,380
State Employees' Retirement System Fund - 479:		
Pensions, annuities and benefits.....	2,304,686,635	2,162,995,037
Refunds.....	127,369,414	46,668,909
Payments to General Obligation Retirement Fund.....	24,323,737	24,872,635
Electronic data processing.....	5,909,670	5,998,051
Personal services.....	5,154,430	5,365,920
Other payroll costs.....	4,231,261	4,453,934
Contractual services.....	1,267,540	1,740,943
All other expenses.....	201,785	329,826
State Employee Retirement System Excess Benefit Fund - 788:		
Pensions, annuities and benefits.....	532,331	468,046
Total Receipts.....	\$ 2,381,098,948	\$ 2,361,620,664
CHANGES IN INVESTMENT BALANCES	June 30, 2017	June 30, 2016
Balance at beginning of year, at fair value.....	\$ 14,741,054,632	\$ 14,967,254,053
Net cash added (withdrawn) from investments.....	(230,000,000)	(100,000,000)
Net investments.....	14,511,054,632	14,867,254,053
Investment income - interest, dividends and other.....	397,922,111	449,189,664
Investment expenses.....	(28,874,161)	(38,394,629)
Net investment income.....	369,047,950	410,795,035
Net realized gain (loss) on sales of investments.....	434,071,475	127,975,145
Net unrealized gain (loss) on investments.....	1,008,431,279	(664,969,601)
Net appreciation (depreciation) in fair value of investments.....	1,442,502,754	(536,994,456)
Total net investment income (loss).....	1,811,550,704	(126,199,421)
Balance at end of year, at fair value.....	\$ 16,322,605,336	\$ 14,741,054,632
CONTRIBUTIONS/DEDUCTIONS AND EFFECTS ON INVESTMENTS (UNAUDITED)	FY 2017	FY 2016
CONTRIBUTIONS:		
Participant.....	\$ 251,610,974	\$ 256,198,172
Employer.....	1,798,348,440	1,882,243,268
Total Contributions.....	2,049,959,414	2,138,441,440
DEDUCTIONS:		
Benefits.....	2,328,620,783	2,190,501,203
Refunds.....	26,608,011	26,708,730
Administration.....	15,957,439	16,126,997
Total Deductions.....	2,371,186,233	2,233,336,930
Contributions in Excess of Deductions (Investments Used to pay Benefits and Expenses).....	\$ (321,226,819)	\$ (94,895,490)
SUPPLEMENTARY INFORMATION (UNAUDITED)	June 30, 2017	June 30, 2016
Average number of System employees.....	99	97
Retirees and beneficiaries receiving benefits	71,805	70,031
Total members	85,371	87,437
Total active members	60,612	61,317
Money-weighted rate of return.....	12.4%	-0.9%
EXECUTIVE SECRETARY		
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 1, page 10)

Programmers had access to the production environment

We recommended the System continue to update its change management procedures to address specific procedures for migrating changes into the production environment. We also recommended, the procedures include a standard form for requesting a change be moved into production and include user and management approval and ensure programmers are prevented from migrating changes into the production environment. Lastly, we recommended 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 they are working to implement an upgrade to existing software in calendar year 2018 which will remedy the change management weaknesses noted.

BOARD OF TRUSTEES VACANCY

Board vacancy for more than two years

The State Employees' Retirement System of the State of Illinois (System) has had a vacancy in one of its thirteen required trustees of the Board for more than two years as of the end of fieldwork on November 17, 2017.

The System communicated the vacancy with the Governor's Office in November 2015

During the current compliance examination, the auditors noted that a Board member resigned from the Board on October 15, 2015. The System's Executive Secretary informed the Board of the resignation on that same day. In addition, on November 4, 2015 the Executive Secretary communicated this vacancy to the Governor's Office via email requesting that the vacancy be

There has been no further follow-up communications

filled. As of the end of fieldwork on November 17, 2017 the vacancy had not been filled and there has been no further follow-up communications with the Governor's Office by the System. (Finding 2, page 11)

We recommended the System continue to communicate with the Governor's Office in order to fill the vacancy in its Board of Trustees.

System officials accepted auditor's recommendation

The System accepted the auditor's recommendation and indicated they will communicate with the Office of the Governor to seek an appointment which will fully staff the Board.

OTHER FINDINGS

The remaining finding pertains to the System not properly monitoring its contracts during the engagement period. 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 State compliance examination of the State Employees' Retirement System for the year ended June 30, 2017, 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

JANE CLARK
Division Director

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

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

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