



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, 2018

Release Date: April 18, 2019

FINDINGS THIS AUDIT: 1	New	Repeat	Total	AGING SCHEDULE OF REPEATED FINDINGS			
				Repeated Since	Category 1	Category 2	Category 3
Category 1:	0	0	0	2016		18-1	
Category 2:	0	1	1				
Category 3:	0	0	0				
TOTAL	0	1	1				
FINDINGS LAST AUDIT: 3							

INTRODUCTION

This digest covers our Compliance Examination of the State Employees' Retirement System for the year ended June 30, 2018. A separate Financial Audit as of and for the year ending June 30, 2018, was previously released on January 23, 2019. In total, this report contains 1 finding, which was not reported in the Financial Audit.

SYNOPSIS

- (18-1) 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 three years as of the end of fieldwork on November 16, 2018.

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, 2018

EXPENSE AND RECEIPT STATISTICS	FY 2018	FY 2017
Total Expenditures.....	\$ 3,972,521,951	\$ 3,783,120,408
General Revenue Fund - 001:		
Appropriations for State's contribution.....	1,104,971,850	-
Continuing appropriation for pension contributions.....	214,257,100	1,309,399,650
All other expenses.....	83,166	43,955
State Employees' Retirement System Fund - 479:		
Pensions, annuities and benefits.....	2,444,559,454	2,304,686,635
Refunds.....	163,757,998	127,369,414
Payments to General Obligation Retirement Fund.....	27,938,971	24,323,737
Electronic data processing.....	5,638,319	5,909,670
Personal services.....	4,846,294	5,154,430
Other payroll costs.....	4,007,179	4,231,261
Contractual services.....	1,630,291	1,267,540
All other expenses.....	307,036	201,785
State Employee Retirement System Excess Benefit Fund - 788:		
Pensions, annuities and benefits.....	524,293	532,331
Total Receipts.....	\$ 2,588,628,566	\$ 2,381,098,948
CHANGES IN INVESTMENT BALANCES	June 30, 2018	June 30, 2017
Balance at beginning of year, at fair value.....	\$ 16,322,605,336	\$ 14,741,054,632
Net cash added (withdrawn) from investments.....	(310,000,000)	(230,000,000)
Net investments.....	16,012,605,336	14,511,054,632
Investment income - interest, dividends and other.....	378,521,769	397,922,111
Investment expenses.....	(25,654,957)	(28,874,161)
Net investment income.....	352,866,812	369,047,950
Net realized gain (loss) on sales of investments.....	877,102,247	434,071,475
Net unrealized gain (loss) on investments.....	25,563,080	1,008,431,279
Net appreciation (depreciation) in fair value of investments.....	902,665,327	1,442,502,754
Total net investment income (loss).....	1,255,532,139	1,811,550,704
Balance at end of year, at fair value.....	<u>\$ 17,268,137,475</u>	<u>\$ 16,322,605,336</u>
CONTRIBUTIONS/DEDUCTIONS AND EFFECTS ON INVESTMENTS (UNAUDITED)	FY 2018	FY 2017
CONTRIBUTIONS:		
Participant.....	\$ 254,442,466	\$ 251,610,974
Employer.....	1,929,175,044	1,798,348,440
Total Contributions.....	2,183,617,510	2,049,959,414
DEDUCTIONS:		
Benefits.....	2,464,832,022	2,328,620,783
Refunds.....	27,469,348	26,608,011
Administration.....	15,257,526	15,957,439
Total Deductions.....	2,507,558,896	2,371,186,233
Contributions in Excess of Deductions (Investments Used to pay Benefits and Expenses).....	<u>\$ (323,941,386)</u>	<u>\$ (321,226,819)</u>
SUPPLEMENTARY INFORMATION (UNAUDITED)	June 30, 2018	June 30, 2017
Average number of System employees.....	93	99
Retirees and beneficiaries receiving benefits	73,179	71,805
Total members	86,139	85,371
Total active members	61,397	60,612
Money-weighted rate of return.....	7.6%	12.4%
EXECUTIVE SECRETARY		
During Engagement Period: Timothy Blair		
Currently: Timothy Blair		

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

BOARD OF TRUSTEE VACANCY

Board vacancy for more than three 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 three years as of the end of fieldwork on November 16, 2018.

The System last communicated the board 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 filled. As of the end of fieldwork on November 16, 2018 the vacancy had not been filled and there has been no further follow-up communications with the Governor's Office by the System. (Finding 1, pages 10-11) **This finding has been repeated since 2016.**

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

System officials accepted auditor's recommendation

System officials accepted the finding and noted that the Board does not have statutory authority to make such an appointment to fill the vacancy. System officials also indicated they have contacted the new administration to inform them of the vacancy. (*For the previous Department response, see Digest Footnote #1.*)

ACCOUNTANT'S OPINION

The accountants conducted a compliance examination of the State Employees' Retirement System for the year ended June 30, 2018, as required by the Illinois State Auditing Act. The accountants stated the State Employees' Retirement 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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DIGEST FOOTNOTES

#1 – Board of Trustees Vacancy

The System accepts the finding, but understandably this is an issue in which the System cannot unilaterally remedy. System management will communicate with the Office of the Governor to seek an appointment which will fully staff the Board.