



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, 2020

Release Date: May 19, 2021

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			20-1
Category 2:	2	0	2				
Category 3:	0	1	1				
TOTAL	2	1	3				
FINDINGS LAST AUDIT: 2							

INTRODUCTION

This digest covers our Compliance Examination of the State Employees' Retirement System for the year ended June 30, 2020. A separate Financial Audit as of and for the year ending June 30, 2020, was previously released on January 27, 2021. This report contains three findings. The Financial Audit report contained no findings.

SYNOPSIS

- (20-1) The State Employees' Retirement System of Illinois has had a vacancy in one of its Board of Trustees for more than five years.
- (20-3) The State Employees' Retirement System of Illinois did not have adequate controls in place over user access to its information technology systems.

<p>Category 1: Findings that are material weaknesses in internal control and/or a qualification on compliance with State laws and regulations (material noncompliance).</p> <p>Category 2: Findings that are significant deficiencies in internal control and noncompliance with State laws and regulations.</p> <p>Category 3: Findings that have no internal control issues but are in noncompliance with State laws and regulations.</p>

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS
COMPLIANCE EXAMINATION
For the Year Ended June 30, 2020

EXPENSE AND RECEIPT STATISTICS	FY 2020	FY 2019
Total Expenditures.....	\$ 4,598,093,250	\$ 4,203,109,909
General Revenue Fund - 001:		
Appropriations for State's contribution.....	1,489,311,850	1,124,893,450
Continuing appropriation for pension contributions.....	149,003,680	269,788,800
All other expenses.....	101,374	86,240
State Employees' Retirement System Fund - 479:		
Pensions, annuities and benefits.....	2,781,837,034	2,617,217,392
Refunds.....	46,696,793	113,746,073
Payments to General Obligation Retirement Fund.....	32,542,844	30,220,616
Electronic data processing.....	6,391,786	5,646,236
Personal services.....	5,548,045	4,945,482
Other payroll costs.....	4,700,613	4,295,952
Contractual services.....	1,814,219	1,907,074
All other expenses.....	275,880	312,347
State Employee Retirement System Excess Benefit Fund - 788:		
Pensions, annuities and benefits.....	469,995	471,959
Pension Obligation Acceleration Bond Fund - 825:		
Accelerated pension buyout.....	79,399,137	29,578,288
Total Receipts.....	\$ 2,934,362,675	\$ 2,782,287,674
CHANGES IN INVESTMENT BALANCES	June 30, 2020	June 30, 2019
Balance at beginning of year, at fair value.....	\$ 18,025,048,500	\$ 17,268,137,475
Net cash added (withdrawn) from investments.....	(214,000,000)	(357,000,000)
Net investments.....	17,811,048,500	16,911,137,475
Investment income - interest, dividends and other.....	206,605,320	292,713,956
Investment expenses.....	(24,988,274)	(24,669,122)
Net investment income.....	181,617,046	268,044,834
Net realized gain (loss) on sales of investments.....	484,913,846	1,032,883,573
Net unrealized gain (loss) on investments.....	159,936,582	(187,017,382)
Net appreciation (depreciation) in fair value of investments.....	644,850,428	845,866,191
Total net investment income (loss).....	826,467,474	1,113,911,025
Balance at end of year, at fair value.....	<u>\$ 18,637,515,974</u>	<u>\$ 18,025,048,500</u>
SCHEDULE OF CONTRIBUTIONS/DEDUCTIONS AND EFFECTS ON INVESTMENTS (UNAUDITED)	FY 2020	FY 2019
CONTRIBUTIONS:		
Participant.....	\$ 271,749,009	\$ 275,675,175
Employer.....	2,368,905,396	2,274,925,279
Total Contributions.....	<u>2,640,654,405</u>	<u>2,550,600,454</u>
DEDUCTIONS:		
Benefits.....	2,727,820,833	2,601,306,593
Refunds.....	19,366,029	24,133,508
Administration.....	17,412,562	14,978,852
Total Deductions.....	<u>2,764,599,424</u>	<u>2,640,418,953</u>
Contributions in Excess of Deductions (Investments Used to pay Benefits and Expenses).....	<u>\$ (123,945,019)</u>	<u>\$ (89,818,499)</u>
SUPPLEMENTARY INFORMATION (UNAUDITED)	June 30, 2020	June 30, 2019
Average number of System employees.....	87	94
Money-weighted rate of return.....	4.7%	7.1%
EXECUTIVE SECRETARY		
During Engagement Period: Timothy Blair		
Currently: Timothy Blair		

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

BOARD OF TRUSTEE VACANCY

The System has had a Board vacancy for more than five years

The State Employees' Retirement System of Illinois (System) has had a vacancy in one of its thirteen required trustees of the Board for more than five years as of the end of fieldwork on November 20, 2020.

System officials have communicated the Board vacancy with the Governor's Office throughout the years

During the current compliance examination, the auditors were aware that a Board member had resigned from the Board on October 15, 2015. The System's Executive Secretary informed the Board of the first resignation on that same day and on November 4, 2015 the Executive Secretary communicated the vacancy to the Governor's Office via email requesting that the vacancy be filled. Throughout the years and most recently on June 19, 2020, the Executive Secretary followed up with the Governor's Office via emails informing the Governor's team of the vacancy. According to System officials they have not received any official response from the Governor's Office as of the end of fieldwork on November 20, 2020. (Finding 1, pages 10-11) **This finding has been repeated since 2016.**

System officials accepted our recommendation

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

The System agreed with the finding and stated it would continue to communicate with the Office of the Governor to seek appointees to the Board.

INADEQUATE INTERNAL CONTROLS OVER ACCESS TO INFORMATION SYSTEMS

IT access controls are inadequate

The State Employees' Retirement System of Illinois (System) did not have adequate controls in place over user access to its Information Technology (IT) systems.

During the compliance examination, the auditors identified that the System utilizes a combination of systems administered internally and systems administered externally by the Department of Innovation and Technology (DoIT). During a review of both internal and external systems, the auditors noted the following user access issues:

Evidence of internal active directory review was not retained

- For systems administered internally:
 - The System did not retain evidence that an internal active directory review was performed during the examination period.
 - The auditors noted six of seventeen (35%) terminated employees tested had user accounts for various internal systems which were not

35% of terminated employees tested were not deactivated timely

deactivated timely upon their separation from employment with the System. These late deactivations ranged from one to five months after the employees' separated from the System. Furthermore, for two of the terminations, appropriate actions were not subsequently taken to remove access in response to the System's semi-annual review of user's access.

Evidence of annual review of RACF identifications and entitlements were not retained

- For systems administered externally by DoIT:
 - The System maintained a listing of Resource Access Control Facility (RACF) identifications and their entitlements, including security administrators, but did not retain evidence an annual review was performed. (Finding 3, pages 13-14)

We recommended the System maintain evidence of active directory and RACF reviews completed during the year to support monitoring performed and changes or updates made to system access. In addition, we recommended the System implement controls to ensure all employee's user access is timely disabled upon their separation of employment with the System.

System officials accepted our recommendation

The System agreed with the finding and stated it is working to implement a new access control policy and procedures to remedy this issue.

OTHER FINDING

The remaining finding pertains to failure to report a motor vehicle accident to the Department of Central Management Services. We will review the State Employees' Retirement System's progress towards the implementation of our recommendations in our next compliance examination.

ACCOUNTANT'S OPINION

The accountants conducted a compliance examination of the State Employees' Retirement System for the year ended June 30, 2020, 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 compliance examination was conducted by RSM US LLP.

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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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