

State Employees' Retirement System of Illinois

Compliance Examination

For the Year Ended June 30, 2020
Performed as Special Assistant Auditors for
the Auditor General, State of Illinois

**State Employees' Retirement System of Illinois
Compliance Examination**

For the Year Ended June 30, 2020

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**State Employees' Retirement System of Illinois
Compliance Examination**

For the Year Ended June 30, 2020

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Other Reports Issued Under a Separate Cover:

The State Employees' Retirement System's (System) financial statements as of and for the year ended June 30, 2020, have been issued under a separate cover. Additionally, the System has issued its Report on Allocation of Pension Amounts under separate cover. The purpose of this report is to provide the audited information necessary to System employers and the State of Illinois to report their proportionate share of the collective pension amounts in their financial statements as required by GASB Statement No. 68.

**State Employees' Retirement System of Illinois
Compliance Examination**

For the Year Ended June 30, 2020

System Officials

Executive Secretary	Timothy B. Blair
Accounting Division Manager	Alan Fowler, CPA
Legal Counsel (12/1/2019 to present)	James Stivers
Legal Counsel (7/1/2019 to 12/1/2019)	Vacant
Chief Internal Auditor	Casey Evans

Governing Board Members

Chair of the Board	Susana Mendoza
Trustee (Vice-Chair of the Board)	David Morris
Trustee	Danny Silverthorn
Trustee	Renee Friedman
Trustee	Carl A. Jenkins
Trustee	Jeremy Hawk
Trustee	Shaun Dawson
Trustee	Stephen Mittons
Trustee	John Tilden
Trustee	Vacant
Trustee (7/15/2019 to present)	Barbara J.C. Baird
Trustee (7/1/2019 to 7/14/2019)	Alan Latoza
Trustee (5/1/2020 to present)	Vacant
Trustee (7/1/2019 to 5/1/2020)	Thomas Allison
Trustee (10/23/2020 to present)	Vacant
Trustee (7/1/19 to 10/22/2020)	Yasmin Bates-Brown

Office Locations

Springfield Office
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P.O. Box 19255
Springfield, Illinois 62794-9255

Chicago Office
State of Illinois Building
160 North LaSalle Street, Suite N725
Chicago, Illinois 60601

MANAGEMENT ASSERTION LETTER

April 29, 2021

RSM US LLP
20 North Martingale Road, Suite 500
Schaumburg, IL 60173

Ladies and Gentlemen:

We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grant agreements that could have a material effect on the operations of the State Employees' Retirement System (System). We are responsible for and we have established and maintained an effective system of internal controls over compliance requirements. We have performed an evaluation of the System's compliance with the following specified requirements during the one-year period ended June 30, 2020. Based on this evaluation, we assert that during the year ended June 30, 2020, the System has materially complied with the specified requirements below.

- A. The System has obligated, expended, received and used public funds of the State in accordance with the purpose for which funds have been appropriated or otherwise authorized by law.
- B. The System has obligated, expended, received and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt, or use.
- C. The System has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. State revenues and receipts collected by the System are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate, and in accordance with law.
- E. Money or negotiable securities or similar assets handled by the System on behalf of the State or held in trust by the System have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate and in accordance with law.

Yours truly,

State Employees' Retirement System of Illinois

SIGNED ORIGINAL ON FILE

Timothy B. Blair, Executive Secretary

SIGNED ORIGINAL ON FILE

James Stivers, Legal Counsel

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Alan Fowler, CPA, Accounting Division Manager

**State Employees' Retirement System of Illinois
Compliance Examination**

For the Year Ended June 30, 2020

Compliance Report

Summary

The compliance testing performed during this examination was conducted in accordance with *Government Auditing Standards* and in accordance with the Illinois State Auditing Act.

Accountant's Report

The Independent Accountant's Report on State Compliance, on Internal Control Over Compliance, and on Supplementary Information for State Compliance Purposes does not contain scope limitations, disclaimers or other significant non-standard language.

Summary of Findings

Number of	Current Report	Prior Report
Findings	3	2
Repeated findings	1	1
Prior recommendations implemented or not repeated	1	0

Schedule of Findings

Item No.	Page	Last/ First Reported	Description	Finding Type
Findings (State Compliance)				
2020-001	10	2019/ 2016	Board of Trustees Vacancy	Noncompliance
2020-002	12	New	Failure to Report Motor Vehicle Accident	Significant Deficiency and Noncompliance
2020-003	13	New	Inadequate Internal Controls over Access to Information Systems	Significant Deficiency and Noncompliance
Prior Finding Not Repeated				
A	15	2019/ 2019	Failure to Report State Hispanic and Asian American Employment Plan	

Exit Conference

The System waived an exit conference in a correspondence from Casey Evans, Internal Auditor, on February 25, 2021. The responses to the recommendations were provided by Casey Evans, Internal Auditor, in a correspondence dated March 5, 2021.

**Independent Accountant's Report
on State Compliance, on Internal Control Over Compliance,
and on Supplementary Information for State Compliance Purposes**

Honorable Frank J. Mautino
Auditor General
State of Illinois

Board of Trustees
State Employees' Retirement System of Illinois

Compliance

As Special Assistant Auditors for the Auditor General, we have examined compliance by the State Employee's Retirement System of Illinois (System) with the specified requirements listed below, as more fully described in the *Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies (Audit Guide)* as adopted by the Auditor General, during the year ended June 30, 2020. Management of the System is responsible for compliance with the specified requirements. Our responsibility is to express an opinion on the System's compliance with the specified requirements based on our examination.

The specified requirements are:

- A. The System has obligated, expended, received, and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The System has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions, or mandatory directions imposed by law upon such obligation, expenditure, receipt, or use.
- C. The System has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. State revenues and receipts collected by the System are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate, and in accordance with law.
- E. Money or negotiable securities or similar assets handled by the System on behalf of the State or held in trust by the System have been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants, the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Illinois State Auditing Act (Act), and the *Audit Guide*. Those standards, the Act, and the *Audit Guide* require that we plan and perform the examination to obtain reasonable assurance about whether the System complied with the specified requirements in all material respects. An examination involves performing procedures to obtain evidence about whether the System complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgement, including an assessment of the risks of material noncompliance with the specified requirements, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Our examination does not provide a legal determination on the System's compliance with the specified requirements.

In our opinion, the System complied with the specified requirements during the year ended June 30, 2020, in all material respects. However, the results of our procedures disclosed instances of noncompliance with the specified requirements, which are required to be reported in accordance with criteria established by the *Audit Guide* and are described in the accompanying Schedule of Findings as items 2020-001, 2020-002, and 2020-003. Our opinion on compliance with the specified requirements are not modified with respect to these matters.

The System's responses to the compliance findings identified in our examination are described in the accompanying Schedule of Findings. The System's responses were not subjected to the procedures applied in the examination and, accordingly, we express no opinion on the responses.

The purpose of this report is solely to describe the scope of our testing and the results of that testing in accordance with the requirements of the *Audit Guide*. Accordingly, this report is not suitable for any other purpose.

Internal Control Over Compliance

Management of the System is responsible for establishing and maintaining effective internal control over compliance with the specified requirements (internal control). In planning and performing our examination, we considered the System's internal control to determine the examination procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the System's compliance with the specified requirements and to test and report on the System's internal control in accordance with the *Audit Guide*, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over compliance with the specified requirements.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with the specified requirements on a timely basis. *A material weakness in internal control* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that material noncompliance with the specified requirements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings as items 2020-002 and 2020-003 that we consider to be significant deficiencies.

As required by the *Audit Guide*, immaterial findings excluded from this report have been reported in a separate letter.

The System's responses to the internal control findings identified in our examination are described in the accompanying Schedule of Findings. The System's responses were not subjected to the procedures applied in the examination and, accordingly, we express no opinion on the response.

The purpose of this report is solely to describe the scope of our testing of internal control and the results of that testing based on the requirements of the *Audit Guide*. Accordingly, this report is not suitable for any other purpose.

Supplementary Information for State Compliance Purposes

As Special Assistant Auditors for the Auditor General, we have audited the Statement of Fiduciary Net Position of the System as of June 30, 2020, the Statement of Changes in Fiduciary Net Position for the year then ended, and the related notes to the financial statements, which collectively comprise the System's basic financial statements (not presented herein), and have issued our report thereon dated December 17, 2020, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements. We did not audit the financial statements of the Illinois State Board of Investment as of June 30, 2020, an internal investment pool of the State of Illinois, which statements represent 97 percent, 97 percent, and 24 percent, respectively, of total assets, net position restricted for pension benefits, and total additions of the System. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Illinois State Board of Investment is based solely on the report of other auditors. We have not performed any procedures with respect to the audited financial statements subsequent to December 17, 2020. The accompanying supplementary information for the year ended June 30, 2020, in Schedules 1 through 6 is presented for the purposes of additional analysis and is not a required part of the basic financial statements of the System. Such information is the responsibility of System management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The accompanying supplementary information for the year ended June 30, 2020, in Schedules 1 through 6 has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information for the year ended June 30, 2020, in Schedules 1 through 6 is fairly stated in all material respects in relation to the basic financial statements as a whole for the year ended June 30, 2020.

We also previously audited, in accordance with auditing standards generally accepted in the United States of America, the System's basic financial statements as of and for the years ended June 30, 2019, and June 30, 2018 (not presented herein), and have issued our reports thereon dated December 13, 2019 and December 14, 2018, which contained unmodified opinions on the respective financial statements. We did not audit the 2019 financial statements of the Illinois State Board of Investment, an internal investment pool of the State of Illinois, which statements represent 97 percent, 97 percent, and 30 percent, respectively, of total assets, net position restricted for pension benefits, and total additions of the System. We also did not audit the 2018 financial statements of the Illinois State Board of Investment, an internal investment pool of the State of Illinois, which statements represent 98 percent, 99 percent, and 36 percent, respectively, of total assets, net position restricted for pension benefits, and total additions of the System. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as it relates to the amounts included for the Illinois State Board of Investment is based solely on the reports of other auditors. The accompanying supplementary information for the years ended June 30, 2019, and June 30, 2018, in Schedules 2 through 6 and Schedule 2, respectively, is the responsibility of System management and was derived from and relates directly to the underlying accounting and other records used to prepare the June 30, 2019, and June 30, 2018, financial statements. The accompanying supplementary information for the years ended June 30, 2019, and June 30, 2018, in Schedules 2 through 6 and Schedule 2, respectively, has been subjected to the auditing procedures applied in the audits of the June 30, 2019, and June 30, 2018, basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare those basic financial statements or to those basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information for the years ended June 30, 2019, and June 30, 2018, in Schedules 2 through 6 and Schedule 2, respectively, is fairly stated in all material respects in relation to the basic financial statements as a whole for the years ended June 30, 2019, and June 30, 2018.

The accompanying supplementary information in the Analysis of Operations Section is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

SIGNED ORIGINAL ON FILE

Schaumburg, Illinois
April 29, 2021, except for our report on the Supplementary Information
for State Compliance Purposes, for which the date is
December 17, 2020



RSM US LLP

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Honorable Frank J. Mautino
Auditor General

Board of Trustees
State Employees' Retirement System of Illinois

Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the State Employees' Retirement System (System), a pension trust fund of the State of Illinois, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents and we have issued our report thereon dated December 17, 2020. Our report includes a reference to other auditors who audited the financial statements of the Illinois State Board of Investment, an internal investment pool of the State of Illinois, as described in our report on the System's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting (internal control) or compliance and other matters of the Illinois State Board of Investment that are reported on separately by those auditors. Our report also includes a reference to the fact that the actuarially determined net pension liability is dependent on several assumptions, including the assumption that future required contributions from State sources are made based on statutory requirements.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

SIGNED ORIGINAL ON FILE

Schaumburg, Illinois
December 17, 2020

State Employees' Retirement System of Illinois

Schedule of Findings - State Compliance

Year Ended June 30, 2020

Finding No. 2020-001 Board of Trustees Vacancy

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.

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.

The Illinois Pension Code (40 ILCS 5/14-134) states "Beginning on the 90th day after the effective date of this amendatory Act of the 96th General Assembly, the board shall consist of 13 trustees as follows:

- (1) the Comptroller, who shall be the Chairperson;
- (2) six persons appointed by the Governor with the advice and consent of the Senate who may not be members of the system or hold an elective State office and who shall serve for a term of 5 years, except that the terms of the initial appointees under this amendatory Act of the 96th General Assembly shall be as follows: 3 for a term of 3 years and 3 for a term of 5 years;
- (3) four active participants of the system having at least 8 years of creditable service, to be elected from the contributing members of the system by the contribution members as provided in Section 14-134.1; and
- (4) two annuitants of the system who have been annuitants for at least one full year, to be elected from and by the annuitants of the system, as provided in section 14-134.1."

System officials stated the Executive Secretary formally communicated with the Governor's Office requesting appointment of a new member to fill the vacancy at the time the vacancy occurred more than five years ago and followed-up with the Governor's Office throughout the years including when there was a change in administration but has not yet received an official response. Further, System officials stated the System Board has been able to establish a quorum and conduct the business of the System for every meeting held in fiscal year 2020.

Failure to operate with the full thirteen members of the Board of Trustees could impact the Board's ability to establish a quorum and timely conduct the business of the System. (Finding Code No. 2020-001, 2019-001, 2018-001, 2017-002, 2016-003)

Recommendation:

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

State Employees' Retirement System of Illinois

Schedule of Findings - State Compliance

Year Ended June 30, 2020

Finding No. 2020-001 Board of Trustees Vacancy (continued)

System Response:

The System agrees with the finding and will continue to communicate with the Office of the Governor to seek appointees to the Board.

State Employees' Retirement System of Illinois

Schedule of Findings – State Compliance

Year Ended June 30, 2020

Finding No. 2020-002 Failure to Report Motor Vehicle Accident

The State Employees' Retirement System of Illinois (System) failed to submit a Motorist's Report of Illinois Motor Vehicle Accident form (Form SR-1) to the CMS Auto Liability Unit in a timely manner.

During the current compliance examination, the auditors noted there was an automobile accident involving a System vehicle for which Form SR-1 was not properly reported to the Department of Central Management Services (CMS).

In accordance with the Administrative Code (44 Ill. Admin. Code 5040.520), the driver of any vehicle that is involved in an accident of any type while he or she is within the scope or course of his or her employment shall report the accident to the appropriate law enforcement agency, the CMS Auto Liability Unit, and, if a State agency owns the vehicle, to that agency by completing the "Motorist's Report of Illinois Motor Vehicle Accident" Form SR-1. In all cases, the completed SR-1 must be received by the CMS Auto Liability Unit no later than 7 calendar days following the accident.

System management stated the State driver immediately called local law enforcement and his immediate supervisor to report the accident, however due to winter weather conditions and other accidents during that day, no officer arrived on the scene to make the required reports or issue citations. Subsequent to the accident, System officials overlooked filing the report with the CMS Auto Liability Unit.

Failure to report an automobile accidents with the CMS Auto Liability Unit in a timely manner could put the driver and agency at risk of forfeiture of coverage under the State's auto liability plan. (Finding Code No. 2020-002)

Recommendation:

We recommend the System comply with the Administrative Code and implement a formal process to ensure timely reporting of all automobile accidents with the CMS Auto Liability Unit.

System Response:

The System agrees with the finding and will remind employees of the procedures for reporting vehicle accidents and completing vehicle accident reports promptly to comply with the Administrative Code.

State Employees' Retirement System of Illinois

Schedule of Findings – State Compliance

Year Ended June 30, 2020

Finding No. 2020-003 Inadequate Internal Controls over Access to Information Systems

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:

- 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 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.
- 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.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies to establish and maintain a system, or systems, of internal fiscal controls to provide assurance funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use and misappropriation. Information technology guidance endorses the development of well-designed and well-managed controls for ensuring access to system resources are appropriately authorized.

System officials stated for two of the terminated employees, access to the legacy applications required separate login credentials and the deactivation for these two employees was overlooked by IT personnel. For the remaining four terminated employees, System management stated the delay in deactivation was a result of oversight by staff generally attributed to an increased focus on essential business operations during the global COVID-19 pandemic. In regard to the lack of support for user access reviews, System officials stated administrators responsible for performing the reviews overlooked maintaining supporting evidence of the reviews.

Failure to regularly monitor access to information systems, including disabling users' access in a timely manner, increases the risk unauthorized individuals may gain access to its information system resources. (Finding Code No. 2020-003)

Recommendation:

We recommend 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 recommend the System implement controls to ensure all employee's user access is timely disabled upon their separation of employment with the System.

State Employees' Retirement System of Illinois

Schedule of Findings – State Compliance

Year Ended June 30, 2020

**Finding No. 2020-003 Inadequate Internal Controls over Access to Information Systems
(Continued)**

System Response:

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

State Employees' Retirement System of Illinois

Schedule of Findings –State Compliance

Year Ended June 30, 2020

Prior Finding Not Repeated

A. Failure to Report State Hispanic and Asian American Employment Plan

In the prior compliance examination, the State Employees' Retirement System of Illinois (System) did not file the Hispanic and Asian American Employment Plan Survey. (Finding Code No. 2019-002)

During the current compliance examination, our testing indicated the System properly filed the Hispanic and Asian American Employment Plan survey.

Schedule of Appropriations, Expenditures and Lapsed Balances
Expenditure Authority for Fiscal Year 2020
For the Fifteen Months Ended September 30, 2020

Public Act 101-0007 and 101-0637	Expenditure Authority (Net of Transfers)	Expenditures Through June 30, 2020	Lapse Period Expenditures July 1 to September 30, 2020	Total Expenditures 15 Months Ended September 30, 2020	Balances Lapsed September 30, 2020
Fiscal Year 2020					
Appropriated Funds					
General Revenue Fund - 0001					
Employee retirement contributions paid by employer	\$ 6,800	\$ -	\$ 1,627	\$ 1,627	\$ 5,173
Appropriation for State's contribution	1,489,311,850	1,489,311,850	-	1,489,311,850	-
Continuing appropriation for fiscal year shortfall	149,003,681	149,003,680	-	149,003,680	1
Ordinary and contingent expenses	99,800	81,289	18,458	99,747	53
Total appropriated funds	1,638,422,131	1,638,396,819	20,085	1,638,416,904	5,227
Nonappropriated Funds					
State Employees' Retirement System					
Fund - 0479					
Personal services		\$ 5,341,477	\$ 206,568	\$ 5,548,045	
Employee retirement contributions paid by employer		35,296	1,775	37,071	
Retirement contributions		2,901,941	112,233	3,014,174	
Social Security and Medicare contributions		398,910	15,340	414,250	
Group insurance		1,179,422	55,696	1,235,118	
Contractual services		1,636,696	177,523	1,814,219	
Travel		7,140	-	7,140	
Commodities		15,622	1,464	17,086	
Printing		26,450	1,343	27,793	
Equipment		12,226	42,074	54,300	
Electronic data processing		6,111,402	280,384	6,391,786	
Telecommunications		33,867	5,877	39,744	
Automotive		7,995	1,591	9,586	
Nonrecurring refunds and distributions		12,292,666	(200)	12,292,466	
Payments to general obligation bond retirement and interest fund		28,038,468	4,504,376	32,542,844	
Back wage interest		98,635	-	98,635	
Pensions, annuities and benefits		2,782,611,657	(774,623)	2,781,837,034	
Permanent Improvements		21,596	-	21,596	
Refunds, prior calendar year contributions		127,084	-	127,084	
Refunds, not elsewhere classified		34,284,303	(7,060)	34,277,243	
Subtotal - Fund 0479		\$ 2,875,182,853	\$ 4,624,361	\$ 2,879,807,214	

Schedule of Appropriations, Expenditures and Lapsed Balances (Continued)
Expenditure Authority for Fiscal Year 2020
For the Fifteen Months Ended September 30, 2020

Public Act 101-0007 and 101-0637	Expenditure Authority (Net of Transfers)	Expenditures Through June 30, 2020	Lapse Period Expenditures July 1 to September 30, 2020	Total Expenditures 15 Months Ended September 30, 2020	Balances Lapsed September 30, 2020
Nonappropriated Funds (Continued)					
<u>State Employees' Retirement System</u>					
<u>Excess Benefit Fund - 0788</u>					
Pensions, annuities and benefits		\$ 469,995	\$ -	\$ 469,995	
<u>State Pension Obligation Acceleration Bond</u>					
<u>Fund - 0825</u>					
Accelerated pension buyout		79,399,137	-	79,399,137	
Total nonappropriated funds		2,955,051,985	4,624,361	2,959,676,346	
Grand Total, All Funds		\$ 4,593,448,804	\$ 4,644,446	\$ 4,598,093,250	

Note 1: Expenditure authority, appropriations, expenditures, and lapsed balances were obtained from the System's records and have been reconciled to the Office of Comptroller's records as of September 30, 2020.

Note 2: Expenditure amounts are vouchers approved for payment by the System and submitted to the Office of Comptroller for payment to the vendor.

Note 3: The System has a continuing appropriation from the General Revenue Fund – 0001 pursuant to the State Pension Funds Continuing Appropriations Act (40 ILCS 15/).

State Employees' Retirement System of Illinois
Compliance Examination

Schedule 2

Comparative Schedule of Net Appropriations,
Expenditures and Lapsed Balances
For the Years Ended June 30,

	2020	2019	2018
Appropriated Funds			
<u>General Revenue Fund - 0001</u>			
Appropriations	\$ 1,638,422,131	\$ 1,407,895,850	\$ 1,319,316,550
Expenditures			
Continuing appropriation for pension contributions	-	269,788,800	214,257,100
Continuing appropriation for fiscal year shortfall	149,003,680	-	-
Personal services	-	45,665	54,404
Appropriation for State's contribution	1,489,311,850	1,124,893,450	1,104,971,850
Social Security and Medicare contributions	-	3,402	4,058
Employee retirement contributions paid by employer	1,627	13,427	5,000
Contractual services	-	22,860	18,494
Electronic data processing	-	671	-
Telecommunications	-	215	293
Ordinary and contingent expenses	99,747	-	917
Total expenditures	1,638,416,904	1,394,768,490	1,319,312,116
Lapsed balances	\$ 5,227	\$ 13,127,360	\$ 4,434
Grand Total - Appropriated Funds			
Appropriations (Net of transfers)	\$ 1,638,422,131	\$ 1,407,895,850	\$ 1,319,316,550
Total expenditures	1,638,416,904	1,394,768,490	1,319,312,116
Lapsed balances	\$ 5,227	\$ 13,127,360	\$ 4,434
Nonappropriated Funds			
<u>State Employees' Retirement System Fund - 0479</u>			
Expenditures			
Personal services	\$ 5,548,045	\$ 4,945,482	\$ 4,846,294
Employee retirement contributions paid by employer	37,071	27,661	32,173
Retirement contributions	3,014,174	2,563,952	2,293,079
Social Security and Medicare contributions	414,250	369,595	366,255
Group insurance	1,235,118	1,334,744	1,315,672
Contractual services	1,814,219	1,907,074	1,630,291
Travel	7,140	12,235	16,004
Commodities	17,086	16,379	24,291
Printing	27,793	32,467	19,583
Equipment	54,300	2,576	22,004
Electronic data processing	6,391,786	5,646,236	5,638,319
Telecommunications	39,744	44,412	58,651
Automotive	9,586	21,339	11,323
Nonrecurring refunds and distributions	12,292,466	16,746,798	16,198,318
Payments to general obligation bond retirement and interest fund	32,542,844	30,220,616	27,938,971
Back wage interest	98,635	-	-

Comparative Schedule of Net Appropriations,
Expenditures and Lapsed Balances (Continued)
For the Years Ended June 30,

	2020	2019	2018
Nonappropriated Funds (Continued)			
State Employees' Retirement System Fund - 0479			
(Continued)			
Pensions, annuities and benefits	\$ 2,781,837,034	\$ 2,617,217,392	\$ 2,444,559,454
Permanent improvements	21,596	182,939	155,180
Refunds, prior calendar year contributions	127,084	79,369	192,577
Refunds, not elsewhere classified	34,277,243	96,919,906	147,367,103
Total expenditures - Fund 0479	2,879,807,214	2,778,291,172	2,652,685,542
State Employees' Retirement Excess Benefit Fund - 0788			
Expenditures			
Pensions, annuities and benefits	469,995	471,959	524,293
State Pension Obligation Acceleration Bond Fund - 0825			
Expenditures			
Accelerated pension buyout	79,399,137	29,578,288	-
Total nonappropriated expenditures	2,959,676,346	2,808,341,419	2,653,209,835
Grand total expenditures, all Funds	\$ 4,598,093,250	\$ 4,203,109,909	\$ 3,972,521,951

Note 1: Expenditure authority, appropriations, expenditures, and lapsed balances were obtained from the System's records and have been reconciled to the Office of Comptroller's records as of September 30, 2020, October 31, 2019 and September 30, 2018.

Note 2: Expenditure amounts are vouchers approved for payment by the System and submitted to the Office of Comptroller for payment to the vendor.

Note 3: The System received appropriations during Fiscal Year 2020 from Public Acts 101-0007 and 101-00637. In addition, the System received appropriations during Fiscal Year 2019 from Public Act 100-0586 and during Fiscal Year 2018 from Public Act 100-0021 and 100-0586.

Note 4: The System has a continuing appropriation from the General Revenue Fund – 0001 pursuant to the State Pension Funds Continuing Appropriations Act (40 ILCS 15/).

**State Employees' Retirement System of Illinois
Compliance Examination**

Schedule 3

**Comparative Schedule of Cash Receipts and Deposits into the State Treasury
For the Years Ended June 30,**

STATE TREASURY FUNDS	2020	2019
State Employees' Retirement System - Fund 0479		
Receipt Sources:		
Participant contributions	\$ 279,963,176	\$ 247,923,659
Employer contributions (net of bond principal and interest)	798,994,770	790,672,590
General Revenue Fund / Pension Contribution Fund	1,547,730,044	1,341,576,972
Transfers from the Illinois State Board of Investment	214,000,000	357,000,000
Interest income on cash balances	3,015,318	4,481,947
Claims receivable payments	7,054,069	7,189,226
Installment payments	2,698,965	3,052,499
Buyout program bond proceeds	79,399,137	29,578,288
Other	800,567	368,091
Total Receipts, per the System Records	<u>2,933,656,046</u>	<u>2,781,843,272</u>
Plus - Bond principal and interest payments collected and remitted to the State of Illinois	32,293,601	29,449,116
Less - Interest on cash balances	(3,015,318)	(4,481,947)
Less - Cancelled warrants and adjustment deposits classified by the Comptroller as reductions of expenditures	(6,819,423)	(7,036,183)
Plus - Intergovernmental transfers submitted to the Comptroller but not yet released / deposited into Trust Fund	149,003,680	58,658,194
Less - Prior year intergovernmental payment vouchers deposited into the Trust Fund (Fund 479) during the current fiscal year**	(58,658,194)	(54,588,076)
Less - Cash in Transit at End of Year	(190,681)	(254,233)
Plus - Cash in Transit at Beginning of Year	254,233	300,882
Less - Deposits in Transit at End of Year	(368,481)	(18,372)
Plus - Deposits in Transit at Beginning of Year	18,372	76,197
Total Receipts, per Office of Comptroller's Records Fund 0479	<u><u>\$ 3,046,173,835</u></u>	<u><u>\$ 2,803,948,850</u></u>
State Employees' Retirement System Excess Benefit - Fund 0788		
Receipt Sources:		
Employer contributions	\$ 698,653	\$ 437,336
Interest income on cash balances	7,976	7,066
Total Receipts, per the System Records	<u>706,629</u>	<u>444,402</u>
Less - Interest on cash balances	(7,976)	(7,066)
Total Receipts, per Office of Comptroller's Records Fund 0788	<u><u>\$ 698,653</u></u>	<u><u>\$ 437,336</u></u>
Grand Total - All Funds		
Receipts, per the System's Records	\$ 2,934,362,675	\$ 2,782,287,674
Less - Reconciling items from above	(69,060,073)	(66,385,877)
Plus - Reconciling items from above	181,569,886	88,484,389
Receipts, Recorded by the Office of Comptroller	<u><u>\$ 3,046,872,488</u></u>	<u><u>\$ 2,804,386,186</u></u>

**Intergovernmental transfers are GRF employer contributions that are deposited in Fund 479. The Office of Comptroller posts them to the Revenue Report when the GRF payment vouchers post. SERS does not post the deposit until the voucher has been released for payment.

Schedule of Changes in State Property
For the Year Ended June 30, 2020

	Beginning Balance	Additions	Deletions	Ending Balance
State Employees' Retirement System Trust				
Fund				
Land	\$ 655,241	\$ -	\$ -	\$ 655,241
Land improvements	315,779	-	-	315,779
Building	4,478,519	-	-	4,478,519
Furniture and equipment	2,556,166	94,200	(16,467)	2,633,899
Internally developed software	9,742,783	2,272,418	-	12,015,201
Total	17,748,488	2,366,618	(16,467)	20,098,639
Accumulated depreciation/amortization	(7,038,093)	(985,345)	5,946	(8,017,492)
Property and equipment - net	\$ 10,710,395	\$ 1,381,273	\$ (10,521)	\$ 12,081,147
Social Security Contribution Fund				
Furniture and equipment	\$ 3,687	\$ -	\$ -	\$ 3,687

Note 1: These balances were obtained from the System's records and have been reconciled to the System's quarterly *Agency Report of State Property* reports submitted to the Office of Comptroller for the year ended June 30, 2020.

Note 2: This schedule was prepared from State property records as required by the Illinois Administrative Code (Code) and the Statewide Accounting Management System (SAMS). The capitalization policy required by the Code and SAMS is different than the capitalization policy established by the Office of the Comptroller for financial reporting in accordance with generally accepted accounting principles (GAAP).

**State Employees' Retirement System of Illinois
Compliance Examination**

Schedule 5

**Comparative Schedule of Cash Balances
For the Years Ended June 30,**

	2020	2019
State Treasury	\$ 284,526,480	\$ 211,199,690
Vouchers in transit	(43,506)	(61,256)
Deposits and cash in transit	515,726	150,646
	<u>284,998,700</u>	<u>211,289,080</u>
Petty cash fund	200	200
	<u>\$ 284,998,900</u>	<u>\$ 211,289,280</u>

The cash balance at fiscal year-end increased from the prior year due to the timing of receipts, as well as expenses which can fluctuate from fiscal year to fiscal year creating variances in cash balances from year to year.

**Comparative Schedule of Changes in Investment Balances
For the Years Ended June 30, 2020 and 2019**

Pursuant to Article 22A of the Illinois Pension Code, investments of the State Employees' Retirement System of the State of Illinois are managed by the Illinois State Board of Investment (ISBI) and are held in the ISBI Commingled Fund. Units of the ISBI Commingled Fund are issued to the member systems on the last day of the month based on the unit net asset value calculated as of that date. Net investment income of the ISBI Commingled Fund is allocated to each of the member systems on the last day of the month on the basis of percentage of accumulated units owned by the respective systems.

Investment portfolio management and performance are the direct responsibility of ISBI which establishes investment policy and strategy.

Comparison of the changes in the System's investments held in the ISBI Commingled Fund for the years ended June 30, 2020 and 2019 is summarized as follows:

	2020	2019
Balance at beginning of year, at fair value	\$ 18,025,048,500	\$ 17,268,137,475
Net cash added (withdrawn) to/(from) investments, net	(214,000,000)	(357,000,000)
	<u>17,811,048,500</u>	<u>16,911,137,475</u>
Investment income		
Interest, dividends and other	206,605,320	292,713,956
Expenses	(24,988,274)	(24,669,122)
	<u>181,617,046</u>	<u>268,044,834</u>
Net appreciation (depreciation) in fair value of investments		
Net realized gain on sales of investments	484,913,846	1,032,883,573
Net unrealized gain (loss) on investment	159,936,582	(187,017,382)
	<u>644,850,428</u>	<u>845,866,191</u>
Total net investment income	<u>826,467,474</u>	<u>1,113,911,025</u>
Balance at end of year, at fair value	<u>\$ 18,637,515,974</u>	<u>\$ 18,025,048,500</u>

Securities lending collateral increased by \$11.7 million in fiscal year 2020 compared to the previous fiscal year (\$54,881,000 from \$43,142,000). The State Treasurer lends securities to broker-dealers and other entities for collateral that will be returned for the same security in the future. Each year the Treasurer provides an allocation to the Comptroller to adjust each State Agency's financial statements to include their proportionate share of the securities lending transaction balances at year-end. Securities lending activity can vary from year to year depending on market conditions and the availability of securities to lend.

State Employees' Retirement System of Illinois Compliance Examination

Analysis of Operations (Unaudited) For the Years Ended June 30, 2020 and 2019

Functions

The State Employees' Retirement System of Illinois (System or SERS) was established on January 1, 1944 for the purpose of providing an orderly means whereby aged or disabled employees may be retired from active service, without prejudice or hardship, and to enable the employees to accumulate reserves for themselves and their dependents for old age, disability, death and termination of employment, thus affecting economy and efficiency in the administration of the State government.

The System is governed by Article 14 of the Illinois Pension Code (Chapter 40 of the Illinois Compiled Statutes). As of June 30, 2020, the System had approximately 62,621 active members, 3,774 vested inactive members, and 74,372 benefit recipients.

The State Employees' Retirement System of Illinois is administered by a Board of Trustees of thirteen persons, which includes: a. the Comptroller, who shall be the Chairperson; b. six persons appointed by the Governor with the advice and consent of the Senate who may not be members of the System or hold an elective State office and who shall serve a term of 5 years, except that the terms of the initial appointees under the amendatory act of the 96th General Assembly shall be as follows: 3 for a term of 3 years and 3 for a term of 5 years; c. four active participants of the System having at least 8 years of creditable service, to be elected from the contributing members of the System; and d. two annuitants of the System who have been annuitants for at least one full year, to be elected from and by the annuitants of the System. The administration of the detailed affairs of the System is vested in the Executive Secretary, under the direction of the Board. General policy relating to the administration of the System is stated in the minutes of the Board meetings.

The System also administers the Social Security Enabling Act, Article 21 of the Illinois Pension Code, which makes coverage under the Federal Social Security Program available to employees of the State and its political subdivisions. The purpose of the Social Security Division of the System was to collect FICA contributions from employees, employing State agencies and various political subdivisions and remitting these contributions to the Federal government for calendar years prior to 1987. The responsibility of collecting and remitting Social Security contributions to the Federal government was transferred from this office to the Office of the Comptroller effective January 1, 1987. All adjustments for wages paid prior to January 1, 1987 were processed through this office. The remaining function of the Social Security Division is largely to act as a liaison between the Social Security Administration and local governments throughout the State. All necessary documentation pertaining to Section 218 agreements are initiated by the Division. The administrative expenses of the Social Security Division are appropriated by the General Assembly on a line item basis or authorized by court order.

The System is also responsible for the general administration of the State Employees Group Insurance Program as it applies to eligible annuitants. This includes enrollment, processing life insurance claims and other administrative details related to that program.

Planning

Program planning activities of the System are under the direct supervision of the Executive Secretary and involve coordination between the governing Board and other executive staff of the System. The current planning program identifies various operational projects for fiscal year 2020. The planning summary for each project includes the project scope and objectives, implementation phases and timing, resource application and expected benefits. Each project is assigned to a divisional level manager who acts as project leader during all implementation phases of the project. Implementation progress is reported to the Executive Secretary, who in turn reports such progress directly to the System's Board of Trustees.

State Employees' Retirement System of Illinois Compliance Examination

Analysis of Operations (Unaudited) (Continued) For the Years Ended June 30, 2020 and 2019

Planning (Continued)

During FY 2020, the accelerated benefit (“buyout”) programs created by Public Act 100-0587 continued to show excellent participation levels. The participation rate for this new benefit option has been approximately 22.3% among eligible regular formula members and 33.9% among eligible alternative formula members. The buyout programs are financed from the sale of bonds and will continue through FY 2024 or the exhaustion of the bond proceeds.

During the global pandemic much of the work on the modernization project continued, remotely. Looking for ways that more staff functions could adequately and effectively be done remotely was reviewed by the information technology team. Business practices in all areas of the System are being reviewed for improvements and efficiencies, as well, to ensure that primary functions of the agency can continue even during a stay-at-home order.

Progress in Funding the System

In August 1994, Senate Bill 533 was signed into law as Public Act 88-0593. This funding legislation, which became effective July 1, 1995, provides for a systematic 50-year funding plan with an ultimate goal to fund the cost of maintaining and administering the System at an actuarial funded ratio of 90%. In addition, the funding plan provided for a 15-year phase-in period to allow the State to adapt to the increased financial commitment. Now that the 15-year phase-in is complete, the State's contribution will remain at a level percentage of payroll for the next 35 years until the 90% funded level is achieved.

The funding legislation also provides for the establishment of a continuing appropriation of the required employer contributions to the System. This, in effect, removed the appropriation of those funds from the annual budgetary process.

Public Act 92-0566 became effective June 25, 2002, and provided an early retirement incentive (ERI) for those participants under the State Employees' Retirement System who terminated service before December 31, 2002 (or April 30, 2003, for certain cases). The increase in the unfunded actuarial accrued liability due to the ERI was originally to be amortized over ten years. The law, as modified, required that, in addition to any employer contributions required above, the State pay an amount equal to \$70,000,000 for fiscal years 2004 and 2005; and in each fiscal year 2006 through 2015, a level-dollar payment based upon the increase in the present value of future benefits provided by the early retirement incentives amortized at 8.5 percent interest.

Public Act 93-0002 became law on April 7, 2003, and authorized the State to issue \$10 billion in general obligation bonds for the purpose of making contributions to the retirement systems. On June 12, 2003, the State issued \$10 billion in General Obligation Bonds, Pension Funding Series of June 2003.

Commencing with fiscal year 2005, the maximum State contribution under Public Act 93-0002 equals the State contribution that would have been required if the general obligation bond contribution had not been made, reduced – but not below zero – by the State's debt service on each system's respective portion of the full \$10 billion of General Obligation Bond, Pension Funding Series of June 2003.

State Employees' Retirement System of Illinois Compliance Examination

Analysis of Operations (Unaudited) (Continued) For the Years Ended June 30, 2020 and 2019

Progress in Funding the System (Continued)

In June 2005, Public Act 94-0004 became law. This legislation further modified the funding plan by reducing the amount of required employer contributions for fiscal years 2006 and 2007 that would have otherwise been required under Public Act 88-0593, as modified by Public Act 93-0002. This act specified the appropriation amounts for fiscal years 2006 and 2007. The required State contributions for fiscal years 2008 through 2010 were then increased incrementally as a percentage of the participant payroll so that by fiscal year 2011, the State is contributing at the required level contribution rate to achieve the financing objective of a 90% funded status by the end of fiscal year 2045.

Public Act 96-0043 became law on July 15, 2009. As required under Public Act 96-0043, the method for determining the actuarial value of assets used to determine the employer contribution rate was changed beginning with the June 30, 2009 valuation. The method was changed from the market/fair value to a smoothed value. The smoothed value recognizes actuarial investment gains or losses for each fiscal year, beginning with FY09, in equal amounts over the ensuing five-year period.

Public Act 96-0889 added a lower tier of benefits for members who first contribute to SERS on or after January 1, 2011. When Public Act 96-1511 was enacted in January 2011, it required the System to assume that the provisions of Public Act 96-0889 were in effect on June 30, 2009 and to recalculate and recertify the fiscal year 2011 state funding requirement. Under this recertification, the fiscal year 2011 state contribution requirement was reduced by \$95 million, from \$1,193.3 million to \$1,098.3 million.

Public Act 100-0023 became law on July 6, 2017. Public Act 100-0023 created a third tier of benefits (Tier 3), a hybrid plan combining a reduced defined benefit and a deferred contribution component for those members not participating in the social security system. Tier 3 has yet to be implemented and will require legislative changes. In addition Public Act 100-0023 directed the System to smooth the effects of changes in assumptions on the State's contribution by amortizing the effect of the changes over a five-year period retroactive to 2014. The System was also required to recalculate the State's fiscal year 2018 contribution resulting in a \$298 million reduction in the State contribution from \$2,328 million to \$2,030 million.

On June 4, 2018 Public Act 100-0587 created two accelerated benefit payment options to be offered through June 30, 2021 to new annuitants and inactive vested members at a discounted cost to the System. The System was also required to recalculate its fiscal year 2019 contribution before June 30, 2019 to account for the estimated decreases in the fiscal year 2019 contribution afforded to the State by offering the accelerated benefit option resulting in a \$20 million reduction on the State contribution from \$2,166 million to \$2,146 million.

Under the State's funding plan, the actuarial accrued liability of the System at June 30, 2020 amounted to approximately \$50.1 billion. The actuarial value of assets (at smoothed value) at June 30, 2020 amounted to approximately \$19.4 billion. The difference between the actuarial accrued liability and the actuarial value of assets of \$30.7 billion reflects the unfunded actuarial accrued liability of the System at June 30, 2020 under the State's funding plan. The System had a funded ratio (based on the State's funding plan) of 38.7% at June 30, 2020.

**State Employees' Retirement System of Illinois
Compliance Examination**

**Analysis of Operations (Unaudited) (Continued)
For the Years Ended June 30, 2020 and 2019**

Progress in Funding the System (Continued)

For financial reporting purposes, the System adopted GASB Statement No. 67, *Financial Reporting for Pension Plans*, in the fiscal year ended June 30, 2014. GASB Statement No. 67 requires the use of the market value of assets rather than the actuarial value of assets (smoothed value) used under the State's funding plan in calculating the net pension liability. It also requires that the System use the entry age actuarial cost method rather than the projected unit costs method used under the State's funding plan for calculating the total pension liability. In addition, it requires the System use a blended rate of return of 6.35% combining the assumed rate of return of 6.75% and a municipal bond rate of 2.45% based on an index of 20-year general obligation bonds with an average AA rating for investments in the event the System's assets are exhausted in the future.

On June 30, 2020, the System reported for financial reporting purposes under GASB Statement No. 67 that the market value of assets was \$19.2 billion. The difference between the total pension liability of \$54.1 billion and the market value of assets was the net pension liability of \$34.9 billion and the funded ratio was 35.5%. On June 30, 2019, the market value of assets was \$18.5 billion. The difference between the System's June 30, 2019 total pension liability of \$51.9 billion and the market value of assets was the June 30, 2019 net pension liability of \$33.4 billion and the funded ratio was 35.6%.

The market value of the assets of the fund, that were available for benefits, increased from \$18.5 billion at June 30, 2019 to \$19.2 billion at June 30, 2020. This increase is due to the increased return on fund assets. The actuarial value of the assets of \$19.4 billion at June 30, 2020, is \$192.2 million higher than the market value of the assets due to the recognition of 100% of the actuarial loss in fiscal year 2016, 80% of the actuarial gain in fiscal year 2017, 60% of the actuarial gain in fiscal year 2018, 40% of the actuarial gain in 2019 and 20% of the actuarial gain in 2020.

State required contributions to the System for the next five fiscal years are noted in the table below.

Year Ended June 30	Required State Contribution (in millions)
2021	\$ 2,377.9
2022	2,470.3
2023	2,502.5
2024	2,543.1
2025	2,583.6

**State Employees' Retirement System of Illinois
Compliance Examination**

**Analysis of Operations (Unaudited) (Continued)
For the Years Ended June 30, 2020 and 2019**

Progress in Funding the System (Continued)

The Schedule of the State's Net Pension Liability (in millions) for fiscal years ending June 30, 2020 and 2019 are noted in the table below.

	<u>2020</u>	<u>2019</u>
Total pension liability	\$ 54,066	\$ 51,886
Plan fiduciary net position	19,197	18,492
State's net pension liability (asset)	<u>\$ 34,869</u>	<u>\$ 33,394</u>
Plan fiduciary net position as a percentage of the total pension liability	35.51 %	35.64 %
Covered payroll	4,518	4,622
State's net pension liability (asset) as a percentage of covered payroll	771.82 %	722.56 %

The Schedule of State Contributions (in millions) for the fiscal years ending June 30, 2020 and 2019 are noted in the table below.

Year Ended June 30,	Actuarially Determined Contribution	Contributions Received	Contribution (Deficiency) Excess	Covered Payroll	Contributions Received as a Percentage of Covered Payroll
2020	\$2,913.6	\$2,368.9	\$ (544.7)	\$4,517.7	52.44%
2019	2,996.0	2,274.9	(721.1)	4,621.6	49.22%

Notes to the Schedule of State Contributions:

Valuation date June 30, 2018

Notes Actuarially determined contribution (ADC) rates are calculated as of June 30, which is 12 months prior to the beginning of the fiscal year in which the contributions will be made.

ADC for fiscal years 2019 forward reflect the buyout program provisions provided in Public Act 100-0587.

**State Employees' Retirement System of Illinois
Compliance Examination**

**Analysis of Operations (Unaudited) (Continued)
For the Years Ended June 30, 2020 and 2019**

Progress in Funding the System (Continued)

Methods and Assumptions as of the Valuation Date:

Actuarial Cost Method	Projected Unit Credit
Amortization Method	Normal cost plus a level percentage of capped payroll amortization of the unfunded accrued liability.
Remaining Amortization Period	22 years, closed
Asset Valuation Method	5 year smoothed market
Inflation	2.5%
Salary Increases	Salary increase rates based on age-related productivity and merit rates plus inflation.
Post-Retirement Benefits	Post-retirement benefit increases of 3.00%, compounded, for Tier 1 and 3.00% or one-half of the annual increase in the Consumer Price Index whichever is less, simple, for Tier 2.
Investment Rate of Return	7.00%
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the June 30, 2014, valuation pursuant to an experience study of the period July 1, 2009 to June 30, 2013.
Mortality	105% of the RP2014 Healthy Annuitant table, sex distinct with generational mortality improvements.

**State Employees' Retirement System of Illinois
Compliance Examination**

**Analysis of Operations (Unaudited) (Continued)
For the Years Ended June 30, 2020 and 2019**

Analysis of Significant Variations in Expenditures

The System's expenditures, obtained from Schedule 2, have been analyzed for fluctuations greater than \$1 million and 20% from the previous year.

	2020	2019	Increase (Decrease)	
Fund 0001:				
Continuing appropriation for retirement contributions	\$ -	\$ 269,788,800	\$ (269,788,800)	(1)
Continuing appropriation for fiscal year shortfall	149,003,680	-	149,003,680	(2)
Appropriation for State's contribution	1,489,311,850	1,124,893,450	364,418,400	(1)
Fund 0479:				
Nonrecurring refunds and distributions	12,292,466	16,746,798	(4,454,332)	(3)
Refunds, not elsewhere classified	34,277,243	96,919,906	(62,642,663)	(3)
Fund 0825:				
Accelerated pension buyout	79,399,137	29,578,288	49,820,849	(4)

- (1) In FY 2019, it was necessary to establish a continuing appropriation for a portion of the GRF employer retirement contribution because the appropriated amount did not meet the statutory requirement. In 2020, the appropriation was sufficient, so no continuing appropriation was necessary.
- (2) At the end of the fiscal year, a reconciliation is performed with the Office of Comptroller to calculate the actual general revenue wages subject to retirement and actual employer contributions due the System from the general revenue fund. If this calculation is greater than the general revenue employer contributions paid during the fiscal year, an employer contribution receivable is accrued (GRF Shortfall).

In 2020, the FY 2019 GRF Shortfall was processed payable to SERS in the amount of \$149.0 million. In contract in FY 2019, the FY 2018 GRF overpayment was repaid to GRF from the Trust Fund in the amount of \$55.3 million.

- (3) The reduction in refunds processed was largely due to the COVID-19 pandemic and resulting "Stay at Home" order. Staff priorities as they worked remotely or rotated into the office were based on member accounts of members being transitioned to pension benefits.
- (4) The increase in FY 2020 expenditures over FY 2019 was the result of the buyout program being available for the entire fiscal year as it was first offered in the middle of FY 2019.

**State Employees' Retirement System of Illinois
Compliance Examination**

**Analysis of Operations (Unaudited) (Continued)
For the Years Ended June 30, 2020 and 2019**

Analysis of Significant Variations in Cash Receipts

The System's cash receipts, obtained from Schedule 3, have been analyzed for fluctuations greater than \$1 million and 20% from the previous year.

	2020	2019	Increase
Transfers from the Illinois State Board of Investment	\$ 214,000,000	\$ 357,000,000	\$ (143,000,000) (1)
Buyout Program Bond Proceeds	79,399,137	29,578,288	49,820,849 (2)
Interest income on cash balances	3,015,318	4,481,947	(1,466,629) (3)

- (1) The decrease in necessary transfers from the Illinois State Board of Investment (ISBI) was due primarily to increased employer contributions that were sufficient to meet the operating needs of the System.
- (2) The increase in FY 2020 proceeds over FY 2019 was the result of the buyout program being available for the entire fiscal year as it was first offered to members as of January 1, 2019 which is the middle of FY 2019.
- (3) The decrease in interest income on cash balances resulted primarily from the decrease in interest rates over the fiscal year.

Analysis of Significant Lapse Period Spending

The System's lapse period spending, obtained from Schedule 1, has been analyzed for spending greater than \$200,000 and 20% in any appropriated line item.

There was no significant lapse period spending during fiscal year 2020.

Analysis of Contributions Receivable

	2020	2019
Participants' contributions	\$ 16,433,064	\$ 34,265,932
Employing State agencies	264,075,077	242,634,706
Other accounts	6,759,802	16,358,747
Total receivables	\$ 287,267,943	\$ 293,259,385

Receivables included above represent amounts due from participants and the various State agencies employing participants for contributions. Other accounts include benefit overpayments as well as reimbursements from the State for the new COLA and pension buyout programs. Accounts are first analyzed by System personnel for collectability before being sent to the Attorney General's Office for a final determination.

The back wages associated with unpaid step increases were paid out during the FY 2019 lapse period being the primary cause for the participant contribution receivable decrease. Additionally, a buyout voucher and associated reimbursement was processed near the end of June in FY 2020 so there was significantly less in the reimbursement receivable to be accrued for the FY 2020.

**State Employees' Retirement System of Illinois
Compliance Examination**

**Analysis of Operations (Unaudited) (Continued)
For the Years Ended June 30, 2020 and 2019**

Money-Weighted Rate of Return

Pursuant to Article 22A of the Illinois Pension Code, investments of the State Employees' Retirement System of Illinois are managed by the Illinois State Board of Investment (ISBI) and are held in the ISBI Commingled Fund. ISBI operates under a long-range investment plan with the objective to maximize the total rate of return. The objectives set forth are as follows:

- At least equal to the assumed actuarial interest rate, currently 6.75% per year.
- At least equal to the return of a composite benchmark of market indices in the same proportions as the Board's asset allocation policy targets.

The time-weighted rate of return of the ISBI Commingled Fund was 4.6% for fiscal year 2020. The ISBI's total fund performance was less than the composite benchmark of 4.9% for the year ended June 30, 2020.

The annual money-weighted rate of return, net of investment expense, as of June 30, 2020 and 2019 was as follows:

	<u>2020</u>	<u>2019</u>
Money-weighted return*	4.7%	7.1%

* The money-weighted rate of return expresses the investment performance, net of investment expense, adjusted for changing amounts actually invested.

Number of Employees

System Employees' Retirement System Trust Fund

The average number of employees (not including the General Revenue Fund – Social Security Division) during the years ended June 30, 2020, 2019 and 2018 is summarized by functional classification as follows:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Executive and administrative	11	19	19
Accounting, bookkeeping and clerical	23	28	30
Other office employees	31	24	20
Electronic data processing	<u>22</u>	<u>23</u>	<u>24</u>
Total	<u>87</u>	<u>94</u>	<u>93</u>

Social Security Contribution Fund

The Social Security Contribution Fund had one employee for the years ended June 30, 2020, 2019 and 2018.

**State Employees' Retirement System of Illinois
Compliance Examination**

**Analysis of Operations (Unaudited) (Continued)
For the Years Ended June 30, 2020 and 2019**

Comparison of Administrative Expenses to Total Deductions

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total deductions			
Benefits	\$ 2,727,820,833	\$ 2,601,306,593	\$ 2,464,832,022
Refunds of contributions, including transfers to reciprocating systems	19,366,029	24,133,508	27,469,348
Administrative expenses	<u>17,412,562</u>	<u>14,978,852</u>	<u>15,257,526</u>
	<u>\$ 2,764,599,424</u>	<u>\$ 2,640,418,953</u>	<u>\$ 2,507,558,896</u>
Administrative expenses as a percentage of total deductions	<u>0.6%</u>	<u>0.6%</u>	<u>0.6%</u>

Schedule of Contributions/Deductions and Effect on Investments

Below is a schedule of contributions received by the System and expenditures of the System for benefits and operations and the effect of these transactions on the System's investments.

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Contributions			
Participant Contributions	\$ 271,749,009	\$ 275,675,175	\$ 254,442,466
Employer Contributions	<u>2,368,905,396</u>	<u>2,274,925,279</u>	<u>1,929,175,044</u>
Total Contributions	<u>2,640,654,405</u>	<u>2,550,600,454</u>	<u>2,183,617,510</u>
Deductions			
Retirement Benefits	2,492,176,294	2,368,679,904	2,240,156,641
Survivor Benefits	160,955,392	153,161,557	144,671,705
Disability Benefits	62,947,464	62,214,438	64,708,865
Lump-Sum Death Benefits	11,741,683	17,250,694	15,294,811
Refunds (including transfers to reciprocating systems)	19,366,029	24,133,508	27,469,348
Administrative Expenses	<u>17,412,562</u>	<u>14,978,852</u>	<u>15,257,526</u>
Total Deductions	<u>2,764,599,424</u>	<u>2,640,418,953</u>	<u>2,507,558,896</u>
Contributions in Excess of Deductions (Investments Used to Pay Benefits and Expenses)	<u>\$ (123,945,019)</u>	<u>\$ (89,818,499)</u>	<u>\$ (323,941,386)</u>