



STATE OF ILLINOIS
**OFFICE OF THE
 AUDITOR GENERAL**

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

STATE UNIVERSITIES RETIREMENT SYSTEM

**Financial Audit
 For the Year Ended June 30, 2015**

Release Date: January 12, 2016

FINDINGS THIS AUDIT: 1	AGING SCHEDULE OF REPEATED FINDINGS						
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
Category 1:	0	0	0	2014		15-1	
Category 2:	0	1	1				
Category 3:	0	0	0				
TOTAL	0	1	1				
FINDINGS LAST AUDIT: 1							

INTRODUCTION

This digest covers the financial statement audit of the State Universities Retirement System (System) as of and for the year ended June 30, 2015. The State Universities Retirement System’s Compliance Examination covering the year ended June 30, 2015 will be issued in a separate report at a later date.

The System’s total pension liability is \$41.219 billion at June 30, 2015. The net pension liability at June 30, 2015 is \$23.756 billion, which is the difference between the System’s fiduciary net position of \$17.463 billion and the total pension liability. The System’s funded ratio is 42.37%. The criteria used for computing pension liability information in the financial report in accordance with GASB Statement No. 67 differs from the criteria used to compute the actuarial accrued liability and actuarial unfunded liability under the State’s funding plan, therefore this information under the State’s funding plan is no longer reported in the financial statements.

FINDING SYNOPSIS

- (15-1) The State Universities Retirement System has weaknesses in controls over creditable earnings and member census data reported by its employers.

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.

{Financial information is summarized on next page.}

STATE UNIVERSITIES RETIREMENT SYSTEM
FINANCIAL AUDIT
For the Year Ended June 30, 2015

FINANCIAL OPERATIONS	2015	2014
Additions		
Contributions		
Participants.....	\$ 340,010,444	\$ 348,612,466
Employer and Non-employer contributing entity.....	1,590,858,889	1,560,025,406
Total Contributions.....	1,930,869,333	1,908,637,872
Investment Income		
Net appreciation in fair market value.....	315,741,290	2,650,003,387
Interest.....	111,077,945	97,719,525
Dividends.....	218,278,974	214,220,387
Securities lending.....	4,690,554	4,147,244
Less: Investment expense.....	(56,127,346)	(51,901,633)
Net Investment Income.....	593,661,417	2,914,188,910
Total Additions.....	2,524,530,750	4,822,826,782
Deductions		
Benefits.....	2,160,843,600	2,021,245,873
Refund of contributions.....	108,644,121	107,710,940
Administrative expense.....	14,535,656	14,297,630
Total Deductions.....	2,284,023,377	2,143,254,443
Net Increase	\$ 240,507,373	\$ 2,679,572,339
INVESTMENT PORTFOLIO ANALYSIS		
(Fair Value)	JUNE 30, 2015	JUNE 30, 2014
Equities.....	\$ 11,307,523,098	\$ 12,010,571,148
Fixed income.....	4,590,860,760	4,097,642,745
Real estate.....	874,605,561	637,361,774
Mutual funds and variable annuities.....	1,654,146,781	1,490,380,389
Total.....	\$ 18,427,136,200	\$ 18,235,956,056
PENSION LIABILITY (in millions)		
Total Pension Liability.....	\$ 41,219.3	\$ 39,182.3
Plan Net Position.....	17,463.0	\$ 17,391.3
Net Pension Liability.....	\$ 23,756.3	\$ 21,791.0
Plan Net Position as a Percentage of the Total Pension Liability.	42.37%	44.39%
SUPPLEMENTARY INFORMATION		
Benefit recipients.....	61,452	59,787
Active members.....	81,309	80,845
Inactive members.....	85,460	83,484
Total.....	228,221	224,116
AGENCY DIRECTOR		

FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS

CONTROLS OVER CENSUS DATA

Weaknesses noted in controls over member census data

The State Universities Retirement System (System) has weaknesses in controls over creditable earnings and member census data reported by its employers.

During testing of System's internal controls over creditable earnings and member census data, it was noted that the information was accumulated from multiple participating employers which increased the likelihood of errors in the data.

Limited controls in place to verify the census information

During fiscal year 2015, the System's processes and controls for verifying the data relied heavily on the reporting of the information by the participating employers, and there are limited controls in place by the System to verify the creditable earnings and member census information.

Action plan initiated during fiscal year 2015

During fiscal year 2015 the System developed an action plan to address the weaknesses. The System began implementation of certain details of the action plan with the expectation to implement additional controls in fiscal year 2016.

A key control established as part of the action plan includes the System performing on-site employer visits at participating employers in order for the System to substantiate that the creditable wages as well as key elements of census data reported to the System's actuary are free of material misstatement.

Weaknesses in controls over census data could lead to a misstatement in the contributions which directly impacts valuation of Plan Net Position and the financial statements

Certain financial statement assertions relating to cost-sharing plans (that is, the Total Pension Liability (TPL) and revenues and receivables relating to contributions) are dependent on the completeness and accuracy of census data. Weaknesses in controls over the significant elements of census data could lead to a misstatement in the valuation of the TPL, a required disclosure to the System's financial statements. In addition, a misstatement could lead to a misstatement in contributions which directly impacts valuation of Plan Net Position and the financial statements of the System. (Finding 1, pages 38-39)

System officials agree with auditors

System officials concurred with our finding and stated they will fully implement their employer services program this year to test control systems and verify census data including creditable earnings. In addition, System officials stated they will continue to examine current processes and procedures with the goal of adding additional census data verification procedures for the active and inactive member populations.

AUDITOR'S OPINION

Our auditors stated the financial statements of the State Universities Retirement System as of June 30, 2015, and for the year then ended, are fairly stated in all material respects.

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

FJM:TLK

SPECIAL ASSISTANT AUDITORS

Our Special Assistant Auditors for this audit were RSM US LLP.