



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

STATE UNIVERSITIES RETIREMENT SYSTEM

Compliance Examination
 For the Year Ended June 30, 2016

Release Date: April 12, 2017

FINDINGS THIS AUDIT: 1	AGING SCHEDULE OF REPEATED FINDINGS			
	Repeated Since	Category 1	Category 2	Category 3
Category 1:	0	0	0	No Repeat Finding
Category 2:	0	0	0	
Category 3:	1	0	1	
TOTAL	1	0	1	
FINDINGS LAST AUDIT: 2				

INTRODUCTION

This digest covers our compliance examination of the State Universities Retirement System (System) for the year ended June 30, 2016. A separate Financial Audit as of and for the year ending June 30, 2016, was previously released on December 22, 2016. In total, this report contains one finding, which was not reported in the Financial Audit.

SYNOPSIS

- (16-01) The System did not always obtain fully completed disclosures from investment managers as required in the Illinois Pension Code.

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 data is summarized on next page summarized on next page.}

**STATE UNIVERSITIES RETIREMENT SYSTEM
COMPLIANCE EXAMINATION
For the Year Ended June 30, 2016**

FINANCIAL OPERATIONS	2016	2015
Additions		
Contributions		
Participants.....	\$ 355,341,100	\$ 340,010,444
Employer.....	1,647,664,587	1,590,858,889
Total Contributions.....	<u>2,003,005,687</u>	<u>1,930,869,333</u>
Investment Income		
Net appreciation (depreciation) in fair market value.....	(256,708,352)	315,741,290
Interest.....	113,996,822	111,077,945
Dividends.....	220,725,192	218,278,974
Securities lending.....	4,215,195	4,690,554
Less: Investment expense.....	(61,993,569)	(56,127,346)
Net Investment Income.....	<u>20,235,288</u>	<u>593,661,417</u>
Total Additions.....	<u>2,023,240,975</u>	<u>2,524,530,750</u>
Deductions		
Benefits.....	2,281,769,695	2,160,843,600
Refund of contributions.....	111,646,866	108,644,121
Administrative expense.....	15,210,543	14,535,656
Total Deductions.....	<u>2,408,627,104</u>	<u>2,284,023,377</u>
Net Increase (Decrease).....	<u>\$ (385,386,129)</u>	<u>\$ 240,507,373</u>
INVESTMENTS USED FOR BENEFITS AND EXPENSES (Defined Benefit Plan)		
	JUNE 30, 2016	JUNE 30, 2015
Contributions		
Participants.....	\$ 278,883,776	\$ 267,682,083
State of Illinois.....	1,542,946,474	1,488,591,489
Federal/Trust and other sources.....	39,348,478	39,933,909
Total Contributions.....	<u>1,861,178,728</u>	<u>1,796,207,481</u>
Deductions		
Benefits.....	2,235,812,995	2,129,977,720
Refunds.....	85,015,923	83,715,721
Administrative Expenses.....	14,731,372	14,069,273
Total Deductions.....	<u>2,335,560,290</u>	<u>2,227,762,714</u>
Investments Used to Pay Benefits and Expenses.....	<u>\$ (474,381,562)</u>	<u>\$ (431,555,233)</u>
SUPPLEMENTARY INFORMATION		
	JUNE 30, 2016	JUNE 30, 2015
Asset management expenses.....	\$ 61,614,201	\$ 55,705,026
Investment return.....	0.2%	2.9%
Average number of employees (unaudited).....	125	125
Number of active members.....	78,125	81,309
Number of inactive members.....	88,536	85,460
Number of retirement benefit recipients.....	53,596	51,631
Number of survivor benefit recipients.....	8,481	8,342
Number of disabilities benefit recipients.....	671	656
Number of disabilities retirement allowance recipients.....	398	391
EXECUTIVE DIRECTOR		
During Audit Period: W. Bryan Lewis 7-1-15 thru 7-5-16, Interim - William Mabe 7-1-16 thru 11-14-16		
Current: Martin Noven 11-2-16 thru current		

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

**NONCOMPLIANCE WITH THE ILLINOIS PENSION
CODE**

**Need to comply with the Illinois
Pension Code**

The State Universities Retirement System (System) did not always obtain fully completed disclosures from investment managers as required in the Illinois Pension Code.

**4 of 9 (44%) investment managers
did not properly disclose
information required by the Illinois
Pension Code**

During testing, the auditors noted four of nine (44%) investment manager disclosures returned to the System where the investment manager did not properly disclose the number of contracts with minority, female and disabled person owned businesses and the number of contracts with other than those businesses owned by minority, female or disabled persons. (Finding 1, pages 11-13)

We recommended the System comply with the Illinois Pension Code or seek legislative remedy.

System disagrees with the auditors

System management disagreed with the finding. In their response to the finding System management stated they are required by law to operate under the broad financial and fiduciary standards set forth in 40 ILCS 5/1-109. They further stated that many of the investment managers indicated that they did not know, did not track or could not legally provide all of the requested information.

AUDITOR'S OPINION

The auditors stated the financial statements of the System as of June 30, 2016, and for the year then, are fairly stated in all material respects.

ACCOUNTANT'S OPINION

The accountants conducted a compliance examination of the System for the year ended June 30, 2016, as required by the Illinois State Auditing Act. The accountants stated the System complied, in all material respects, with the requirements described in the report.

This financial audit and compliance examination were conducted by BKD LLP.

SIGNED ORIGINAL ON FILE

BRUCE L. BULLARD
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

FJM:TLK