



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

William G. Holland, Auditor General

**SUMMARY REPORT DIGEST**

**STATE EMPLOYEES' RETIREMENT SYSTEM**

**COMPLIANCE EXAMINATION**  
**For the Year Ended: June 30, 2011**

**Release Date: October 4, 2012**

**Summary of Findings this Audit Cycle:**

• Compliance Examination	3
• Financial Audit (previously reported 2-21-12)	<u>1</u>
<b>Total findings:</b>	<b>4</b>
<b>Summary of findings from previous audit cycle:</b>	<b>0</b>
<b>Repeated from last audit:</b>	<b>0</b>

**INTRODUCTION**

The Financial Audit for the year ended June 30, 2011 was previously released on February 21, 2012. That audit contained one finding. This report addresses State compliance findings to the State Compliance Examination report. In total this report contains four findings, one of which was also reported in the Financial Audit.

**SYNOPSIS**

- The State Employees' Retirement System's Internal Audit Department did not review critical new Human Resource and Attendance Systems prior to their implementation.
- The State Employees' Retirement System did not file a report required by Executive Order 10-10.

{Expenditures and Activity Measures are summarized on the reverse page.}

**STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS**  
**COMPLIANCE EXAMINATION**  
**For The Year Ended June 30, 2011**

<b>EXPENDITURE STATISTICS</b>	<b>FY 2011</b>	<b>FY 2010</b>
<b>Total Expenditures</b> .....	<u>\$ 2,290,241,519</u>	<u>\$ 2,157,731,113</u>
General Revenue Fund - 001:.....		
Continuing appropriation for pension contributions.....	\$ 36,576,873	\$ -
Continuing appropriation FY10 shortfall.....	2,393,750	-
All other expenses.....	92,494	74,723
State Employees' Retirement System Fund - 0479:.....		
Pensions, annuities and benefits.....	\$ 1,470,756,550	\$ 1,368,647,401
Purchase of investments.....	689,122,201	720,745,289
Refunds.....	53,151,988	30,559,077
Payments to General Obligations Retirement Fund.....	24,708,844	25,821,470
Personal services.....	4,478,720	4,245,979
Electronic data processing.....	3,604,444	3,043,027
Other payroll costs (Retirement, Social Security and Group Insurance).....	2,688,879	2,510,826
Contractual services.....	2,270,500	1,712,429
All other expenses.....	343,216	329,703
State Employee Retirement System Excess Benefit Fund - 0788:.....		
Pensions, annuities and benefits.....	\$ 53,060	\$ 41,189
<b>Total Receipts</b> .....	<u>\$ 2,216,398,963</u>	<u>\$ 1,954,805,709</u>
<b>ANALYSIS OF PLAN INVESTMENTS</b>	<b>June 30, 2011</b>	<b>June 30, 2010</b>
Balance at beginning of year, at fair value.....	\$ 9,120,601,694	\$ 8,200,755,918
Net cash transferred from investments.....	<u>(167,877,799)</u>	<u>120,745,288</u>
Net investments (1).....	<u>\$ 8,952,723,895</u>	<u>\$ 8,321,501,206</u>
Investment income - interest, dividends and other.....	256,627,471	235,726,009
Investment expenses.....	<u>(35,138,357)</u>	<u>(35,525,015)</u>
Net investment income (2).....	<u>\$ 221,489,114</u>	<u>\$ 200,200,994</u>
Net realized gain (loss) on sale of investments.....	309,896,777	168,618,406
Net unrealized gain (loss) on investments.....	<u>1,398,374,218</u>	<u>430,281,088</u>
Net appreciation (depreciation) in fair value of investments (3).....	<u>\$ 1,708,270,995</u>	<u>\$ 598,899,494</u>
Total net investment income (loss) (4), (2) + (3).....	<u>\$ 1,929,760,109</u>	<u>\$ 799,100,488</u>
Balance at end of year, at fair value (1) + (4).....	<u>\$ 10,882,484,004</u>	<u>\$ 9,120,601,694</u>
<b>INVESTMENTS USED FOR BENEFITS AND EXPENSES</b>	<b>FY 2011</b>	<b>FY 2010</b>
<b>CONTRIBUTIONS:</b> Participants.....	\$ 254,201,379	\$ 246,172,971
Appropriations & other.....	1,127,886,796	1,095,545,856
Total Contributions (5).....	<u>\$ 1,382,088,175</u>	<u>\$ 1,341,718,827</u>
<b>DEDUCTIONS:</b> Benefits.....	\$ 1,492,063,647	\$ 1,390,641,192
Refunds.....	37,575,929	15,274,174
Administration.....	13,734,961	11,720,755
Total Deductions (6).....	<u>\$ 1,543,374,537</u>	<u>\$ 1,417,636,121</u>
Investments used to pay Benefits and Expenses (5) - (6).....	<u>\$ (161,286,362)</u>	<u>\$ (75,917,294)</u>
<b>SUPPLEMENTARY INFORMATION</b>	<b>June 30, 2011</b>	<b>June 30, 2010</b>
Number of System employees.....	90	84
Retirees and beneficiaries receiving benefits (unaudited).....	59,786	58,392
Total members (unaudited).....	87,661	84,655
Total active members (unaudited).....	66,363	64,143
Total return on investments (unaudited).....	21.7%	9.1%
<b>EXECUTIVE SECRETARY</b>		
During Engagement Period: Timothy Blair		
Currently: Timothy Blair		

**FINDINGS, CONCLUSIONS, AND  
RECOMMENDATIONS**

**LACK OF REVIEW OF COMPUTER SYSTEMS  
BEFORE IMPLEMENTATION**

**Internal audit did not review critical systems prior to implementation**

The State Employees' Retirement System's (System) Internal Audit Department did not review its critical new Human Resource and Attendance Systems prior to their implementation.

**Human Resource and Attendance Systems were implemented during the examination period**

The Human Resource System, used for tracking personnel records and work schedules, was implemented in August 2010 and took approximately 1,870 person-hours to develop. The Attendance System, used for tracking employee attendance, time-off requests, overtime and compensatory time, and timesheets, was implemented in December 2010 and took approximately 1,890 person-hours to develop.

**System management stated other activities took priority**

The Fiscal Control and Internal Auditing Act (30 ILCS 10/2003(a)(3)) requires the System's internal auditing program to conduct reviews of the design of major new electronic data processing systems and major modifications of those systems before their installation to ensure the systems provide for adequate audit trails and accountability.

**System officials accepted our recommendation**

System management stated the Internal Auditor was informed of the development efforts and received regular updates from the IT Division Manager; however other audit activities took priority. (Finding #4, page 13)

System officials concurred with our recommendation that the System's Internal Audit Department perform a review of all new critical systems or major modifications to existing system prior to its implementation.

**LACK OF SUBMISSION OF REQUIRED REPORT**

The State Employees' Retirement System (System) did not file a report required by Executive Order 10-10.

**Report required to report savings and reductions not filed**

Executive Order 10-10, dated July 1, 2010, required all state agencies to report within 30 days of the effective date of the Executive Order to the Governor's Office of Management and Budget (GOMB), the amount of reductions they have implemented or realized or which

they will be able to implement or realize as required in the Executive Order, as well as savings resulting from any other reductions. The System never filed the required report.

**System officials did not believe the report was applicable to them**

System officials did not initially believe this requirement was applicable to them. (Finding #2, page 10)

**System officials concurred with our recommendation**

System officials concurred with our recommendation to review and comply with Executive Orders issued by the Governor.

### **OTHER FINDINGS**

The remaining finding was accepted by the System. We will review the System's progress towards implementation of our recommendation in our next State compliance examination.

### **AUDITORS' OPINION**

The auditors conducted a compliance examination of the System for the year ended June 30, 2011. A financial audit covering the year ended June 30, 2011 was issued previously.



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WILLIAM G. HOLLAND  
Auditor General

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### **SPECIAL ASSISTANT AUDITORS**

Our special assistant auditors for this compliance examination were BKD LLP.