



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

STATE EMPLOYEES' RETIREMENT SYSTEM

**Financial Audit
 For the Year Ended June 30, 2016**

Release Date: January 26, 2017

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		16-1	
Category 2:	0	1	1				
Category 3:	0	0	0				
TOTAL	0	1	1				
FINDINGS LAST AUDIT: 2							

INTRODUCTION

This digest covers the financial statement audit of the State Employees' Retirement System of the State of Illinois (System) as of and for the year ended June 30, 2016. The State Employees' Retirement System's Compliance Examination covering the year ended June 30, 2016 will be issued in a separate report at a later date.

Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans* requires the System to disclose the total pension liability and net pension liability in the financial statement notes as well as other related information as required supplementary information. The System's total pension liability is \$49.2 billion at June 30, 2016. The net pension liability at June 30, 2016 is \$34.2 billion, which is the difference between the System's fiduciary net position of \$15.0 billion and the total pension liability. The System's funded ratio is 30.58%. 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.

FINDINGS SYNOPSIS

- (16-1) The State Employees' Retirement System was not in compliance with the Fiscal Control and Internal Auditing Act.

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 EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS
FINANCIAL AUDIT
For the Years Ended June 30, 2016 and 2015

STATEMENT OF CHANGES IN PLAN NET POSITION	2016	2015
Additions:		
Contributions - Participants.....	\$ 256,198,172	\$ 266,139,156
Contributions - State Agencies and Appropriations.....	1,882,243,268	1,804,319,356
Total Contributions.....	<u>2,138,441,440</u>	<u>2,070,458,512</u>
Net Appreciation (Depreciation) in Fair Value of Investments.....	(536,994,456)	240,297,223
Investment Income.....	449,946,153	483,264,772
Investment Expense.....	(38,394,629)	(42,184,943)
Net Investment Income.....	<u>(125,442,932)</u>	<u>681,377,052</u>
Total Additions.....	<u>2,012,998,508</u>	<u>2,751,835,564</u>
Deductions:		
Benefits.....	2,190,501,203	2,034,858,435
Refunds.....	26,708,730	23,128,975
Administrative Expenses.....	16,126,997	16,547,823
Total Deductions.....	<u>2,233,336,930</u>	<u>2,074,535,233</u>
Net Increase (Decrease) in Net Position.....	<u>\$ (220,338,422)</u>	<u>\$ 677,300,331</u>
STATEMENT OF NET POSITION AND INVESTMENT SUMMARY -		
(All investments held in the Illinois State Board of Investment Commingled Fund at fair value)		
	June 30, 2016	June 30, 2015
U.S. Government and Agency Obligations.....	\$ 2,349,026,919	\$ 907,835,826
Foreign Obligations.....	80,165,287	892,854,266
Corporate Obligations.....	746,537,021	814,440,237
Common Stock & Equity Funds.....	4,317,909,601	4,748,492,740
Commingled Funds.....	961,730,986	770,805,046
Foreign Equity Securities (including Preferred Stock).....	2,244,023,753	2,380,176,737
Hedge Funds.....	1,181,203,258	1,576,250,129
Real Estate Funds.....	1,704,064,846	1,610,826,230
Private Equity.....	582,943,357	667,080,662
Money Market Instruments.....	356,617,721	231,115,398
Real Assets.....	592,736,380	532,718,107
Bank Loans.....	449,925,261	697,836,613
Foreign Currency Forward Contracts.....	(1,337,420)	979,645
Total Investment Portfolio.....	<u>15,565,546,970</u>	<u>15,831,411,636</u>
Other ISBI Assets Less Liabilities.....	36,121,555	14,481,914
ISBI Net Position.....	<u>15,601,668,525</u>	<u>15,845,893,550</u>
Investments owned by other retirement systems and other entities.....	(860,613,893)	(878,639,497)
State Employees' Retirement System Investments.....	14,741,054,632	14,967,254,053
Cash, Receivables and Other Assets.....	458,065,874	369,445,228
Less: Total Liabilities.....	<u>(160,592,356)</u>	<u>(77,832,709)</u>
Net Position - Restricted for Pensions.....	<u>\$ 15,038,528,150</u>	<u>\$ 15,258,866,572</u>
ADMINISTRATIVE EXPENSES		
	2016	2015
Personal Services.....	\$ 5,353,647	\$ 5,733,871
Retirement, Group Insurance & Social Security.....	4,443,709	4,361,535
Electronic Data Processing.....	3,800,444	3,817,148
Contractual Services.....	1,768,448	1,812,450
Depreciation and Amortization.....	651,528	628,781
Other Expenses (Net).....	109,221	194,038
Total Administrative Expenses.....	<u>\$ 16,126,997</u>	<u>\$ 16,547,823</u>
SUPPLEMENTARY INFORMATION		
	June 30, 2016	June 30, 2015
Benefit Recipients.....	70,031	67,954
Active Members.....	61,317	63,273
Inactive Members.....	4,107	4,180
Total.....	<u>135,455</u>	<u>135,407</u>
PENSION LIABILITY		
	June 30, 2016	June 30, 2015
Total Pension Liability.....	\$ 49,183,947,656	\$ 43,267,055,628
Plan Fiduciary Net Position.....	15,038,528,150	15,258,866,572
Net Pension Liability.....	<u>\$ 34,145,419,506</u>	<u>\$ 28,008,189,056</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability.....	30.58%	35.27%
EXECUTIVE SECRETARY		
During Engagement Period: Timothy B. Blair		
Currently: Timothy B. Blair		

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

**NONCOMPLIANCE WITH THE FISCAL CONTROL
AND INTERNAL AUDITING ACT**

Noncompliance with Act

The State Employees' Retirement System (System) was not in compliance with the Fiscal Control and Internal Auditing Act (the Act).

**Internal audits of all major
internal control systems to be
conducted every two years**

The Act (30 ILCS 10/2003) requires the chief executive officer to ensure that internal audits of all major systems of internal control are conducted at least once every two years. The System was unable to complete internal audits of all major systems of internal control at least every two years as required by the Act.

**System was unable to complete
required internal audits**

System officials indicated the System was not able to provide additional resources to the internal audit function and therefore the current internal auditor did not have adequate time during the fiscal year to complete internal audits as required. (Finding 1, page 39). **This finding has been repeated since 2014.**

Additional resources needed

**System officials agree with
auditors**

System officials accepted our recommendation to develop a plan to ensure the internal audit function has the resources necessary to comply with the Act. (*For the previous System response, see Digest Footnote #1.*)

AUDITOR'S OPINION

Our auditors stated the financial statements of the State Employees' Retirement System as of June 30, 2016, and for the year then ended, are fairly stated in all material respects.

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

FJM:JAF

SPECIAL ASSISTANT AUDITORS

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

DIGEST FOOTNOTES

#1 - Noncompliance with the Fiscal Control and Internal Audit Act - Previous System Response

The System accepts the finding and will develop a plan to ensure that the internal audit function continues in the event of another vacancy within the position over a significant period of time.