
REPORT DIGEST

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

COMPLIANCE EXAMINATION

For the Year Ended:
June 30, 2009

Summary of Findings:

Total this report: 1
Total last report: 2
Repeated from last report: 0

Release Date:
April 20, 2010



State of Illinois
Office of the Auditor General
WILLIAM G. HOLLAND
AUDITOR GENERAL

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INTRODUCTION

This digest covers our compliance attestation examination of the State Employees' Retirement System of Illinois' (System) for the year ending June 30, 2009. A financial audit covering the year ending June 30, 2009 was previously released on February 16, 2010. It should be noted that, pursuant to the Illinois Pension Code, investments of the System are managed by the Illinois State Board of Investment. The auditors identified one report finding during their testing.

- The System had not updated its disaster recovery plan since May 2006 and testing of the plan had not been conducted during the examination period.

{Financial Data and Supplementary Information are summarized on the reverse page.}

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS
COMPLIANCE EXAMINATION
YEAR ENDED JUNE 30, 2009

OPERATING STATEMENT ANALYSIS	FY 2009	FY 2008
REVENUES: Contributions - Participants	\$ 242,227,432	\$ 249,955,208
Contributions - State agencies & appropriations	<u>774,910,344</u>	<u>587,732,407</u>
Total Contributions	\$ 1,017,137,776	\$ 837,687,615
Net investment income	224,823,314	274,524,210
Net appreciation (depreciation) in fair value of investments	(2,441,040,917)	(968,688,184)
Interest earned on cash balances	<u>7,319,968</u>	<u>13,404,255</u>
Total Additions	\$(1,191,759,859)	\$ 156,927,896
EXPENSES: Benefits - Retirement annuities	\$ 1,164,454,557	\$ 1,089,743,632
Benefits - Survivors' annuities	73,697,450	68,770,552
Benefits - Disability benefits	46,513,406	43,086,065
Benefits - Lump-sum benefits	<u>15,548,262</u>	<u>12,515,378</u>
Total Benefits	\$ 1,300,213,675	\$ 1,214,115,627
Refunds	14,859,487	16,817,433
Administration	<u>10,681,376</u>	<u>9,537,305</u>
Total Deductions	\$ 1,325,754,538	\$ 1,240,470,365
Excess of revenue over (under) expenses	\$(2,517,514,397)	\$(1,083,542,469)
ANALYSIS OF PLAN INVESTMENTS	FY 2009	FY 2008
Balance at beginning of year, at fair value	\$10,653,973,521	\$11,810,137,495
Net cash transferred from investments	<u>(237,000,000)</u>	<u>(462,000,000)</u>
Net investments (1)	<u>\$10,416,973,521</u>	<u>\$11,348,137,495</u>
Investment income – interest, dividends and other	263,734,307	313,924,157
Investment expenses	<u>(38,910,993)</u>	<u>(39,399,947)</u>
Net Investment income (2)	\$ 224,823,314	\$ 274,524,210
Net realized gain (loss) on sale of investments	(1,229,510,422)	559,623,090
Net unrealized gain (loss) on investments	<u>(1,211,530,495)</u>	<u>(1,528,311,274)</u>
Net appreciation (depreciation) in fair value of investments (3)	\$(2,441,040,917)	\$ (968,688,184)
Total net investment income (loss) (4), (2) + (3)	\$(2,216,217,603)	\$ (694,163,974)
Balance at end of year, at fair value (1) + (4)	\$ 8,200,755,918	\$10,653,973,521
INVESTMENTS USED FOR BENEFITS AND EXPENSES	FY 2009	FY 2008
CONTRIBUTIONS: Participants	\$ 242,227,432	\$ 249,955,208
State agencies & appropriations	<u>774,910,344</u>	<u>587,732,407</u>
Total Contributions (5)	\$ 1,017,137,776	\$ 837,687,615
DEDUCTIONS: Benefits	\$1,300,213,675	\$1,214,115,627
Refunds	14,859,487	16,817,433
Administration	<u>10,681,376</u>	<u>9,537,305</u>
Total Deductions (6)	\$1,325,754,538	\$1,240,470,365
Investments used to Pay Benefits and Expenses (5)-(6)	\$(308,616,762)	\$(402,782,750)
SUPPLEMENTARY INFORMATION	FY 2009	FY 2008
Number of System employees	81	81
Retirees and beneficiaries currently receiving benefits (unaudited)	57,099	56,111
Total members (unaudited)	86,456	87,625
Total active members (unaudited)	65,599	66,237
Total return on investments (unaudited)	(20.1)%	(6.2)%
EXECUTIVE SECRETARY		
During Audit Period: Timothy B. Blair, Acting		
Currently: Timothy B. Blair, Acting		

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

LACK OF DISASTER CONTINGENCY PLANNING OR TESTING

Disaster recovery plan not updated since 2006

The System had not updated its disaster recovery plan since May 2006. For example, the employee roster included retired employees and did not include the current CIO or IT Manager. Additionally, testing of the System's recovery plan had not been conducted during the examination period.

The System carries out its mission through the use of Information Technology.

System attributes condition to extensive workload

System officials stated that although a disaster recovery plan has been in existence for a number of years, the plan had not yet been updated since May 2006, due to the extensive workload on several key management employees in the Administrative Services and Information Technology (IT) Divisions. Two of these key management employees from the IT Division retired as of May 31, 2008.

System management agrees with auditors

We recommended the System review and update its plan at least annually or when significant changes occur. The System should perform and document tests of its Plan at least once a year. In addition, the Plan should be continuously updated to reflect environmental changes and improvements identified from tests. (Finding 1, page 7)

System management agreed that an up-to-date Disaster Recovery plan is appropriate. The System will implement a plan to perform and document the tests of the Disaster Recovery plan on at least an annual basis.

ACCOUNTANTS' REPORT

We conducted a compliance attestation examination of the System for the year ended June 30, 2009 as required by the Illinois State Auditing Act. The accountants' report does not contain any scope limitations, disclosures or other significant non-standard language.

WILLIAM G. HOLLAND, Auditor General

WGH:AKS

SPECIAL ASSISTANT AUDITORS

The public accounting firm of BKD LLP was our special assistant auditor for this engagement.