

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

**MINUTES OF THE REGULAR MEETING
OF THE BOARD OF TRUSTEES**

JANUARY 23, 2007

The regular meeting of the Board of Trustees of the State Employees' Retirement System of Illinois convened on Tuesday, January 23, 2007, at 9:30 A.M. in the System's Springfield office located at 2101 South Veterans Parkway.

The following trustees were in attendance:

Gordon John Mazzotti, Chairman
Loren Iglarsh, Vice Chairman, Proxy for
State Comptroller Daniel Hynes
John Frigo, Proxy for Ginger Ostro, Director,
Governor's Office of Management and Budget
Joyce King
Lori Gaston

Members absent were:

Michele Cusumano
Joseph Pisano

Others in attendance were:

Timothy Blair, Acting Executive Secretary
Larry Stone, Internal Auditor
Nicholas Merrill, Manager, Accounting Division
William Atwood, Director, Illinois State Board of Investment
Erin Gorman, AFSCME

Patrick Cummings, Retired SERS Staff Member
Leon Wechsler, L. R. Wechsler, Ltd.
Ben Lott, L. R. Wechsler, Ltd.
Peter Cole, L. R. Wechsler, Ltd.
Cheryl Bullerman, Recording Secretary

Chairman Mazzotti presided, and called the meeting to order with a quorum present.

REPORT OF THE ILLINOIS STATE BOARD OF INVESTMENT

William Atwood, Director of the Illinois State Board of Investment, distributed copies of a draft of the Executive Summary for the period ending November 30, 2006, indicating that the numbers for December 31, 2006 are not yet available.

Director Atwood called the trustees attention to the portion of the report reflecting a 14.8% return for the year, which is slightly ahead of the benchmark of 14.1%. The performance of the various asset classes was briefly reviewed, and a report of portfolio changes was made. He concluded his report by answering questions raised by the trustees. Chairman Mazzotti thanked him for his informative report, and excused him from the remainder of the meeting.

Vice Chairman Iglarsh moved to accept the Illinois State Board of Investment Report for the period ending November 30, 2006. Trustee Gaston seconded the motion, which passed unanimously. A copy of this report is maintained in the office of the Illinois State Board of Investment.

MINUTES OF OCTOBER 17, 2006 AND NOVEMBER 21, 2006 BOARD MEETINGS

The minutes of the annual meeting of the Board of Trustees held October 17, 2006, and the special meeting of the Board of Trustees held November 21, 2006, were presented to the members by Chairman Mazzotti for approval. Copies of these minutes were previously mailed to each trustee for preliminary review.

There being no corrections or additions to the October 17, 2006 minutes, Trustee King moved to approve the minutes as submitted. Trustee Gaston seconded the motion, and all were in favor.

With no additions or corrections to the minutes of the special meeting held November 21, 2006, Trustee Frigo moved approval of the minutes as submitted. Vice Chairman Iglarsh seconded the motion, and all were in favor.

BUSINESS PROCESS REVIEW AND INFORMATION TECHNOLOGY EVALUATION

Patrick Cummings introduced Leon R. Wechsler, Ben Lott, and Peter Cole, all of L. R. Wechsler, Ltd. They recently completed a Business Process Review and Information Technology Evaluation of the System and have submitted recommendations for improvements.

The trustees had previously been furnished with copies of their reports and evaluations as well as their 12 - 18 month strategic/tactical plan for review prior to this meeting.

There were 125 "Quick Hits" identified which are relatively simple, but have an impact on the System. Ten projects recommended for completion during the next 12 - 18 months include:

- 1) Hire Chief Information Officer (CIO). There is no cost associated with this project as the position is included in the budget (Associate Executive Secretary).
- 2) Continue Quick Hits. No costs associated with this project.
- 3) Implement Network Projects. Cost of this project is \$200,000.
- 4) Complete Port of Systems from Obsolete Platform. No additional costs as this project is currently included in budget.
- 5) Document Systems. Cost of this project is \$6,100.
- 6) Initiate Structured Processes within EDP. Project management and training tools will cost \$8,500. Business analyst is not included in this cost.
- 7) Hire Consulting Firm to Assist. The cost of this project is included in Projects 8 and 10.

- 8) Implement Imaging. Cost of this project is \$1,238,000; however, this does not include the cost of the imaging system administrator. Approval of the Secretary of State is needed prior to beginning this project.
- 9) Expand use of MetaViewer for Report Capture. Cost of this project is \$2,500.
- 10) Commence Procurement of New Line of Business Solution. Cost of project is \$490,000 for consulting services for Request for Proposal (RFP) and legal services for contract).

The consultants are recommending SERS hire three permanent employees, 5 - 7 temporary employees, and consultants to oversee the projects.

Trustees were advised the costs of the above listed projects would total \$1,958,600, with the ultimate cost of project 10 costing an additional \$15 million to \$25 million over a three year period.

Questions followed the presentation, after which the consultants were excused from the remainder of the meeting.

Following a lengthy discussion, on motion by Trustee Gaston, seconded by Vice Chairman Iglarsh, and by unanimous vote, the Board approved proceeding with projects 1, 2, 4, 5, 6, 7 and 9 which have little or no cost impact to the System at this point of time. No action was taken on projects 3, 8 and 10.

The Board instructed SERS staff to request L. R. Wechsler, Ltd. provide a summary of the risks associated with the current IT environment and the benefit of purchasing a new Line of Business Solution.

REPORT OF THE CHAIRMAN

Chairman Mazzotti indicated he had nothing to report at this time.

REPORT OF INTERNAL AUDITOR

The System's Internal Auditor, Larry Stone, addressed the Board, and summarized his accomplishments subsequent to his last report. Mr. Stone advised that his examination of the payment process of union dues revealed the dues were processed appropriately. The annual increases process for disability and vouchering was thorough; however, non-disability increases reports generated by EDP did not provide sufficient information for a complete review without pulling files. Mr. Stone reported that EDP will rewrite these reports to include necessary information.

With the retirement of the Claims Division Manager, Mr. Stone reviewed the retirement calculation, which was found to be accurate.

Mr. Stone advised that his participation in the Business Process Review and Information Technology Evaluation being performed by outside consultants consumes much of his time.

Vice Chairman Iglarsh moved acceptance of the Internal Auditor's report. Trustee Gaston seconded the motion, which passed by unanimous vote.

EMPLOYEE DRESS CODE

Acting Executive Secretary Blair introduced Erin Gorman, an AFSCME representative. Ms. Gorman is requesting the Board review the dress code for SERS employees, and allow union members who do not have contact with the public to wear jeans in the office.

Mr. Blair advised the trustees that the current dress code allows for casual dress daily, and also allows all employees to wear jeans on Fridays.

Discussion ensued, with the Board instructing Acting Executive Secretary Blair to develop a policy related to this issue for presentation at the next meeting.

REPORT OF EXECUTIVE SECRETARY

Legislation. Acting Executive Secretary Blair informed Board members that Senate Bill 36 passed both chambers and was sent to the Governor for signature. This bill allows union employees who represent state employees to become members of SERS provided they had previous service credit in the System (previous state employees).

Public Act 94-0004. The System has not received a response from the Attorney General's office in regards to the request for an opinion on Public Act 94-0004. The Board agreed that a second request should be forwarded to the Attorney General.

House Resolution 25. Representative Fritchey has filed House Resolution 25 asking for support of a referendum to call for a Constitutional convention.

FIRST QUARTER FINANCIAL REPORT

Nicholas Merrill, Manager of the Accounting Division, presented the financial report for the first quarter of Fiscal Year 2007 for approval.

Mr. Merrill reported that the employer contributions had increased during this quarter. In reviewing the cash balance, he explained that an attempt is made to keep 1 1/2 months worth of cash needed in reserve. He further directed attention to the portion of the report reflecting administrative expenses for the quarter.

The trustees were advised that the Comprehensive Annual Financial Report is delayed again this year. SERS utilizes certain footnote disclosures from the ISBI Annual Financial Report as the basis of investment disclosure. The ISBI report is not yet available.

After reviewing the Cash Receipts, Disbursements, and Balances, as well as the Statement of Budget, Expenses, and Balances, Trustee Frigo moved to accept the financial reports for the period of July 1, 2006 through September 30, 2006. Vice Chairman Iglarsh seconded the motion, and all trustees were in favor. A copy of the financial report is attached as Exhibit A.

EXECUTIVE COMMITTEE MEETING MINUTES

The trustees had previously been furnished with copies of the October, November, and December, 2006 Executive Committee meeting minutes for review.

There being no changes to these minutes, Vice Chairman Iglarsh moved for adoption as submitted. Trustee Gaston seconded the motion, which prevailed by the affirmative vote of all trustees present.

NEW BUSINESS

There was no new business to be brought before the Board.

OLD BUSINESS

There was no old business to be brought before the Board.

ADJOURNMENT

There being no further business to be brought before the Board, Trustee Frigo moved for adjournment at 1:40 P.M. seconded by Chairman Mazzotti.

Trustees were reminded that the next regular meeting is scheduled for March 20, at which time the preliminary FY 2008 budget will be reviewed.

Gordon John Mazzotti, Chairman

Date: _____

ATTEST:

Timothy Blair, Acting Executive Secretary

Date: _____

January 23, 2007