

General Assembly Retirement System of the State of Illinois

Compliance Examination

For the Year Ended June 30, 2020
Performed as Special Assistant Auditors for
the Auditor General, State of Illinois

**General Assembly Retirement System of the State of Illinois
Compliance Examination**

For the Year Ended June 30, 2020

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**General Assembly Retirement System of the State of Illinois
Compliance Examination**

Year Ended June 30, 2020

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Other Reports Issued Under a Separate Cover:

The General Assembly Retirement System of the State of Illinois' (System) financial statements as of and for the year ended June 30, 2020, have been issued under a separate cover.

**General Assembly Retirement System of the State of Illinois
Compliance Examination**

For the Year Ended June 30, 2020

System Officials

Executive Secretary	Timothy B. Blair
Accounting Division Manager	Alan Fowler, CPA
Legal Counsel (12/1/2019 to present)	James Stivers
Legal Counsel (7/1/2019 to 12/1/2019)	Vacant
Division Manager	Angie Ackerson
Internal Audit	Casey Evans

Governing Board

Chair of the Board of Trustees (8/12/2019 – Present)	Senator Robert Martwick
Chair of the Board of Trustees (7/1/2019 – 8/12/2019)	Senator Don Harmon
Trustee (2/18/2021 – Present)	Senator Dave Syverson
Trustee (7/1/2019 – 2/17/2021)	Senator Sue Rezin
Trustee	Senator Napoleon Harris III
Trustee	Representative Charles Meier
Trustee (2/1/2021 – Present)	Representative Jonathan Carroll
Trustee (7/1/2019 – 1/31/2021)	Representative Michael Zalewski
Trustee (2/1/2021 – Present)	Representative Michael Halpin
Trustee (7/1/2019 – 1/31/2021)	Vacant
Trustee (2/1/2021 – Present)	Annuitant Tom Ryder, Retired Member
Trustee (2/14/2020 – 1/31/2021)	Vacant
Trustee (7/1/2019 – 02/13/2020)	Annuitant Daniel Pierce, Retired Member

Office Locations

Springfield Office
2101 South Veterans Parkway
P.O. Box 19255
Springfield, Illinois 62794-9255

Chicago Office
State of Illinois Building
160 North LaSalle Street, Suite N725
Chicago, Illinois 60601

MANAGEMENT ASSERTION LETTER

April 29, 2021

RSM US LLP
20 North Martingale Road, Suite 500
Schaumburg, IL 60173

Ladies and Gentlemen:

We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grant agreements that could have a material effect on the operations of the General Assembly Retirement System of the State of Illinois (System). We are responsible for and we have established and maintained an effective system of internal controls over compliance requirements. We have performed an evaluation of the System's compliance with the following specified requirements during the one-year period ended June 30, 2020. Based on this evaluation, we assert that during the year ended June 30, 2020, the System has materially complied with the specified requirements below.

- A. The System has obligated, expended, received, and used public funds of the State of Illinois (State) in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The System has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions, or mandatory directions imposed by law upon such obligation, expenditure, receipt, or use.
- C. The System has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. State revenues and receipts collected by the System are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate, and in accordance with law.
- E. Money or negotiable securities or similar assets handled by the System on behalf of the State or held in trust by the System have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

Yours truly,

General Assembly Retirement System of the State of Illinois

SIGNED ORIGINAL ON FILE

Timothy B. Blair, Executive Secretary

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James Stivers, Legal Counsel

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Alan Fowler, CPA, Accounting Division Manager

**General Assembly Retirement System of the State of Illinois
Compliance Examination**

For the Year Ended June 30, 2020

Compliance Report

Summary

The compliance testing performed during this examination was conducted in accordance with *Government Auditing Standards* and in accordance with the Illinois State Auditing Act.

Accountant's Report

The Independent Accountant's Report on State Compliance, on Internal Control Over Compliance, and on Supplementary Information for State Compliance Purposes does not contain scope limitations, disclaimers or other significant non-standard language.

Summary of Findings

Number of	Current Report	Prior Report
Findings	2	2
Repeated findings	1	1
Prior recommendations implemented or not repeated	1	0

Schedule of Findings

Item No.	Page	Last/First Reported	Description	Finding Type
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Findings (State Compliance)

2020-001	10	2019/2015	Noncompliance with Ethics Training Requirements	Significant Deficiency and Noncompliance
2020-002	11	New	Board Vacancy	Significant Deficiency and Noncompliance

Prior Finding Not Repeated

A	12	2019/2019	Failure to Report State Hispanic and Asian American Employment Plan
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Exit Conference

The System waived an exit conference in a correspondence from Casey Evans, Internal Auditor, on February 25, 2021. The responses to the recommendations were provided by Casey Evans, Internal Auditor, in a correspondence dated March 5, 2021.



**Independent Accountant's Report
on State Compliance, on Internal Control Over Compliance,
and on Supplementary Information for State Compliance Purposes**

RSM US LLP

Honorable Frank J. Mautino
Auditor General
State of Illinois

Board of Trustees
General Assembly Retirement System of the State of Illinois

Compliance

As Special Assistant Auditors for the Auditor General, we have examined compliance by the General Assembly Retirement System of the State of Illinois (System) with the specified requirements listed below, as more fully described in the *Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies (Audit Guide)* as adopted by the Auditor General, during the year ended June 30, 2020. Management of the System is responsible for compliance with the specified requirements. Our responsibility is to express an opinion on the System's compliance with the specified requirements based on our examination.

The specified requirements are:

- A. The System has obligated, expended, received, and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The System has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions, or mandatory directions imposed by law upon such obligation, expenditure, receipt, or use.
- C. The System has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. State revenues and receipts collected by the System are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate, and in accordance with law.
- E. Money or negotiable securities or similar assets handled by the System on behalf of the State or held in trust by the System have been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants, the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Illinois State Auditing Act (Act), and the *Audit Guide*. Those standards, the Act, and the *Audit Guide* require that we plan and perform the examination to obtain reasonable assurance about whether the System complied with the specified requirements in all material respects. An examination involves performing procedures to obtain evidence about whether the System complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgement, including an assessment of the risks of material noncompliance with the specified requirements, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Our examination does not provide a legal determination on the System's compliance with the specified requirements.

In our opinion, the System complied with the specified requirements during the year ended June 30, 2020, in all material respects. However, the results of our procedures disclosed instances of noncompliance with the specified requirements, which are required to be reported in accordance with criteria established by the *Audit Guide* and are described in the accompanying Schedule of Findings as items 2020-001 and 2020-002. Our opinion on compliance with the specified requirements are not modified with respect to these matters.

The System's responses to the compliance findings identified in our examination are described in the accompanying Schedule of Findings. The System's responses were not subjected to the procedures applied in the examination and, accordingly, we express no opinion on the responses.

The purpose of this report is solely to describe the scope of our testing and the results of that testing in accordance with the requirements of the *Audit Guide*. Accordingly, this report is not suitable for any other purpose.

Internal Control Over Compliance

Management of the System is responsible for establishing and maintaining effective internal control over compliance with the specified requirements (internal control). In planning and performing our examination, we considered the System's internal control to determine the examination procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the System's compliance with the specified requirements and to test and report on the System's internal control in accordance with the *Audit Guide*, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with the specified requirements on a timely basis. *A material weakness in internal control* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that material noncompliance with the specified requirements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings as items 2020-001 and 2020-002 that we consider to be significant deficiencies.

As required by the *Audit Guide*, immaterial findings excluded from this report have been reported in a separate letter.

The System's responses to the internal control findings identified in our examination are described in the accompanying Schedule of Findings. The System's responses were not subjected to the procedures applied in the examination and, accordingly, we express no opinion on the responses.

The purpose of this report is solely to describe the scope of our testing of internal control and the results of that testing based on the requirements of the *Audit Guide*. Accordingly, this report is not suitable for any other purpose.

Supplementary Information for State Compliance Purposes

As Special Assistant Auditors for the Auditor General, we have audited the accompanying Statement of Fiduciary Net Position of the System, as of June 30, 2020, and the Statement of Changes in Fiduciary Net Position for the year then ended, and the related notes to the financial statements, which collectively comprise the System's basic financial statements (not presented herein), and have issued our report thereon dated December 17, 2020, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements. We did not audit the 2020 financial statements of the Illinois State Board of Investment, an internal investment pool of the State of Illinois, which statements represent 89 percent, 91 percent, and 9 percent, respectively, of total assets, net position restricted for pension benefits, and total additions of the System. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Illinois State Board of Investment is based solely on the report of the other auditors. We have not performed any procedures with respect to the audited financial statements subsequent to December 17, 2020. The accompanying supplementary information for the year ended June 30, 2020, in Schedules 1 through 6 is presented for the purposes of additional analysis and is not a required part of the basic financial statements of the System. Such information is the responsibility of System management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The accompanying supplementary information for the year ended June 30, 2020, in Schedules 1 through 6 has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information for the year ended June 30, 2020, in Schedules 1 through 6 is fairly stated in all material respects in relation to the basic financial statements as a whole for the year ended June 30, 2020.

We also previously audited, in accordance with auditing standards generally accepted in the United States of America, the System's basic financial statements as of and for the years ended June 30, 2019, and June 30, 2018 (not presented herein), and have issued our reports thereon dated December 13, 2019 and December 14, 2018, which contained unmodified opinions on the respective basic financial statements. We did not audit the 2019 financial statements of the Illinois State Board of Investment, an internal investment pool of the State of Illinois, which statements represent 90 percent, 91 percent, and 12 percent, respectively, of total assets, net position restricted for pension benefits, and total additions of the System. We also did not audit the 2018 financial statements of the Illinois State Board of Investment, an internal investment pool of the State of Illinois, which statements represent 87 percent, 91 percent, and 14 percent, respectively, of total assets, net position restricted for pension benefits, and total additions of the System. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as it relates to the amounts included for the Illinois State Board of Investment is based solely on the reports of other auditors. The accompanying supplementary information for the years ended June 30, 2019, and June 30, 2018, in Schedules 2 through 6 and Schedule 2, respectively, is the responsibility of System management and was derived from and relates directly to the underlying accounting and other records used to prepare the June 30, 2019, and June 30, 2018, financial statements. The accompanying supplementary information for the years ended June 30, 2019, and June 30, 2018, in Schedules 2 through 6 and Schedule 2, respectively, has been subjected to the auditing procedures applied in the audits of the June 30, 2019, and June 30, 2018, basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare those basic financial statements or to those basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information for the years ended June 30, 2019, and June 30, 2018, in Schedules 2 through 6 and Schedule 2, respectively, is fairly stated in all material respects in relation to the basic financial statements as a whole for the years ended June 30, 2019, and June 30, 2018.

The accompanying supplementary information in the Analysis of Operations Section is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

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Schaumburg, Illinois
April 29, 2021, except for our report on the Supplementary Information
for State Compliance Purposes, for which the date is
December 17, 2020



RSM US LLP

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

Honorable Frank J. Mautino
Auditor General, State of Illinois

Board of Trustees
General Assembly Retirement System of the State of Illinois

Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position of the General Assembly Retirement System of the State of Illinois (System), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents, and we have issued our report thereon dated December 17, 2020. Our report includes a reference to other auditors who audited the financial statements of the Illinois State Board of Investment, an internal investment pool of the State of Illinois, as described in our report on the System's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting (internal control) or compliance and other matters of the Illinois State Board of Investment that are reported on separately by those auditors. Our report also includes a reference to the fact that the actuarially determined net pension liability is dependent on several assumptions, including the assumption that future required contributions from State sources are made based on statutory requirements.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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Schaumburg, Illinois
December 17, 2020

General Assembly Retirement System of the State of Illinois

Schedule of Findings - State Compliance

Year Ended June 30, 2020

Finding No. 2020-001 Noncompliance with Ethics Training Requirements

The General Assembly Retirement System of the State of Illinois (System) continues to not comply with the ethics training provisions of the Illinois Pension Code.

During the current year examination testing, we determined through our compliance testing the System did not track the ethics training completed by its Board members and did not submit the required annual certification of compliance certifying ethics training was completed by its Board members with the Illinois Department of Financial and Professional Regulation, Division of Insurance (DFPR).

The Illinois Pension Code (40 ILCS 5/1-113.18) states all board members of a retirement system must attend ethics training of at least 8 hours per year. Each board shall annually certify compliance with this Section and submit an annual certification to DFPR.

This finding was first noted during the examination of the year ended June 30, 2015. In the subsequent years, the Department has been unsuccessful in implementing a corrective action plan.

System officials stated ethics training is not provided by the System to its Board Members. System officials stated the Board members of the System receive external training as part of their duties as legislators. However, the amount of training is not tracked and the subjects may or may not cover their specific duties as members of the System's Board.

Failure by the System to track and certify the ethics training completed by its Board members increases the risk that its Board members will not complete the required 8 hours of annual ethics training required by the Illinois Pension Code. (Finding Code No. 2020-001, 2019-001, 2018-001, 2017-001, 2016-002, 2015-002)

Recommendation:

We recommend the System provide opportunity for the Board members to participate in 8 hours of ethics training in order to internally process and track each Board member's ethics training requirements and submit the required annual certification to DFPR or seek legislative remedy from the statutory requirement.

System Response:

The System agrees with the finding and will work to obtain a training certification from the GARS Trustees.

General Assembly Retirement System of the State of Illinois

Schedule of Findings - State Compliance

Year Ended June 30, 2020

Finding No. 2020-002 Board Vacancy

The General Assembly Retirement System of the State of Illinois (System) has a vacancy in one of its seven required trustees of the Board for more than one year as of the end of fieldwork on November 20, 2020.

During the current compliance examination, the auditors became aware of a vacancy on the Board of Trustees which dates back to the retirement of the former Board President on June 28, 2019. The office of the Executive Secretary had not formally communicated the vacancy with the House of Representatives as of the end of fieldwork on November 20, 2020.

The Illinois Pension Code (40 ILCS 5/2-127) states the System shall be administered by a board of trustees of seven members as follows: three members of the Senate appointed by the President; three members of the House of Representatives appointed by the Speaker; and one person elected from the member annuitants under rules prescribed by the board.

System officials stated that the Executive Secretary's office did not formally communicate the Board vacancy to the House of Representatives due to oversight. Further, System officials stated the System Board has been able to establish a quorum and conduct the business of the System for every meeting held in fiscal year 2020.

Failure to operate with the full seven members of the Board of Trustees could impact the Board's ability to establish a quorum and timely conduct the business of the System. (Finding Code No. 2020-002)

Recommendation:

We recommend the System formally communicate with the House of Representatives in order to fill the vacancy in its Board of Trustees.

System Response:

The System agrees with the finding and will formally communicate the Board vacancy to those responsible for making the trustee appointment when another vacancy occurs. It should be mentioned that the House recently appointed the full slate of appointees, so this vacancy has already been eliminated.

General Assembly Retirement System of the State of Illinois

Schedule of Findings - State Compliance

Year Ended June 30, 2020

Prior Finding Not Repeated

A. Failure to Report State Hispanic and Asian American Employment Plan

In the prior compliance examination, the General Assembly Retirement System of the State of Illinois (System) did not file the Hispanic and Asian American Employment Plan Survey. (Finding Code No. 2019-002)

During the current compliance examination, our testing indicated the System properly filed the Hispanic and Asian American Plan Survey.

Schedule of Appropriations, Expenditures and Lapsed Balances
Expenditure Authority for Fiscal Year 2020
For the Fifteen Months Ended September 30, 2020

Public Act 101-0007 Fiscal Year 2020	Expenditure Authority (Net of Transfers)	Expenditures through June 30, 2020	Lapse Period Expenditures July 1 to September 30, 2020	Total Expenditures 15 Months Ended September 30, 2020	Balances Lapsed September 30, 2020
Appropriated Funds					
General Revenue Fund - 0001					
Appropriation for State's contribution	\$ 25,754,000	\$ 25,754,000	\$ -	\$ 25,754,000	\$ -
Total appropriated funds	\$ 25,754,000	\$ 25,754,000	\$ -	\$ 25,754,000	\$ -
Nonappropriated Funds					
General Assembly Retirement System Fund - 0481					
Personal services		\$ 102,908	\$ 38,716	\$ 141,624	
Employee retirement contributions paid by employer		1,101	462	1,563	
Retirement contributions Social Security and Medicare contributions		55,914	21,040	76,954	
Group insurance		7,601	2,846	10,447	
Contractual services		19,894	9,130	29,024	
Travel		80,790	3,124	83,914	
Commodities		568	106	674	
Printing		15	19	34	
Electronic data processing		-	98	98	
Telecommunications		102	23,769	23,871	
Automotive		201	143	344	
Nonrecurring refunds and distributions		296	7	303	
Pensions, annuities and benefits		137,230	-	137,230	
Refunds, prior calendar year contributions		25,613,720	-	25,613,720	
		579	-	579	
Subtotal - Fund 0481		26,020,919	99,460	26,120,379	
General Assembly Retirement Excess Benefit Fund - 0786					
Pensions, annuities and benefits		96,185	-	96,185	
Total nonappropriated funds		26,117,104	99,460	26,216,564	
Grand total, all Funds	\$	\$ 51,871,104	\$ 99,460	\$ 51,970,564	

Note 1: Expenditure authority, appropriations, expenditures, and lapsed balances were obtained from the System's records and have been reconciled to the Office of Comptroller's records as of September 30, 2020.

Note 2: Expenditure amounts are vouchers approved for payment by the System and submitted to the Office of Comptroller for payment to the vendor.

Comparative Schedules of Net Appropriations,
Expenditures and Lapsed Balances
For the Years Ended June 30,

	2020	2019	2018
Appropriated Funds			
<u>General Revenue Fund - 0001</u>			
Appropriations	\$ 25,754,000	\$ 23,221,000	\$ 26,679,000
Expenditures			
Appropriation for State's contribution	25,754,000	23,221,000	21,155,000
Total expenditures	25,754,000	23,221,000	21,155,000
Lapsed balances	\$ -	\$ -	\$ 5,524,000
Grand Total - Appropriated Funds			
Appropriations (Net of transfers)	\$ 25,754,000	\$ 23,221,000	\$ 26,679,000
Total expenditures	25,754,000	23,221,000	21,155,000
Lapsed balances	\$ -	\$ -	\$ 5,524,000
Nonappropriated Funds			
<u>General Assembly Retirement System Fund - 0481</u>			
Expenditures			
Personal services	\$ 141,624	\$ 117,379	\$ 130,636
Employee retirement contributions paid by employer	1,563	1,433	1,291
Retirement contributions	76,954	60,461	61,820
Social Security and Medicare contributions	10,447	8,626	9,613
Group insurance	29,024	29,457	25,319
Contractual services	83,914	119,009	74,078
Travel	674	1,770	1,478
Purchase of investments	-	-	700,000
Commodities	34	21	20
Printing	98	84	78
Electronic data processing	23,871	21,964	20,974
Telecommunications	344	346	349
Automotive	303	903	303
Nonrecurring refunds and distributions	137,230	149,530	48,116
Pensions, annuities and benefits	25,613,720	24,469,043	23,202,390
Refunds, prior calendar year contributions	579	3,396	1,300
Refunds, not elsewhere classified	-	16,208	-
Total expenditures - Fund 0481	26,120,379	24,999,630	24,277,765
<u>General Assembly Retirement Excess Benefit Fund - 0786</u>			
Expenditures			
Pensions, annuities and benefits	96,185	89,396	84,954
Total nonappropriated expenditures	26,216,564	25,089,026	24,362,719
Grand total expenditures, all Funds	\$ 51,970,564	\$ 48,310,026	\$ 45,517,719

Note 1: Expenditure authority, appropriations, expenditures, and lapsed balances were obtained from the System's records and have been reconciled to Office of Comptroller's records as of September 30, 2020, October 31, 2019 and September 30, 2018.

Note 2: Expenditure amounts are vouchers approved for payment by the System and submitted to the Office of Comptroller for payment to the vendor.

Note 3: The System received appropriations during Fiscal Year 2020 from Public Acts 101-0007. In addition, the System received appropriations during Fiscal Year 2019 from Public Act 100-0586 and during Fiscal Year 2018 from Public Act 100-0021.

**General Assembly Retirement System of the State of Illinois
Compliance Examination**

Schedule 3

**Comparative Schedule of Cash Receipts and Deposits into the State Treasury
For the Years Ended June 30,**

STATE TREASURY FUNDS	2020	2019
General Assembly Retirement System Fund - 0481		
Receipt Sources:		
Participant contributions	\$ 1,234,901	\$ 1,260,258
Employer contributions:		
General Revenue Fund	26,611,540	22,819,760
From participants	-	32,426
Interest income on cash balances	58,998	73,762
Tax-deferred installment payments	6,176	3,576
Cancellation of annuities, net of overpayments	1,008	8,663
Transfers from Illinois State Board of Investment	-	260,000
Miscellaneous	-	150
Total cash receipts per System	<u>27,912,623</u>	<u>24,458,595</u>
Less - Interest on cash balances	(58,998)	(73,762)
Less - Cancellation of annuities	(1,008)	(8,663)
Prior fiscal year intergovernmental payment vouchers deposited into the GARS Trust Fund (Fund 0481) during the current fiscal year*	(967,540)	(651,300)
Current fiscal year intergovernmental payment vouchers submitted to the Comptroller's office but not yet deposited into the GARS Trust Fund (Fund 0481)*	-	967,540
Total Receipts, per the Office of Comptroller's Records Fund 0481	<u><u>\$ 26,885,077</u></u>	<u><u>\$ 24,692,410</u></u>
General Assembly Retirement System Excess Benefit - Fund 0786		
Receipt Sources:		
Employer contributions	\$ 110,000	\$ 85,000
Interest income on cash balances	1,005	1,072
Total cash receipts per System	<u>111,005</u>	<u>86,072</u>
Less - Interest on cash balances	(1,005)	(1,072)
Total Receipts, per the Office of Comptroller's Records Fund 0786	<u><u>\$ 110,000</u></u>	<u><u>\$ 85,000</u></u>
GRAND TOTAL - ALL FUNDS		
Receipts, per the System's Records	\$ 28,023,628	\$ 24,544,667
Less - Reconciling items from above	(1,028,551)	(734,797)
Plus - Reconciling items from above	-	967,540
Receipts, Recorded by the Office of Comptroller	<u><u>\$ 26,995,077</u></u>	<u><u>\$ 24,777,410</u></u>

* Intergovernmental transfers are GRF employer contributions that are deposited in the GARS Trust Fund (Fund #0481). Intergovernmental transfers are recorded as revenue on the monthly revenue report (SB04) at the time the intergovernmental payment voucher is entered into the SAMS system. GARS does not record the intergovernmental transfer as a receipt until the voucher has been released and the payment has been deposited into the Trust Fund.

Schedule of Changes in State Property
 For the Year Ended June 30, 2020

	Beginning Balance	Additions	Deletions	Ending Balance
Equipment	\$ 15,983	\$ -	\$ -	\$ 15,983
Accumulated depreciation	(15,282)	(267)	-	(15,549)
Equipment, net	701	(267)	-	434
Internally developed software	36,333	9,018	-	45,351
Accumulated amortization	(5,082)	(2,268)	-	(7,350)
Internally developed software, net	31,251	6,750	-	38,001
Capital assets, net	\$ 31,952	\$ 6,483	\$ -	\$ 38,435

Note 1: These balances were obtained from the System's records and have been reconciled to the System's quarterly *Agency Report of State Property* reports submitted to the Office of Comptroller for the year ended June 30, 2020.

Note 2: This schedule was prepared from State property records as required by the Illinois Administrative Code (Code) and the Statewide Accounting Management System (SAMS). The capitalization policy required by the Code and SAMS is different than the capitalization policy established by the Office of Comptroller for financial reporting in accordance with generally accepted accounting principles (GAAP).

**General Assembly Retirement System of the State of Illinois
Compliance Examination**

Schedule 5

**Comparative Schedule of Cash Balances
For the Years Ended June 30,**

	2020	2019
State Treasury	\$ 5,913,822	\$ 4,144,035

The increase in the cash balance at the end of the fiscal year is due to the timing of the release of the GRF employer contribution payment. The timing of receipts, as well as expenses, can fluctuate and variances in the cash balance can occur from year to year.

**Comparative Schedule of Changes in Investment Balances
For the Years Ended June 30, 2020 and 2019**

Pursuant to Article 22A of the Illinois Pension Code, investments of the General Assembly Retirement System of the State of Illinois are managed by the Illinois State Board of Investment (ISBI) and are held in the ISBI Commingled Fund. Units of the ISBI Commingled Fund are issued to the member systems on the last day of the month based on the unit net asset value calculated as of that date. Net investment income of the ISBI Commingled Fund is allocated to each of the member systems on the last day of the month on the basis of percentage of accumulated units owned by the respective systems.

Investment portfolio management and performance are the direct responsibility of ISBI which establishes investment policy and strategy.

Comparison of the changes in the System's investments held in the ISBI Commingled Fund for the years ended June 30, 2020 and 2019 is summarized as follows:

	2020	2019
Balance at beginning of year, at fair value	\$ 54,604,432	\$ 51,487,943
Net cash added (withdrawn) to/(from) investment, net	-	(260,000)
	<u>54,604,432</u>	<u>51,227,943</u>
Investment income		
Interest, dividends and other	629,898	881,479
Expenses	(76,255)	(74,362)
	<u>553,643</u>	<u>807,117</u>
Net appreciation (depreciation) in fair value of investments		
Net realized gain on sales of investments	1,476,020	3,113,956
Net unrealized gain (loss) on investment	494,424	(544,584)
	<u>1,970,444</u>	<u>2,569,372</u>
Total net investment income	<u>2,524,087</u>	<u>3,376,489</u>
Balance at end of year, at fair value	<u>\$ 57,128,519</u>	<u>\$ 54,604,432</u>

Securities lending collateral increased by \$327,000 in fiscal year 2020 compared to the fiscal year 2019 ending balance (\$1,190,000 from \$863,000). The State Treasurer lends securities to broker-dealers and other entities for collateral that will be returned for the same security in the future. Each year the Treasurer provides an allocation to the Comptroller to adjust each State Agency's financial statements to include their proportionate share of the securities lending transaction balances at year-end. Securities lending activity can vary from year to year depending on market conditions and the availability of securities to lend.

General Assembly Retirement System of the State of Illinois Compliance Examination

Analysis of Operations (Unaudited) For the Years Ended June 30, 2020 and 2019

Functions

The General Assembly Retirement System, State of Illinois (System) was created to provide retirement annuities, survivors' annuities and other benefits for members and presiding officers of the General Assembly and their survivors. The governing statute was amended in 1975 (P.A. 79-969) to extend coverage to certain elected State executive officers.

The System began operations on November 1, 1947, and is governed by Chapter 40 Act 5, Article 2, of the Illinois Compiled Statutes. It is administered by a Board of Trustees consisting of seven persons, which include: three members of the Senate appointed by the President of the Senate, three members of the House of Representatives appointed by the Speaker of the House of Representatives, and one person elected from the member annuitants.

Senator Robert Martwick is Chairman of the Board of Trustees (Board) and Mr. Timothy B. Blair is the Executive Secretary of the System. The Executive Secretary is appointed by the Board and is charged with the administration of the detailed affairs of the System.

The System is also responsible for the general administration of the State Employees Group Insurance Program as it applies to eligible annuitants. This includes enrollment, processing life insurance claims and other administrative details related to that program.

Planning

Currently, the System utilizes a formal planning program which includes, among other things, operational project planning as well as administrative expense budgeting.

During FY 2020, the System staff worked remotely and continued with the modernization of computer systems with specific focus placed on annuitant benefit set up processing and service purchase processing.

During the global pandemic much of the work on the modernization project continued, remotely. Looking for ways that more staff functions could adequately and effectively be done remotely was reviewed by the information technology team. Business practices in all areas of the System are being reviewed for improvements and efficiencies, as well, to ensure that primary functions of the agency can continue even during a stay-at-home order.

Progress in Funding the System (Unaudited)

In August 1994, Senate Bill 533 was signed into law as Public Act 88-0593. This funding legislation, which became effective July 1, 1995, provides for a systematic 50-year funding plan with an ultimate goal to fund the cost of maintaining and administering the System at an actuarial funded ratio of 90%. In addition, the funding plan provided for a 15-year phase-in period to allow the State to adapt to the increased financial commitment. Now that the 15-year phase-in is complete, the State's contribution will remain at a level percentage of payroll for the next 35 years until the 90% funded level is achieved.

General Assembly Retirement System of the State of Illinois Compliance Examination

Analysis of Operations (Unaudited) (Continued) For the Years Ended June 30, 2020 and 2019

Progress in Funding the System (Unaudited) (Continued)

The funding legislation also provides for the establishment of a continuing appropriation of the required employer contributions to the System. This, in effect, removed the appropriation of those funds from the annual budgetary process.

Public Act 93-0002 became law on April 7, 2003, and authorized the State to issue \$10 billion in general obligation bonds for the purpose of making contributions to the retirement systems. On June 12, 2003, the State issued \$10 billion in General Obligation Bonds, Pension Funding Series of June 2003.

Commencing with fiscal year 2005, the maximum State contribution under Public Act 93-0002 equals the State contribution that would have been required if the general obligation bond contribution had not been made, reduced – but not below zero – by the State's debt service on each system's respective portion of the full \$10 billion of General Obligation Bond, Pension Funding Series of June 2003.

In June 2005, Public Act 94-0004 became law. This legislation further modified the funding plan by reducing the amount of required employer contributions for fiscal years 2006 and 2007 that would have otherwise been required under Public Act 88-0593, as modified by Public Act 93-0002. This act specified the appropriation amounts for fiscal years 2006 and 2007. The required State contributions for fiscal years 2008 through 2010 were then increased incrementally as a percentage of the participant payroll so that by fiscal year 2011, the State was contributing at the required level contribution rate to achieve the financing objective of a 90% funded status by the end of fiscal year 2045.

Public Act 96-0043 became law on July 15, 2009. As required under Public Act 96-0043, the method for determining the actuarial value of assets used to determine the employer contribution rate was changed beginning with the June 30, 2009 valuation. The method was changed from the market/fair value to a smoothed value. The smoothed value recognizes actuarial investment gains or losses for each fiscal year, beginning with FY09, in equal amounts over the ensuing five-year period.

Public Act 96-0889 added a lower tier of benefits for members who first contribute to GARS on or after January 1, 2011. When Public Act 96-1511 was enacted in January 2011, it required the System to assume that the provisions of Public Act 96-0889 were in effect on June 30, 2009 and to recalculate and recertify the fiscal year 2011 state funding requirement. Under this recertification, the fiscal year 2011 state contribution requirement was reduced by \$1.1 million, from \$12.1 million to \$11.0 million.

Public Act 100-0023 became law on July 6, 2017. Public Act 100-0023 directed the System to smooth the effects of changes in assumptions on the State's contribution by amortizing the effect of the changes over a five-year period retroactive to 2014. The System was also required to recalculate the State's fiscal year 2018 contribution resulting in a \$5.5 million reduction in the State contribution from \$26.7 million to \$21.2 million.

Under the State's funding plan, the actuarial accrued liability of the System at June 30, 2020, amounted to approximately \$373.5 million. The actuarial value of assets (at smoothed value) at June 30, 2020 amounted to approximately \$63.9 million. The difference between the actuarial accrued liability and the actuarial value of assets of \$309.6 million reflects the unfunded actuarial accrued liability of the System at June 30, 2020 under the State's funding plan. The System had a funded ratio based on the State's funding plan of 17.1% at June 30, 2020.

**General Assembly Retirement System of the State of Illinois
Compliance Examination**

**Analysis of Operations (Unaudited)
For the Years Ended June 30, 2020 and 2019**

Progress in Funding the System (Unaudited) (Continued)

For financial reporting purposes, the System adopted GASB Statement No. 67, *Financial Reporting for Pension Plans*, in the fiscal year ended June 30, 2014. GASB Statement No. 67 requires the use of the market value of assets rather than the actuarial value of assets (smoothed value) used under the State's funding plan in calculating the net pension liability. It also requires that the System use the entry age actuarial cost method rather than the projected unit credit cost method used under the State's funding plan for calculating the total pension liability. In addition, it requires the System use a blended rate of return of 6.37% combining the assumed rate of return of 6.5% and a municipal bond rate of 2.45% based on an index of 20-year general obligation bonds with an average AA rating for investments in the event the System's assets are exhausted in the future.

On June 30, 2020, the System reported for financial reporting purposes under GASB Statement No. 67 that the market value of assets was \$63.0 million. The difference between the total pension liability of \$382.3 million and the market value of assets was the net pension liability of \$319.3 million and the funded ratio was 16.5%. On June 30, 2019, the market value of assets was \$59.7 million. The difference between the System's June 30, 2019 total pension liabilities of \$381.6 million and the market value of assets was the June 30, 2019 net pension liability of \$321.9 million and the funded ratio was 15.7%.

The market value of the assets of the fund, that were available for benefits, increased from \$59.7 million as of June 30, 2019 to \$63.0 million as of June 30, 2020. The actuarial value of the assets of \$63.9 million at June 30, 2020, is \$0.9 million higher than the market value of the assets due to recognition of 100% of the actuarial loss in fiscal year 2016, 80% of the actuarial gain in fiscal year 2017, 60% of the actuarial gain in fiscal year 2018, 40% of the actuarial gain in fiscal year 2019 and 20% of the actuarial gain in fiscal year 2020.

State required contributions to the System for the next five fiscal years are noted in the table below.

Year Ended June 30	Required State Contribution (in millions)
2021	\$ 27.3
2022	27.8
2023	27.2
2024	26.5
2025	25.7

**General Assembly Retirement System of the State of Illinois
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**Analysis of Operations (Unaudited)
For the Years Ended June 30, 2020 and 2019**

Progress in Funding the System (Unaudited) (Continued)

The Schedule of the State's Net Pension Liability (in millions) for fiscal years ended June 30, 2020 and 2019 are noted in the table below.

	<u>2020</u>	<u>2019</u>
Total pension liability	\$ 382.3	\$ 381.6
Plan fiduciary net position	<u>63.0</u>	<u>59.7</u>
State's net pension liability (asset)	<u>\$ 319.3</u>	<u>\$ 321.9</u>
Plan fiduciary net position as a percentage of the total pension liability	16.5 %	15.7 %
Covered payroll	\$ 10.2	\$ 10.2
State's net pension liability (asset) as a percentage of covered payroll	3,132.91 %	3,167.96 %

The Schedule of State Contributions for the fiscal years ended June 30, 2020 and 2019 are noted in the table below.

<u>Year Ended June 30,</u>	<u>Actuarially Determined Contribution</u>	<u>Contributions Received</u>	<u>Contribution (Deficiency) Excess</u>	<u>Covered Payroll</u>	<u>Contributions Received as a Percentage of Covered Payroll</u>
2020	\$34,410,810	\$25,754,000	(\$8,656,810)	\$10,190,658	252.72%
2019	32,650,450	23,253,426	(9,397,024)	10,159,312	228.89%

Notes to the Schedule of State Contributions:

Valuation date June 30, 2018

Notes Actuarially determined contribution rates are calculated as of June 30, which is 12 months prior to the beginning of the fiscal year in which the contributions will be made.

**General Assembly Retirement System of the State of Illinois
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**Analysis of Operations (Unaudited)
For the Years Ended June 30, 2020 and 2019**

Progress in Funding the System (Unaudited) (Continued)

Methods and Assumptions Used to Determine Contribution Rates as of the Valuation Date:

Actuarial Cost Method	Projected Unit Credit
Amortization Method	Normal cost plus a 20-year level percentage of capped payroll closed-period amortization of the unfunded accrued liability.
Remaining Amortization Period	17 years, closed
Asset Valuation Method	5 year smoothed market
Inflation	2.5 percent
Salary Increases	A salary increase rates based on age-related productivity and merit rated plus inflation.
Post-Retirement Benefits	Post-retirement benefit increases of 3.00 percent, compounded, for Tier 1 and 3.00 percent or the annual change in the Consumer Price Index, whichever is less, simple for Tier 2.
Investment Rate of Return	6.75 percent
Retirement Age	Experienced-based table of rates that are specific to the type of eligibility.
Mortality	
Post-retirement:	RP-2014 White Collar Healthy Annuitant mortality table, sex distinct, and generational mortality improvements using the MP-2014 two-dimensional mortality improvement scales.
Pre-retirement:	RP-2014 White Collar Total Employee mortality table, sex distinct, and generational mortality improvement using MP-2014 two-dimensional mortality improvement scales.

**General Assembly Retirement System of the State of Illinois
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**Analysis of Operations (Unaudited)
For the Years Ended June 30, 2020 and 2019**

Analysis of Significant Variations in Expenditures (Unaudited)

The System's expenditures, obtained from Schedule 2, have been analyzed for fluctuations greater than \$75,000 and 20% from the previous year.

The System did not have any significant variations in expenditures.

Analysis of Significant Variations in Cash Receipts (Unaudited)

The System's cash receipts, obtained from Schedule 3, have been analyzed for fluctuations greater than \$75,000 and 20% from the previous year.

	2020	2019	Increase (Decrease)
Transfers from the Illinois State Board of Investment	\$ -	\$ 260,000	\$ (260,000) (a)

- (a) The System strives to maintain a Trust Fund cash balance sufficient to cover two months of operating expenses. Any projected Trust Fund balance excess or shortfall is transferred to or transferred from the Illinois State Board of Investment, respectively. The decrease represents less of a need to transfer from the Illinois State Board of Investment for benefit payments in FY20 than FY19. In addition, during FY20, the Comptroller made GRF payments into the Trust Fund in a more timely manner (historically there is at least a one-month lag in GRF payments into the fund). There was no delay in FY20.

**General Assembly Retirement System of the State of Illinois
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**Analysis of Operations (Unaudited)
For the Years Ended June 30, 2020 and 2019**

Analysis of Significant Lapse Period Spending (Unaudited)

The System's lapse period spending, obtained from Schedule 1, has been analyzed for spending greater than \$15,000 and 20% in any appropriated line item.

There was no lapse period spending in fiscal year 2020 appropriated lines that met the criteria.

Analysis of Contributions Receivable (Unaudited)

	2020	2019
Employer contributions	\$ -	\$ 967,540
Participants' contributions	38,626	70,197
Refundable annuities	2,363	2,374
Irrevocable tax deferred installment agreements	-	3,576
Interest on cash balances	2,864	5,889
	<hr/>	<hr/>
Total receivables	\$ 43,853	\$ 1,049,576

Receivables included above represent amounts due from participants and the State of Illinois. No receivables were deemed uncollectible at June 30, 2020. Accounts are first analyzed by System personnel for collectability before being sent to the Attorney General's office for final determination.

The decrease in total receivables from 2020 to 2019 is primarily due to the fact that the State of Illinois made payments for the entire employer contribution by June 30, 2020. Given the aggregate cash needs of the State of Illinois (managed by the Illinois Office of the Comptroller), the cash flows associated with the receivable can be unpredictable.

Money-Weighted Rate of Return (Unaudited)

Pursuant to Article 22A of the Illinois Pension Code, investments of the General Assembly Retirement System of Illinois are managed by the Illinois State Board of Investment (ISBI) and are held in the ISBI Commingled Fund. ISBI operates under a long-range investment plan with the objective to maximize the total rate of return. The objectives set forth are as follows:

- At least equal to the assumed actuarial interest rate, currently 6.5% per year.
- At least equal to the return of a composite benchmark of market indices in the same proportions as the Board's asset allocation policy targets.

**General Assembly Retirement System of the State of Illinois
Compliance Examination**

**Analysis of Operations (Unaudited)
For the Years Ended June 30, 2020 and 2019**

Money-Weighted Rate of Return (Unaudited) (Continued)

The time-weighted rate of return of the ISBI Commingled Fund was 4.6% for fiscal year 2020. The ISBI's total fund performance was less than the composite benchmark of 4.9% for the year ended June 30, 2020.

The annual money-weighted rate of return, net of investment expense, as of June 30, 2020 and 2019 was as follows:

	<u>2020</u>	<u>2019</u>
Money-weighted return*	4.7%	7.2%

* The annual money-weighted rate of return expresses the investment performance, net of investment expense, adjusted for changing amounts actually invested.

Number of Employees (Unaudited)

The System does not have any designated employees. However, personal services and all related expenses are shared with the Judges' Retirement System of Illinois as explained below:

Comparison of Administrative Expenses to Total Deductions (Unaudited)

	<u>2020</u>	<u>2019</u>
Total deductions		
Benefits	\$ 25,709,904	\$ 24,558,440
Refunds	137,810	168,920
Administrative	<u>400,697</u>	<u>389,833</u>
Total expenses	<u>\$ 26,248,411</u>	<u>\$ 25,117,193</u>
Administrative expenses as a percentage of total deductions	<u>1.5%</u>	<u>1.6%</u>

Administrative expenses are not subject to appropriation control but are controlled by budgets adopted by the Board of Trustees. Administrative expenses common to the General Assembly Retirement System of Illinois and Judges' Retirement System of Illinois are paid 25% by the General Assembly Retirement System of Illinois and 75% by the Judges' Retirement System of Illinois. Invoices/vouchers covering common expenses incurred are paid by the Judges' Retirement System of Illinois and the applicable percent is allocated to and reimbursed by the General Assembly Retirement System of Illinois.

**General Assembly Retirement System of the State of Illinois
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**Analysis of Operations (Unaudited)
For the Years Ended June 30, 2020 and 2019**

Schedule of Contributions/Deductions and Effect on Investments (Unaudited)

Below is a schedule of contributions received by the System and expenditures of the System for benefits and operations and the effect of these transactions on the System's investments.

	<u>2020</u>	<u>2019</u>
Contributions		
Participant Contributions	\$ 1,205,930	\$ 1,317,187
Employer Contributions	25,754,000	23,253,426
Total Contributions	<u>26,959,930</u>	<u>24,570,613</u>
Deductions		
Retirement Benefits	21,641,643	20,590,350
Survivor Benefits	4,068,261	3,968,090
Refunds	137,810	168,920
Administrative Expenses	400,697	389,833
Total Deductions	<u>26,248,411</u>	<u>25,117,193</u>
Contributions in Excess of Deduction/(Investments Used to Pay Benefits and Expenses)	<u>\$ 711,519</u>	<u>\$ (546,580)</u>