



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

William G. Holland, Auditor General

**SUMMARY REPORT DIGEST**

**GENERAL ASSEMBLY RETIREMENT SYSTEM OF ILLINOIS**

**FINANCIAL AUDIT**

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

**Release Date: February 21, 2012**

**Summary of Findings:**

<b>Total this audit:</b>	<b>1</b>
<b>Total last audit:</b>	<b>0</b>
<b>Repeated from last audit:</b>	<b>0</b>

**INTRODUCTION**

This digest covers our financial audit of the General Assembly Retirement System, State of Illinois (System) for the year ended June 30, 2011. A compliance examination report covering the year ending June 30, 2011 will be issued separately.

**FUNDED RATIO**

The actuarial accrued liability was valued at \$298.4 million at June 30, 2011. The actuarial value of assets (at smoothed value) totaled approximately \$63.2 million at June 30, 2011. The method for determining the actuarial value of the assets was changed beginning with the June 30, 2009 valuation. The method was changed from the market value to a smoothed value where the actuarial investment gains or losses for each year are recognized in equal amounts over the ensuing five-year period.

The difference between the actuarial accrued liability and the actuarial value of assets of \$235.2 million reflects the unfunded liability of the System at June 30, 2011. The System had a funded ratio (at smoothed value) of 21.2% at June 30, 2011. When using the market value, the System would have had a funded ratio of 20.2% at June 30, 2011.

**SYNOPSIS**

- The General Assembly Retirement System does not have a policy or procedure for the review of financial journal entries or journal entry reconciliations by a person independent of the person that initiates them.

**LEGISLATIVE CHANGE TO PENSION CODE**

Public Act 96-0889, which was signed into law April 2010, adds a new section to the Pension Code that applies different benefits to anyone first hired in a position covered by the System on or after January 1, 2011. Changes in the pension law include initiating a cap on the salaries used to calculate retirement benefits, raising the minimum eligibility to draw a retirement benefit to age 67 with at least 8 years of service or age 62 with at least 8 years of service credit with a reduced annuity, and limiting cost-of-living annuity adjustments to the lesser of 3% or the annual increase in the Consumer Price Index, whichever is less. The pension law changes do not apply to anyone who has System service prior to January 1, 2011.

{Financial Statement information is summarized on the reverse page}

**GENERAL ASSEMBLY RETIREMENT SYSTEM, STATE OF ILLINOIS**

**FINANCIAL AUDIT**

**For The Year Ended June 30, 2011**

<b>STATEMENT OF CHANGES IN PLAN NET ASSETS</b>	<b>FY 2011</b>	<b>FY 2010</b>
ADDITIONS: Contributions - Participants.....	\$ 2,006,200	\$ 1,680,603
Contributions - Employer / Appropriations.....	11,433,614	10,411,274
Total Contributions.....	<u>\$ 13,439,814</u>	<u>\$ 12,091,877</u>
Increase / (Decrease) in Fair Value of Investments.....	9,098,602	3,590,964
Investment Income - Net of Management Expenses.....	1,171,910	1,157,595
Interest Earned on Cash Balances.....	20,869	21,974
Miscellaneous.....	10,000	-
Total Revenues / (Loss).....	<u>\$ 23,741,195</u>	<u>\$ 16,862,410</u>
DEDUCTIONS: Benefits.....	\$ 17,676,851	\$ 16,769,032
Refunds.....	61,476	222,094
Administrative Expenses.....	299,116	272,253
Total Expenses.....	<u>\$ 18,037,443</u>	<u>\$ 17,263,379</u>
Net Increase (Decrease).....	<u>\$ 5,703,752</u>	<u>\$ (400,969)</u>
<b>INVESTMENT SUMMARY - (All investments held in the Illinois State Board of Investment commingled fund at fair value)</b>	<b>June 30, 2011</b>	<b>June 30, 2010</b>
Government and Agency Obligations.....	\$ 1,367,098,751	\$ 810,739,312
Foreign Obligations.....	37,951,769	44,409,906
Corporate Obligations.....	762,833,382	925,668,388
Common Stock & Equity Funds (including Commingled Funds).....	3,637,016,232	3,127,655,201
Preferred Stock.....	40,032	697,600
Foreign Equity Securities.....	2,195,201,185	1,733,177,670
Hedge Funds.....	1,075,584,754	917,854,201
Real Estate Investments.....	819,053,366	750,210,957
Private Equity.....	629,256,286	542,441,291
Money Market Instruments.....	303,501,465	270,231,935
Infrastructure Funds.....	417,267,415	320,293,041
Bank Loans.....	253,447,070	222,623,999
Forward Foreign Currency Contracts.....	(353)	(266,410)
Total Investment Portfolio.....	<u>\$ 11,498,251,354</u>	<u>\$ 9,665,737,091</u>
Other ISBI Assets Less Liabilities.....	29,373,670	12,966,711
ISBI Net Assets.....	<u>\$ 11,527,625,024</u>	<u>\$ 9,678,703,802</u>
Investments owned by other retirement systems, SERS & JRS.....	(11,470,278,582)	(9,627,065,216)
General Assembly Retirement System Investments.....	<u>\$ 57,346,442</u>	<u>\$ 51,638,586</u>
<b>ADMINISTRATIVE EXPENSES</b>	<b>FY 2011</b>	<b>FY 2010</b>
Personal Services.....	\$ 131,342	\$ 119,330
Contractual Services.....	84,630	76,439
Retirement, Insurance & Social Security.....	74,535	67,938
Change in Accrued Compensated Absences.....	2,528	963
Printing.....	1,660	1,670
Telecommunication.....	1,155	1,169
Electronic Data Processing.....	1,087	2,390
Operation of Automotive Equipment.....	848	521
Travel.....	565	1,255
Depreciation.....	444	386
Commodities.....	322	192
Total Administrative Expenses.....	<u>\$ 299,116</u>	<u>\$ 272,253</u>
<b>FUNDING PROGRESS - at smoothed value</b>	<b>June 30, 2011</b>	<b>June 30, 2010</b>
Actuarial Accrued Liability.....	\$ 298,408,371	\$ 251,764,834
Actuarial Value of Assets.....	63,161,047	66,212,244
Unfunded Actuarial Accrued Liability.....	<u>\$ 235,247,324</u>	<u>\$ 185,552,590</u>
Funded Ratio.....	21.2%	26.3%
<b>EXECUTIVE SECRETARY</b>		
During Engagement Period: Timothy B. Blair		
Currently: Timothy B. Blair		

**FINDINGS, CONCLUSIONS, AND  
RECOMMENDATIONS**

**JOURNAL ENTRY REVIEW**

**System has no policy for review of financial journal entries or journal entry reconciliations**

The General Assembly Retirement System (System) does not have a policy or procedure for the review of financial journal entries or journal entry reconciliations by a person independent of the person that initiates them.

During our audit testing, we noted the same individual prepares and records the financial journal entries without an independent review by another individual. It was also noted the monthly journal entry reconciliations are prepared by the same individual who records the entries.

**System officials indicated it lacked appropriate personnel to perform a meaningful review**

System officials indicated the management staff preparing the journal entries are not involved in the preparation and/or processing of the underlying transactions. Due to the relatively small size of the Accounting Division, however, there has been a lack of appropriate personnel to perform a meaningful review of financial journal entries and reconciliations. (Finding #1, page 28)

We recommended the System develop a policy and procedure for someone independent of the individual preparing and recording financial journal entries and reconciliations to document their review of the financial journal entries, reconciliations and related supporting documentation.

**System officials accepted our recommendation**

System officials indicated that the System would reallocate the review function of financial journal entries to other management staff which are independent of the person that initiates them.

**AUDITORS' OPINION**

The auditors stated the financial statements of the General Assembly Retirement System of Illinois as of June 30, 2011, and for the year then ended, are fairly stated in all material respects.

  
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WILLIAM G. HOLLAND  
Auditor General

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**SPECIAL ASSISTANT AUDITORS**

Our special assistant auditors for this audit were BKD LLP.