



“SURVIVING AN IDOI AUDIT”



**Illinois Public Pension Fund Association  
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**Presented by:**

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# **Public Pension Compliance Audit Process**

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## **40 ILCS 5/1A-104(a)**

The Division shall make periodic examinations of all pension funds established under this Code and maintained for the governmental units in the State of Illinois.

# Public Pension Compliance

## Audit Process

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### **40 ILCS 5/1A-104(a) continued:**

In lieu of making an examination and investigation, the Division may accept and rely upon a report of audit or examination of any pension fund made by an independent certified public accountant pursuant to the provisions of the Article of this code governing the pension fund.

The acceptance of the report of audit or examination does not bar the Division from making a further audit, examination, and investigation if deemed necessary by the Division.

*(Impacts Non-Article 3 and 4 Funds Only)*

# **Public Pension Compliance Audit Process**

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## **40 ILCS 5/1A-104(b)**

The Division shall examine or investigate each pension fund established under Article 3 (Downstate Police) or Article 4 (Downstate Fire) of this Code. The schedule of each examination shall be such that each fund shall be examined once every 3 years.

# **DOI Examination of a Pension Fund**

**Each Article 3 or 4 examination shall include the following:**

- An audit of financial transactions, investment policies, and procedures;
- An examination of books, records, documents, files, and other pertinent memoranda relating to financial, statistical, and administrative operations;
- A review of policies and procedures maintained for the administration and operation of the pension fund;
- A determination of whether or not full effect is being given to the statutory provisions governing the operation of the pension fund;

# DOI Examination of a Pension Fund

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- A determination of whether or not the administrative policies in force are in accord with the purposes of the statutory provisions and effectively protect and preserve the rights and equities of the participants;
- A determination of whether or not proper financial and statistical records have been established and adequate documentary evidence is recorded and maintained in support of the several types of annuity and benefit payments being made; and
- A determination of whether or not the calculations made by the fund for the payment of all annuities and benefits are accurate.



# Public Pension Compliance

## Audit Process

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The audit process is defined in

*Title 50, Part 4401 of the Illinois Administrative Code.*

### Two Types of Audits:

- Field Audits** – Division field auditors will conduct an audit on-site for pension funds with more than 25 participants.
- Desk Audits** – For pension funds with 25 or fewer participants, fund audits may be conducted at the Division's office in Springfield.

# Pre-Audit Process

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- An **official letter** is sent from the Public Pension Division notifying the pension fund that it is due for an audit within the next **sixty (60) days**.
- Attached to the letter is an official **“Warrant of Examiners”** signed by Illinois Department of Insurance Director Michael McRaith, appointing Division of Public Pension audit staff to **examine the fund**.
- Included with the audit notification is a **“data request”** due **two weeks** from the receipt of the letter.

# Pre-Audit Process – Required Information

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**Trustees will be asked to provide the following information in the pre-audit data request or when the auditor arrives on site:**

- Current Pension Board Officer information;
- Copies of minutes of all board meetings which should be signed by the Board Secretary or Board President;
- Current listing of pension fund investments, to include CUSIP # on Government Securities;
- Copies of Investment Policy and Guidelines as adopted by the board;
- Any investment agreements with banks, brokerage houses, investment managers, etc.;

# Pre-Audit Process – Required Information

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- Copies of **ALL** bank and brokerage house statements for the current periods;
- Insurance company contracts (general and separate accounts) to include current prospectus, copies of Annual statement and/or quarterly statements on separate accounts only.
- Copy of treasurer's surety bond.
- Copies of salary ordinances, pay plans and union contracts for current periods;
- Changes since the last exam including new hires, refunds of employee contributions, and pensions granted;
- City Council minutes reflecting pension board appointments;

# Pre-Audit Process – Required Information

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- Municipal audits;
- Pension payment history prior to deductions for each pensioner showing pension increases, adjustments, etc or copies of check disbursement register;
- Copies of the portions of the CPA audit (to include the opinion letter financial statements and notes) pertaining to the Pension Fund (to include any statistical data regarding tax levies);
- Copies of any litigation involving the Pension Fund; and
- Bank confirmation form(s).

# Pre-Audit Process – Required Information

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## Items needed for Salary Review:

- Information on how the Municipality pays each member (monthly, weekly, etc.);
- Information regarding normal hours per pay period;
- Information on whether the Municipality pays any of the following:
  - Longevity pay;
  - Education incentive;
  - Shift differential;
  - Holiday pay in lump sum;
  - Holiday pay as holidays occur;
  - Other special pay;
  - FLSA Wages.

# Pre-Audit Process – Required Information

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- Information as to whether any retroactive pay increases have been paid during the period of the current examination;
- Whether or not any pension payments are affected by the retroactive pay increase, and if so, be prepared to provide the name of the pensioner and the effective date of the contract;
- Whether or not pension deductions are being withheld as provided in the Department of Insurance Regulation Part 4402.30 (50 Illinois Administrative Code 4402.30), Definition of Salary; and
- Records on accumulated contributions.

# Pre-Audit Process – Required Information

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- Information regarding the percentage of salary at which deductions are being taken (currently firefighters contribute 9.455% of their pay while police officers are required to contribute 9.91% of their pay.)
- Whether deductions are being started with the first days pay for a new employee and if the initial salary/deduction is prorated for other than a regular payroll period;



# Pre-Audit Process – Required Information

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## Items needed for the review of Membership Files:

- Copy of a signed application to join the fund and documentation showing board approval;
- Birth certificate of each member;
- Documentation regarding member's domestic status (Certificate of Marriage or Civil Union);
- Documentation regarding dependents of each member, including birth certificate of each dependent;
- Copy of any Qualified Illinois Domestic Relations Order (QUILDRO) relevant to any member;

# **Pre-Audit Process – Required Information**

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- Documentation regarding members who transferred into the Fund under provisions of the Portability law along with the effective date of transfer;
- Copy of all pension calculations being paid on pensions, survivor pensions, duty disability pensions, non-duty disability pensions, etc.;
- Copy of death certificates for surviving spouse pension benefits;
- Proof of annual physicals for all disability pensions paid until pensioner reached the age of 50; and
- Copy of three doctors statements for all disability pensioners.

# Pre-Audit Process – Required Information

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## Items needed regarding the Tax Levy:

- Copies of private actuarial valuations used to determine the annual tax levy;
- Copies of the two most recent fiscal year's end tax levy ordinances;
- What date are taxes levied by the municipality are due;
- What date the fund received tax monies from the municipality.

# Audit Process

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- ❑ Funds have the ability to request an **automatic 30 day extension** to submit the requested information.
- ❑ Upon receipt of the requested information, Public Pension will review the submission and allocate the audit to a staff auditor for completion.
  - For **field audits**, the auditor will review the submitted information and will contact the pension fund to schedule an on-site examination.
  - For **desk audits**, the auditor will review the submission and will contact the fund to discuss potential findings and/or to request additional documentation needed to complete the audit.

# Post-Audit Process

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- ❑ Upon completion of the audit, the examiner may request **further information** be provided by the pension fund. Such information, if needed, will be provided within two (2) weeks or within a time frame agreed to by the pension fund and the Division.
- ❑ Once all relevant information has been received, the examiner will prepare a **written report of examination** detailing the status of the pension fund's compliance with the Illinois Pension Code.
- ❑ A copy of the **draft examination report will be sent to the designated contact person** representing the pension fund.

# Post-Audit Process

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- ❑ The pension fund has thirty (30) days after the date of receipt to review and respond to the draft audit. The fund may also request a one-time extension of the due date.
- ❑ At a minimum, the board of trustees is required to schedule a meeting to specifically review and acknowledge each finding set forth in the audit report. This review should be documented in the meeting minutes.
- ❑ It is recommended that the board prepare a response letter to the **DOJ**, indicating that it has reviewed the findings and how it will resolve any discrepancies.

# Post-Audit Process

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- ❑ The response letter should include the **required signature sheet**, acknowledging the audit results, as well as a copy of the approved meeting minutes at which the board reviewed the audit.
- ❑ Upon receiving a response, the **Division will review any contested findings for which documentation is provided** before finalizing the audit report. If the finding is found to be invalid, it will be removed.
- ❑ The pension board also has the **right to request a hearing** on a disputed audit finding in its response letter. If the finding is not dropped or modified after review, a hearing will be scheduled within thirty (30) days of the request to review the specific findings in dispute.

# Post-Audit Process

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- ❑ By Administrative Rule, Public Pension can **finalize an audit if no response or request for extension is received from the fund within 30 days**. The report will be considered finalized as previously submitted and notification will be sent to the fund.
- ❑ For audits where a **hearing has been requested**, the audit will be finalized following the completion of that process.
- ❑ In cases where the Administrative Law Judge finds **compliance**, the audit will be modified to reflect that decision. If the determination finds **non-compliance**, the audit will be finalized as drafted.



# Post-Audit Process

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- ❑ Upon finalization of an audit, the Director of Insurance will issue an **order requiring compliance** where it is determined that the pension fund has violated the Illinois Pension Code.
- ❑ In response, **action is to be taken** by the pension fund to comply with the findings of the report within fifteen (15) working days.
- ❑ Under the provisions of 40 ILCS 5/1A-113, a **governing body that fails to take action** to address an order of compliance may be subject to a civil penalty of up to \$2,000 per occurrence.

# Future Audit Process Improvements

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- ❑ The final audit document format is being redesigned to **incorporate finding responses** given by the pension fund.
- ❑ The **data request is being streamlined** to ensure funds are not asked to provide duplicative or unnecessary information.
- ❑ To provide greater transparency, the website will soon provide **public access to finalized pension fund audits**. The audits posted will be redacted to protect private information under both FOIA and Pension Code requirements.
- ❑ The Department is seeking a change in state record retention requirements to **allow funds to submit audit materials electronically**.

# Contacting the Public Pension Division

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**Internet:**

<https://insurance.illinois.gov/Applications/Pension>

**Mailing Address:**

Illinois Department of Insurance  
Public Pension Division  
320 West Washington Street, Room 606  
Springfield, IL 62767

**Phone:** (217) 782-7542 or (800) 207-6958

**Fax:** (217) 524-5978

**Email:** [doi.pension@illinois.gov](mailto:doi.pension@illinois.gov)

# Speaker contact information

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