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OFFICE OF THE AUDITOR GENERAL
WILLIAM G. HOLLAND

MEMORANDUM

TO: Prospective Bidders
FROM: Jim Schlouch
DATE: July 31, 2012
RE: Question Regarding Request for Proposal #13-P-1

On July 12, 2012, the Illinois Office of the Auditor General issued Request for Proposal #13-P-1 for the services of a State Actuary. The original RFP is available on our website at:

<http://www.auditor.illinois.gov/Procurement-Bulletin-2010/Procurement-Files-2010+/Notices-and-RFP-Schedules/12-RFP-13-P-1-State-Actuary-Svcs.pdf>

Inquiry

On July 30, 2012, the Illinois Office of the Auditor General received an inquiring requesting examples of procedures to be performed by the specialist in conjunction with the annual audits, as noted in section 1b. Review of Information in Conjunction with Annual Financial Audits of the Retirement Systems (referred to on page 14 of the RFP).

Office of the Auditor General Response

Examples of audit procedures to be performed by the State Actuary on each of the 5 retirement system financial audits include:

- 1) Perform procedures to determine if the Board's actuary is aware of and has reflected important events, such as a plan amendment or curtailment in his/her assumptions and calculations.
- 2) Perform procedures to determine if the employer contribution is consistent with the report of the plan's enrolled actuary.
- 3) Perform procedures to determine if the amount contributed meets the requirements of the funding standard.

- 4) Perform procedures to verify the completeness and accuracy of any information each retirement system provided to their actuary as a basis for the actuary's calculations. Trace employees from the retirement system records to the census provided by the actuary to test for completeness of the census. Also, perform procedures to test for appropriate inclusion/exclusion of retirees in the census provided to the actuary.
- 5) Obtain final report directly from the actuary.
- 6) Review the actuary's report and:
 - a) Compare the contents of the report to the letter of understanding or the actuary's confirmation letter.
 - b) Obtain an understanding of the methods and assumptions used by the actuary:
 - i. Are the rates of return consistent with market rates and historical returns?
 - ii. Are discount rates consistent with market rates?
 - iii. Have the appropriate mortality tables been utilized?
 - c) Evaluate the model used by the actuary for appropriateness and compliance with generally accepted accounting principles.
 - d) Obtain evidence to support the reasonableness of the assumptions used by the actuary.
 - e) Consider whether the actuary's findings are reasonable and support the corresponding assertions in the financial statements.
- 7) If there is a material difference between each plan's assertions reflected in their financial statements and each Board's actuary findings, or if the findings of each Board's actuary appear unreasonable, perform the following procedures:
 - a) Consult with management of each retirement plan and their actuary in order to clarify any differences or obscurities.
 - b) Review any pertinent evidence that may be applicable.
 - c) Relate the current year's situation and problems to those of the prior year.
- 8) Prepare written reports to the Special Assistant Auditors performing the financial audits on each of the five retirement systems for the Illinois Office of the Auditor General. This should be completed on or before December 7th.
- 9) Provide engagement documentation to the Special Assistant Auditors performing the financial audits for the Illinois Office of the Auditor General. This should be completed on or before December 7th.