

REPORT DIGEST

STATE UNIVERSITIES RETIREMENT SYSTEM

COMPLIANCE EXAMINATION

For the Year Ended:
June 30, 2009

Summary of Findings:

Total this audit	3
Total prior audit	1
Repeated from last audit	0

Release Date:
March 3, 2010



State of Illinois
Office of the Auditor General
WILLIAM G. HOLLAND
AUDITOR GENERAL

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INTRODUCTION

This digest covers our compliance examination of the System for the year ended June 30, 2009. A financial audit covering the year ended June 30, 2009 was issued separately.

FUNDING LEGISLATION

Public Act 94-0004 became law June 1, 2005 and affected the System by modifying several retirement benefit calculations for fiscal year 2006 and beyond. In addition, the Act also established specific dollar amounts to be contributed by the State for fiscal years 2006 and 2007, as opposed to the State contribution being calculated based on the existing funding formula. State required contributions will be higher in future years to make up for the two-year funding reduction.

SYNOPSIS

- The System does not have adequate internal control over the determination of the eligibility of retired members in the State of Illinois' College Insurance Plan that did not previously make contributions as active members prior to 1999.

**STATE UNIVERSITIES RETIREMENT SYSTEM
COMPLIANCE EXAMINATION
Year Ended June 30, 2009**

FINANCIAL OPERATIONS	FY 2009	FY 2008
Additions		
Contributions		
Participants	\$322,117,492	\$310,101,265
Employer	<u>489,881,392</u>	<u>383,899,304</u>
Total Contributions	<u>\$811,998,884</u>	<u>\$694,000,569</u>
Investment Income		
Net depreciation in fair market value	(\$3,290,131,425)	(\$938,306,823)
Interest	183,668,534	60,706,695
Dividends	153,789,636	187,602,637
Securities lending	18,313,879	14,161,232
Less: Investment expense	<u>(32,760,517)</u>	<u>(39,012,867)</u>
Net Investment Loss	<u>(\$2,967,119,893)</u>	<u>(\$714,849,126)</u>
Total Additions	<u>(\$2,155,121,009)</u>	<u>(\$20,848,557)</u>
Deductions		
Benefits	\$1,376,726,389	\$1,279,172,742
Refunds of contributions	51,372,312	54,939,592
Administrative expense	<u>12,922,070</u>	<u>12,079,244</u>
Total Deductions	<u>\$1,441,020,771</u>	<u>\$1,346,191,578</u>
Net Decrease	<u>(\$3,596,141,780)</u>	<u>(\$1,367,040,135)</u>
INVESTMENTS USED FOR BENEFITS AND EXPENSES (Defined Benefit Plan)		
Contributions		
Participants	\$273,292,053	\$264,149,354
State of Illinois	417,257,229	306,914,260
Federal/Trust and other sources	<u>34,359,837</u>	<u>38,030,978</u>
Total Contributions	<u>\$724,909,119</u>	<u>\$609,094,592</u>
Deductions		
Benefits	\$1,371,990,391	\$1,275,713,711
Refunds	42,651,635	44,984,290
Administrative Expenses	<u>12,922,070</u>	<u>12,079,244</u>
Total Deductions	<u>\$1,427,564,096</u>	<u>\$1,332,777,245</u>
Investments Used to Pay Benefits and Expenses	<u>\$(702,654,977)</u>	<u>\$(723,682,653)</u>
SUPPLEMENTARY INFORMATION		
Total investment administrative expenses	\$29,439,957	\$37,659,805
Investment return (unaudited)	(19.7%)	(4.5%)
Average number of employees (unaudited)	114.10	119.10
Number of active members	83,545	83,074
Number of inactive members	77,780	76,721
Number of retirement benefit recipients	38,400	37,055
Number of survivors benefit recipients	7,269	7,122
Number of disabilities benefit recipients	726	762
EXECUTIVE DIRECTOR		
During Audit Period: Dan M. Slack (7-1-08 to 12-31-08), Currently: Ms. Judith Parker – Interim Executive Director (1-1-09 to present)		

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

ELIGIBILITY IN COLLEGE INSURANCE PLAN

The State Universities Retirement System (System) does not have adequate internal controls over the determination of the eligibility of retired members in the State of Illinois' College Insurance Plan (CIP) who did not previously make contributions as active members prior to 1999.

The College Insurance Plan (CIP) was created by the State of Illinois, in order to establish a uniform program of health benefits for community college recipients and their dependent beneficiaries. The CIP is administered by the State's Department of Central Management Services. According to State statute, it is the responsibility of the System to determine eligibility of members participating in the CIP.

It is the responsibility of the System to determine eligibility of members participating in the College Insurance Plan

During our mandate testing, it was noted that the System does not have a formalized process that independently verifies the eligibility of retired members participating in the CIP prior to 1999. Rather, the System relies on the respective college for this determination, by obtaining some communication (via email), regarding members' eligibility status. In addition, the System does not require a certification from the college for eligibility, at the time of retirement, at which time an eligible member would be entitled to receive benefits.

We recommended that the System implement sufficient internal controls over eligibility of retired members participating in the College Insurance Plan. A process should be put in place to adequately review the eligibility of retired members to ensure compliance with the applicable State law. (Finding 3, Pages 10-11)

System management concurred with the finding and stated that they will develop a formal certification process to be used by employers in verifying this information.

AUDITORS' OPINION

Our auditors state the June 30, 2009 financial statements of the System are fairly presented in all material respects.

WILLIAM G. HOLLAND, Auditor General

WGH:TLK:pp

SPECIAL ASSISTANT AUDITORS

McGladrey & Pullen, LLP were our special assistant auditors for this audit.

