

REPORT DIGEST

STATE UNIVERSITIES RETIREMENT SYSTEM

COMPLIANCE AUDIT

For the Year Ended:
June 30, 1997

Summary of Findings:

Total this audit	7
Total last audit	7
Repeated from last audit	4

Release Date:



State of Illinois
Office of the Auditor General

WILLIAM G. HOLLAND
AUDITOR GENERAL

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SYNOPSIS

- ◆ The State Universities Retirement System (SURS) had inadequate controls over benefits and refund processes.
- ◆ SURS did not comply with certain statutory requirements involving contractual services. This finding has been repeated since 1995.
- ◆ SURS did not comply with certain provisions of the Fiscal Control and Internal Auditing Act. This finding has been repeated since 1994.

{Financial Information and Activity Measures are summarized on the reverse page.}

STATE UNIVERSITIES RETIREMENT SYSTEM
INFORMATION FROM FINANCIAL AND COMPLIANCE AUDITS
Two Years Ended June 30, 1997

FINANCIAL OPERATIONS	FY 1997	FY 1996
Additions		
Contributions		
Participants.....	\$202,181,711	\$197,005,577
Federal, trust funds, other.....	22,331,577	23,291,867
State of Illinois.....	159,547,000	123,911,000
Other.....	<u>162,292</u>	<u>164,783</u>
Total Contributions.....	\$384,222,580	\$344,373,227
Investment Income		
Net appreciation in fair market value.....	\$1,226,039,291	\$819,386,873
Interest.....	180,278,813	166,745,033
Dividends.....	95,501,015	103,145,969
Other.....	731,260	350,462
Less: Investment expense.....	<u>12,520,827</u>	<u>11,849,905</u>
Total Investment Income.....	<u>\$1,490,029,552</u>	<u>\$1,077,778,432</u>
Total Additions.....	<u>\$1,874,252,132</u>	<u>\$1,422,151,659</u>
Deductions		
Total benefits.....	\$419,204,096	\$379,496,338
Other expenses.....	<u>38,516,544</u>	<u>33,840,008</u>
Total Deductions.....	<u>\$457,720,640</u>	<u>\$413,336,346</u>
Net Increase	<u>\$1,416,531,492</u>	<u>\$1,008,815,313</u>
INVESTMENT PORTFOLIO ANALYSIS		
(Fair Market Value)		
Total equities	\$5,696,018,450	\$4,273,147,309
Total fixed income securities.....	2,028,156,816	1,830,673,591
Cash and short-term investments.....	455,026,485	557,664,903
Real estate investments.....	178,817,319	269,342,594
Accrued investment income.....	<u>20,700,409</u>	<u>0</u>
Total Investments at Fair Market Value.....	<u>\$8,378,719,479</u>	<u>\$6,930,828,397</u>
ADMINISTRATIVE EXPENSES		
Personal services.....	\$2,920,431	\$2,696,845
Other professional fees and services.....	1,919,315	1,769,560
Depreciation	1,576,368	1,214,190
Postage, freight, and expenses.....	262,440	265,598
Equipment repair and rental.....	196,739	270,908
Printing and copying services.....	163,538	243,495
Building operations expenses.....	183,074	254,566
Other expenses	<u>323,336</u>	<u>266,079</u>
Total Administrative Expenses.....	<u>\$7,545,241</u>	<u>\$6,981,241</u>
SELECTED ACCOUNT BALANCES		
Contributions receivable.....	\$11,319,946	\$15,334,375
Prepaid expenses.....	25,000	37,706
Investments, at market value.....	8,378,719,479	6,930,828,397
Securities lending collateral.....	318,109,886	368,781,526
Property and equipment.....	<u>13,369,914</u>	<u>14,490,228</u>
Total assets	\$8,721,544,225	\$7,352,384,301
Benefits payable	\$3,210,000	\$3,703,063
Refunds payable	1,875,000	1,974,094
Securities lending collateral.....	318,109,886	368,781,526
Bonds payable	16,144,456	15,019,159
Administrative expenses payable.....	<u>5,857,580</u>	<u>3,090,648</u>

Total liabilities.....	<u>\$345,196,922</u>	<u>\$392,568,490</u>
Net assets held in trust for pension benefits.....	<u>\$8,376,347,303</u>	<u>\$6,959,815,811</u>

SUPPLEMENTARY INFORMATION	FY 1997	FY 1996
Total investment administrative expenses.....	\$12,520,827	\$11,849,905
Return on investments (unaudited).....	21.4%	18.3%
Average number of employees.....	71	71
Number of active members.....	75,781	76,088
Number of inactive members.....	36,047	34,446
Number of retirement benefit recipients.....	20,119	19,538
Number of survivors benefit recipients.....	4,779	4,540
Number of disabilities benefit recipients.....	1,260	926

EXECUTIVE DIRECTOR

During Audit Period and Currently: Mr. James M. Hacking

INTRODUCTION

This digest covers our State compliance audit of the State Universities Retirement System for the year ended June 30, 1997. A financial audit covering the year ending June 30, 1997 is being issued separately.

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

INADEQUATE CONTROLS OVER BENEFITS AND REFUNDS

The State Universities Retirement System (SURS) had inadequate controls over its benefits and refunds processes to ensure documentation was complete and properly reviewed and that calculations were properly performed.

Lack of review on 11 of 24 claims tested

In our testing we noted a review of pertinent benefit documents was not completed on 11 of the 24 claims tested. We also noted a SURS Early Retirement Option payment calculation was incorrectly calculated which resulted in a member underpayment of \$4,000. In addition, on one claim tested, the amount to be deducted from a member's retirement annuity was incorrectly calculated. We also noted one of the two Disability Retirement Allowance claims reviewed showed the incorrect number of service credit years on the Statement of Account. (Finding 1, page 10)

Incorrect calculations of a retirement payment, a benefit deduction amount and the number of service credit years

We recommended SURS strengthen its controls over benefits and refunds to ensure all documentation is complete and claim calculations are performed, reviewed, and documented.

SURS officials concurred with our recommendation and have stated they will change the control structure to ensure all claim calculations are reviewed for completeness and accuracy. SURS officials also stated they will immediately begin to investigate and correct the problems noted with the claims computer programs.

CONTRACTUAL SERVICES

The State Universities Retirement System did not comply with certain statutory requirements involving contractual services. **This finding has been repeated since 1995.**

Contracts were filed from 8 to 18 days late with the Comptroller

In our testing, we noted 4 of 13 contracts were filed from 8 to 18 days late. The State Comptroller Act (15 ILCS 405/15) and Section 15.10.20 of CUSAS states whenever a contract exceeding \$5,000 is incurred by any State agency, a copy of such

A multi-year office lease was filed one year late

contract shall be filed with the Comptroller within 15 days thereafter.

We also noted a multi-year lease for office rental starting on June 15, 1995 and ending June 14, 1997 was not filed with the Comptroller until June 27, 1996. The State Comptroller Act (15 ILCS 405/15) and Section 15.20.40 of CUSAS states that leases for real property must be filed with the Comptroller within 15 days after execution.

One of 13 contracts was not formally approved before services were performed. The contract for printing the annual report was signed on December 3, 1996, but services of \$3,621 were performed on October 31, 1996. SURS' Purchasing Policy states "contracts in any amount shall be executed by the Executive Director or his/her designee, unless executed by the President of the Board of Trustees. No goods or services may be acquired nor work commenced prior to the execution of a contract as herein provided." (Finding 4, page 13)

We recommended SURS comply with State law pertaining to the timely filing of contracts with the Comptroller and also internal purchasing policy procedures. **This finding has been repeated since 1995.**

SURS officials concurred with our recommendation and stated SURS' Internal Audit staff expanded its reviews of administrative expense payments in FY 97 to detect contractual violations and increase staff awareness of contractual regulations. SURS officials also stated that during the year, SURS' Internal Audit noticed much improvement in this area; however, the internal audits would continue in order to improve compliance. (For previous agency responses, see Digest Footnote 1.)

INTERNAL AUDIT

The System was not in compliance with certain provisions of the Fiscal Control and Internal Auditing Act (FCIAA). **This finding has been repeated since 1994.**

FCIAA (30 ILCS 10/2003) requires that the internal audit program include audits of major systems of internal accounting and administrative control and be conducted on a periodic basis so that all major systems are reviewed at least once every two years.

Need to review all major systems every two years

Our review of the internal audit work for the year ended June 30, 1997 disclosed that the internal audit department did not complete reviews of all the major systems as required by State law. However, the internal audit department did complete a review of

over 50% of the major systems in fiscal year 1997.

We recommended SURS establish and follow a program of internal auditing that includes a review of all major systems of internal accounting and administrative controls at least once every two years as required by State law. (Finding 7, page 17)

SURS officials concurred with our recommendation and stated that the new full time auditor position in fiscal year 1997 increased audit coverage, and they expect to fully comply with this requirement in fiscal year 1998. (For previous Agency responses, see Digest Footnote 2.)

OTHER FINDINGS

The remaining findings are less significant, and SURS' responses indicate it is addressing the conditions. We will review progress toward implementing these recommendations in our next audit.

Mr. Steve Hayward, Internal Auditor at SURS provided responses to our recommendations. All responses were received in December, 1997.

WILLIAM G. HOLLAND, Auditor General

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SPECIAL ASSISTANT AUDITORS

KPMG Peat Marwick, LLP were our special assistant auditors for this audit.

DIGEST FOOTNOTES

#1 CONTRACTUAL SERVICES - Previous Agency Response

- 1996: Recently this office has centralized the contracting function within the office of the Deputy Director of Finance which should improve compliance. In addition, SURS Internal Audit staff has expanded its reviews of administrative expense payments in order to detect contractual violations and to increase staff awareness of contractual regulations. This expanded review process will continue for at least the next year.
- 1995: Although SURS believes that a number of items in this Finding do not apply to SURS or came into existence after the execution of the contracts examined, SURS will comply with the rules and regulations governing

contracts, contract content and advance payment for services.

#2 INTERNAL AUDIT - Previous Agency Responses

- 1996: The addition of the new full time auditor position in fiscal year 1997 will increase the audit coverage. It is expected that the goal of auditing every major system every two years will be achieved in the future.
- 1995: Prior to fiscal year 1995, SURS established a plan to audit all major systems every two years and had every intention of following the plan. SURS hired a part time audit associate to ensure that the plan was followed. However, because of circumstances cited in the finding, SURS was unable to complete all of the planned audits. SURS will continue to work toward the goal of auditing every major system every two years.
- 1994: The SURS internal auditor operationally reports to the Associate Executive Director. However, for purposes of the FCIAA he has a direct reporting relationship to the Executive Director concerning the outcomes of all his internal audits.

During the year the executive staff reviewed and classified with the Internal Auditor all of the major systems of internal accounting and administrative controls so that they could be reviewed at least once every two years as required by State law. In addition, the System hired an audit intern to assist the Internal Auditor with the reviews.

