

REPORT DIGEST

**STATE UNIVERSITIES RETIREMENT SYSTEM
COMPLIANCE AUDIT
FOR THE TWO YEARS ENDED JUNE 30, 1995**

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

INTRODUCTION

This digest covers our State compliance audit of the System for the two years ended June 30, 1995. A financial audit covering the year ending June 30, 1995 will be issued at a later date.

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

EXPENDITURE OF FUNDS FOR POLITICAL PURPOSES

Over a twenty-month period, SURS engaged in a pattern of reimbursing four employees for political contributions made in the employee's names to various local, state and federal political campaigns.

During the course of conducting this audit, we identified at least \$10,616 in political contributions reimbursed by SURS during this time period. Another \$1,280 in political contributions was charged to a SURS credit card issued to an employee and paid directly by the System. A majority, but not all, of these political contributions were repaid to the System by the employees during the course of the audit.

To obtain reimbursement from SURS' trust fund for amounts totaling \$8,616 in political contributions, the four employees submitted vouchers requesting payment for "legislative conferences." None of these vouchers contained supporting documentation identifying the nature or purpose of the "legislative conference." None of these vouchers submitted by the employees and paid by SURS contained evidence that the employees had, in fact, incurred the expense for which they were requesting payment from SURS. In response to the auditors' requests for supporting documentation for "legislative conference" expenses, SURS obtained copies of employees' personal checks showing contributions to various political campaigns.

For other amounts totaling \$3,280, SURS did not have contemporaneous supporting documentation with the payment vouchers. However, based upon documentation that was later obtained, these instances generally related to situations where employees attended some type of briefing or issues meeting/conference sponsored by a political committee.

SURS maintains that the contributions were not an improper use of System's trust fund because they were "made to further a legitimate business goal for the benefit of SURS, namely, to enhance the possibility that the Illinois legislature would provide full or better funding for SURS." The contributions were made in the names of SURS' four employees, and the employees were subsequently repaid for these expenses by SURS. SURS maintains, therefore, that the contributions are SURS'. The possible application of various laws depends upon the identity of the contributor. (Finding 1, pages 10 - 12)

We recommended that the SURS' Board take action to ensure that "unauthorized" and undocumented expenditures cease immediately. Further, we recommended that all expenditures of trust moneys be only for the purpose of paying benefits or for meeting the "reasonable expenses of administering their retirement system or pension fund." Also, we recommended that SURS ensure all pertinent provisions of the law be complied with, including any corrective

action necessitated by past events.

SURS officials agree with the substance of the finding and stated they have "fully complied" with the recommendation.

Auditor General's Comment: The nature of the corrective actions to be taken by SURS will be determined by SURS in consultation with appropriate State and federal authorities, those actions and whether those actions encompass all past political activities will be reviewed by the auditors during the course of the next regularly scheduled audit.

UNNECESSARY, UNREASONABLE, AND QUESTIONABLE SYSTEM EXPENSES

Certain expenses incurred by the System are questionable and did not appear reasonable and necessary.

Overall, we questioned System expenses totaling \$31,358 for club memberships, catering, lunchroom supplies, marketing, and other miscellaneous expenses which do not appear, from the documentation provided, to be reasonable and necessary expenses of the System. The amounts questioned by major category are summarized as follows:

- Club Memberships (\$3,140).
- Catering and Lunchroom Supplies (\$12,321).
- Marketing and Other Miscellaneous Expenses (\$15,897).

We recommended that SURS establish appropriate guidelines and controls to ensure expenses incurred are reasonable and necessary for administering the System. (Finding 2, pages 13 & 14)

SURS officials stated they concur with the recommendation and indicate they will establish appropriate guidelines and controls.

BOARD TRAVEL AND MEETING EXPENSES

Certain travel and meeting expenses related to the Board of Trustee activities do not appear necessary in the performance of their duties.

Some travel expenses incurred by a Board member to attend a national conference on public employee retirement systems in Honolulu, Hawaii do not appear reasonable and necessary. While we do not question the appropriateness of a Board member attending this conference, we do question the necessity and reasonableness of certain related expenses. Examples of reimbursements to a Board member for expenses incurred by himself and his spouse included dinner show entertainment expenses, car rental, and valet parking.

The review of expenses associated with Board meetings resulted in certain items being questioned including: entertainment expenses totaling \$340 for a pianist to play at dinner/receptions at two board meetings; rental expenses totaling \$800 for tents, tables, chairs and lighting for September Board meetings in 1993 and 1994 which were held outdoors at

SURS' offices in Champaign; and a \$260 expense for a harp player at the June 1994 Board meeting. (Finding 3, pages 16 -17)

We recommended that SURS establish appropriate guidelines and controls to ensure Board expenses incurred are reasonable and necessary for administering the System.

SURS officials state that they concur with the recommendation and indicate they have established appropriate guidelines and controls. Further, SURS officials indicate that the Board of Trustees has adopted a code of conduct and will comply with the Higher Education Control Board regulations.

INADEQUATE CONTROL OVER EMPLOYEE EXPENSE CHARGED TO TRAVEL

Expenses totaling \$28,518 charged to SURS' travel account are questioned as being nonreimbursable, unnecessary, or unreasonable.

Under the State Finance Act, SURS is required to follow the travel reimbursement guidelines established by the Travel Regulation Council and the Higher Education Travel Control Board. After a previous audit raised questions concerning some SURS' employees travel expenses, SURS announced that it would voluntarily comply with the travel reimbursement guidelines. SURS was apparently unaware that it should have been, by statute, complying with those restrictions in the past.

Based upon our sample, we questioned a total of \$28,518 charged to SURS' travel account. In summary, these questioned amounts are categorized as follows:

-Meals	\$13,398
-Lodging	7,576
-Unnecessary Travel	1,008
-Inadequate Supporting Documentation	6,434
-Duplicate Payment	<u>102</u>
Total	<u>\$28,518</u>

We recommended that SURS comply with the travel regulations of the Travel Regulation Council and Higher Education Travel Control Board and reimburse only those travel expense that are allowable, adequately supported, reasonable and necessary. We further recommend that SURS take steps to identify all applicable laws with which SURS should be complying. (Finding 5, pages 20 - 23)

SURS officials stated they concur with the recommendation and indicate that procedural changes have been made to ensure that the System complies with the travel regulations and all applicable laws.

CONTRACTUAL SERVICES

The State Universities Retirement System did not comply with certain statutory requirements involving contractual services. Certain contractual service arrangements did not have contracts. The Illinois Purchasing Act (30 ILCS 505/9.01) states that "Whenever any State agency contracts for services involving professional or artistic skill and involving an expenditure of more than \$5,000 for the same type of service at the same location during any fiscal year, which contract is exempt from competitive procurement procedures a copy of the contract, which must be reduced to writing, shall be filed with the Comptroller. All copies of contracts filed pursuant to this Section are public records...."

Further, we noted that most of the contracts tested did not contain all certification clauses. We noted one or more of the following certifications/clauses were missing from the contracts:

- Educational Loan Certification (5 ILCS 385/3);
- Bribery Clause (30 ILCS 505/10.2);
- Drug Free Workplace Certification (30 ILCS 580/4);
- Vendor's Records Retention Clause (30 ILCS 505/6-i); and
- Federal Taxpayer Identification Certification (CUSAS Procedure 15.50.10).

Also, 5 of 26 contracts reviewed were approved between 18 and 252 days after the start date of the contract. Payments for services performed under three contracts were made prior to the execution of the contracts. In addition, two instances were noted where payments were made prior to services being rendered. The State Finance Act (30 ILCS 10/9.05) prohibits advance payment for goods or services unless advance payment is required by the contract and a statement to that effect appear on the face of the voucher. (Finding 6, pages 24 - 25)

We recommended that SURS comply with State law and related rules and regulations governing contracts, contract content, and advance payment for services.

SURS officials state that they believe a number of items in the finding do not apply to SURS or came into existence after the execution of the contracts examined. However, SURS officials indicate they will comply with the rules and regulations governing contracts, contract content and advance payment for services.

Auditors Comment: The contracting criteria outlined in this finding apply to State agencies. SURS is a State agency. Further, all of the requirements with which SURS failed to comply existed at the time of the questioned contracts.

OTHER FINDINGS

The remaining findings are less significant and the System's response indicates that they are addressing them. We will review the System's progress in implementing our recommendations in our next audit.

Mr. Bryan Bloom, Assistant Executive Director at the System provided responses to our recommendations . All responses were received on December 8, 1995.

FUTURE REPORTING REQUIREMENTS

In November 1994, the Governmental Accounting Standards Board (GASB) issued Statement No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans". This Statement requires that plan assets be reported at fair value, rather than at cost. In addition, this Statement establishes a new financial reporting framework that will result in significant changes to the financial statements as well as the required supplementary information. The requirements of this Statement are effective for periods beginning after June 15, 1996, with earlier implementation encouraged. If comparative financial statements are presented, restatement of the prior year financial statements is required.

The System intends to adopt this Statement beginning with the fiscal year ending June 30, 1997. The effect of this statement will be to increase the nets assets and decrease the unfunded actuarial accrued liability of the System by the difference between fair value and cost of the net assets on the date of adoption. The Statement, however, allows for different valuation methods of assets related to some function of market value (i.e. smoothing of market values over time or current market values) for determining funded status and the annual required contribution. If the System had implemented Statement No. 25 at June 30, 1995 and used the current market value method the nets assets available for benefits would have been \$5,951,000,513 resulting in a funding ratio of 63.3%.

At present, plan assets are valued at cost. Net assets available for benefits at cost at June 30, 1995 were \$4,674,199,801 resulting in a funding ratio of 49.8%.

WILLIAM G. HOLLAND, Auditor General

WGH:BLB:pp

SUMMARY OF AUDIT FINDINGS

Number of This Audit Prior Audit

Audit Findings 75

Repeated Audit Findings 10

Recommendations implemented
or not repeated 43

SPECIAL ASSISTANT AUDITORS

KPMG Peat Marwick, LLP were our special assistant auditors for these audits.