

**REPORT DIGEST**

**STATE UNIVERSITIES RETIREMENT SYSTEM OF ILLINOIS  
COMPLIANCE AUDIT  
FOR THE TWO YEARS ENDED JUNE 30, 1992  
FINANCIAL AUDIT  
FOR THE YEAR ENDED JUNE 30, 1992**

## **INTRODUCTION**

The audit of the State Universities Retirement System (System) is issued in two reports. The financial report, prepared by the System, contains our opinion on the financial statements. The compliance report contains supplementary financial information, findings, conclusions, and recommendations.

## **UNDERFUNDING OF THE SYSTEM**

Net assets available for benefits (at cost) totaled approximately \$ 3,902 million at June 30, 1992. The pension obligation was valued at \$ 7,360 million at June 30, 1992. The difference between the pension obligation and the net assets available for benefits of \$ 3,458 million reflects the unfunded liability of the System at June 30, 1992. The unfunded liability increased over \$ 340 million during FY 1992.

An analysis of dollar amounts of net assets available for benefits, pension obligation, and unfunded liability should not be viewed in isolation. Expressing the net assets available for benefits as a percentage of the pension obligation provides one indication of funding status. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the System. The following chart gives a listing of funding progress for the past three years.

	(1)	(2)	(3)	(4)	(5)
Year Ended June 30	Net Assets Available for Benefits	Pension Obligation	Percentage Funded (1)/(2)	Unfunded Liability (2)-(1)	Annual Increase in Unfunded Liability
1990	\$3,300	\$ 6,238	52.9%	\$2,938	\$ 712
1991	3,530	6,648	53.1%	3,118	180
1992	3,902	7,360	53.0%	3,458	340

NOTE: Amounts in chart are shown in millions of dollars.

In Fiscal Year 1990, Public Act 86-0273 became effective. This law provided for a seven year phase-in approach to improve the State's funding of its five State-financed retirement systems. The long term intent was to provide increased contributions sufficient to pay normal costs and amortize the unfunded pension obligation over 40 years after a seven year phase-in period. Even with the passage of this Act the unfunded liability increased \$1,232. million during the past three years.

## **FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS**

### **NEED TO DOCUMENT ASSESSMENTS OF REAL ESTATE INVESTMENTS WHERE MARKET VALUES HAVE DECLINED BELOW BOOK VALUE**

The System does not adequately communicate the results of its review between appraised market values of real estate investments and their respective book values to the finance division.

At June 30, 1992, the real estate investment portfolio had a book value of \$ 441 million (cost basis) and a market value of \$ 369 million for a difference of \$ 72 million. Based on the market values of investments at June 30, 1992, the real estate investments represent 8 % of the total investments of the System.

The System invests exclusively in real estate funds, does not own any individual properties, and has not acquired any new investments in real estate in the last four years. The System actively and continually monitors the valuation of such investments. Management practices are reasonable regarding the monitoring of such investments; however, such practices are silent as to the determination and documentation of whether declines in market value are considered other than temporary and the associated resulting treatment required in the System's financial statements and related footnotes.

We recommended that the System develop a methodology for documenting and communicating the results of and judgments related to, its analysis of values related to its real estate investment portfolio and documenting the System's conclusions reached for establishing whether a reserve should be provided for decreases in its real estate portfolio value that are other than temporary. (Finding # 1, page 8)

System officials stated that they do not believe this is an issue. They also stated that their Investment Office considered whether or not it should recommend to the Board that a restatement of the book value of its real estate assets was necessary and concluded that no restatement was required.

We believe that such considerations should be appropriately documented in writing.

### **NEED TO CERTIFY THE ANNUAL PHYSICAL INVENTORY WITH THE ILLINOIS DEPARTMENT OF CENTRAL MANAGEMENT SERVICES**

Officials at the System did not complete an annual physical inventory of State-owned property and certify the inventory with the Illinois Department of Central Management Services (CMS) as required by State law.

The State Property Control Act states that "Annually, and upon at least 30 days notice, the administrator may require each responsible officer to make, or cause to be made, an actual physical inventory check of all items of property under his jurisdiction and control and said inventory shall be certified to the administrator with a full accounting of all errors or exceptions reported therein." The administrator (Illinois Department of Central Management Services)

scheduled the System to perform this inventory at January 31, 1992, with the resulting report due to CMS 90 days after this date.

The System did not file the listing of property in FY 1992. Instead, on March 17, 1992 it provided written communication to CMS informing CMS that it was the System's position, based upon its attorney's opinion, that such physical property belonged to SURS and not the State of Illinois and therefore it was not subject to the provisions of the State Property Control Act. The System did not receive a reply to its letter.

Prior to 1992, the System complied with the State Property Control Act. CMS is given the statutory responsibility for administering the Act. Therefore, any interpretation of the Act's applicability to the System should be made by CMS. CMS has not made a determination in this regard; however, in our discussion with CMS officials, preliminary indications are that they will take an official position that the System is subject to the Act.

We recommended that the System comply with the State Property Control Act. (Finding #2, page 10)

SURS officials disagree with the finding. They state that its position is correct and that, upon review, CMS should agree. SURS acknowledges that in the past it complied with the State Property Control Act, because it had never analyzed whether it was required to do so, or the possible implication of this action. In light of SURS fiduciary duty to hold its assets for the exclusive benefit of participants and beneficiaries, SURS examined this issue. SURS believes its position is consistent with its fiduciary responsibility.

### **NEED TO CLARIFY INTENT OF EXISTING LAW**

The System is no longer receiving employer contributions from community colleges for persons compensated from Special Populations and Economic Development Grants.

Prior to fiscal year 1992 the System received employer contributions from community colleges for persons compensated from Special Populations and Economic Development Grants. However, in May 1992 officials from the Illinois Community College Board advised community college districts to cease remitting retirement contributions to the System from these grants.

In discussing this matter with representatives from both the System and the Illinois Community College Board it was noted that both had sought an opinion from legal counsel as to "whether employer contributions to the System for personal services paid from Special Populations and Economic Development Grants must be paid from the grant, or separately appropriated by the legislature."

A review of the legal opinion provided by the respective counsels for both the System and the Illinois Community College Board indicated that there are two contrasting positions on this issue. The System interprets these grant monies received by community colleges as "trust funds" thereby requiring the community colleges to pay the cost of any associated retirement contributions from the grant. In contrast, the Illinois Community College Board maintains that

the grants are not trust funds and therefore the only mechanism for making associated retirement contributions is by State appropriation.

At issue is the legal interpretation of 40ILCS 5/15-155(1992). The apparent intent of this law was to distribute the responsibility for making retirement contributions between the State and other employers, ensuring that contributions are made for all covered employees by some mechanism.

The amount of contributions owed to the System for the employer's share of the retirement contribution for persons compensated from Special Populations and Economic Development grants is not readily quantifiable but, at a maximum, would not exceed \$ 2 million in total.

We recommended that System officials take additional action to clarify the intent of the existing law. This could be done by: 1) seeking an opinion from the Illinois Attorney General, or 2) requesting the General Assembly to express its specific intent through an appropriate amendment to the law. (Finding # 3, pages 12 - 13)

SURS officials state that they are researching the requirements of obtaining a legislative clarification of this issue. SURS does not believe it has violated any statutes by not collecting these required contributions. They feel it is the Illinois Community College Board which is in violation of the Statutes in not making these payments.

Mr. Bryan Bloom, Deputy Director of Finance at the System responded to our recommendations.

## **AUDITORS' OPINION**

Our auditors state that the June 30, 1992 financial statements of the System are fairly presented.

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WILLIAM G. HOLLAND, Auditor General

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## **SUMMARY OF AUDIT FINDINGS**

Number of This AuditPrior Audit

Audit Findings30

Repeated Audit Findings00

Recommendations implemented or  
not repeated00

## **SPECIAL ASSISTANT AUDITORS**

Deloitte & Touche were our special assistant auditors for these audits.