

EXECUTIVE DIGEST

**MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM**

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**INTRODUCTION**

This report contains the results of our performance audit of the Michigan Public School Employees' Retirement System (MPSERS), Department of Management and Budget, for the period August 1, 1993 through December 31, 1994.

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**AUDIT PURPOSE**

This performance audit was conducted as part of the constitutional responsibility of the Office of the Auditor General. Performance audits are conducted on a priority basis related to the potential for improving effectiveness and efficiency.

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**BACKGROUND**

MPSERS provides retirement, survivor, and disability benefits to employees in public local school districts, intermediate school districts, tax-supported community or junior colleges, and certain universities. It is administered by a nine-member board comprised of the Superintendent of Public Instruction, the State Treasurer, and seven individuals appointed by the Governor with the advice and consent of the Senate.

As of September 30, 1994, there were 97,989 persons receiving MPSERS benefits which totaled approximately \$1,234 million for the fiscal year ended September 30, 1994.

As of October 1, 1994, contributions to MPSERS are entirely from covered employees and their employers. Prior to that date, the State was a major contributor to MPSERS.

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**AUDIT OBJECTIVES,  
CONCLUSIONS,  
AND NOTEWORTHY  
ACCOMPLISHMENTS**

**Audit Objective:** To assess MPSERS goals and objectives, data accumulated related to those goals and objectives, and methods for measuring attainment of those goals and objectives.

**Conclusion:** MPSERS goals and objectives were very comprehensive and were more than sufficient to determine whether it was achieving its mission. It was planned that most of the data needed to measure the achievement of these objectives would have been provided by the Automated Retirement Data System (ARMS). ARMS, under development for several years, has not been completed on schedule. According to the director of MPSERS, the ARMS project is being discontinued. Currently, measurement data for selected MPSERS goals and objectives has been manually accumulated. Methods for collecting this data were appropriate, and the data was accurate. This data indicated that it was achieving its major goals and objectives.

**Noteworthy Accomplishments:** MPSERS completed its mission statement, goals, and objectives during February 1994. Its goals and objectives were comprehensive and extremely well developed.

**Audit Objective:** To assess the effectiveness of MPSERS health care initiatives.

**Conclusion:** The health care cost control initiatives appear to be effective. Fiscal year 1993-94 expenses increased approximately 9% over the prior fiscal year. This increase is made up of a 4% increase in expenses per retiree and a 5% increase in the number of retirees. The percentage increase per retiree is approximately 1% below the rate of inflation for health care services, and the overall trend in the MPSERS rate of increase is toward lower percentage increases. In addition, the amount of health benefit expenditure per retiree is similar to the average amount of health benefit expenditure for similar retirement systems.

However, MPSERS had not developed methods to evaluate the effectiveness of most of its health care cost control and quality of care initiatives (Finding 1).

**Audit Objective:** To assess management's efficiency in administering MPSERS.

**Conclusion:** Management was efficiently administering MPSERS. The average administrative cost per MPSERS member was measurably less than the average for the peer group with which we compared MPSERS. Also, the trend analysis of administrative expenses by category did not

disclose any unusual increases or highlight any inefficiencies.

**Audit Objective:** To review the disposition of selected prior audit recommendations.

**Conclusion:** MPSERS complied with or had taken significant steps to comply with 11 of the 12 prior recommendations included in our current audit scope. We rewrote one finding related to undeliverable retirement warrants. (Finding 2)

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**AUDIT SCOPE  
AND  
METHODOLOGY**

Our audit scope was to examine the program and other records of the Michigan Public School Employees' Retirement System for the period August 1, 1993 through December 31, 1994. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

Our audit methodology included reviewing MPSERS goals and objectives, health care initiatives, administrative costs, and the disposition of selected prior audit recommendations.

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**AGENCY  
RESPONSES AND  
PRIOR AUDIT  
FOLLOW-UP**

Our audit report includes two audit findings and corresponding recommendations. The agency preliminary response indicated that it agreed with these findings and recommendations.

The agency preliminary response which follows each recommendation in our report was taken from the agency's written comments and oral discussion subsequent to our audit fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and Department of Management and Budget Administrative Guide procedure 1280.02 require the agency to develop a formal response to our audit findings and recommendations within 60 days after release of the audit report.

MPSERS complied with or had taken significant steps to comply with 11 of the 12 prior recommendations included in our current audit scope.