



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Report on Compliance and Internal Control Over Financial Reporting

Minnesota State Retirement System

Fiscal Year Ended June 30, 2001



Financial Audit Division

The Office of the Legislative Auditor (OLA) is a professional, nonpartisan office in the legislative branch of Minnesota State government. Its principal responsibility is to audit and evaluate the agencies and programs of state government (the State Auditor audits local governments).

OLA's Financial Audit Division annually audits the state's financial statements and, on a rotating schedule, audits agencies in the executive and judicial branches of state government, three metropolitan agencies, and several "semi-state" organizations. The division also investigates allegations that state resources have been used inappropriately.

The division has a staff of approximately fifty auditors, most of whom are CPAs. The division conducts audits in accordance with standards established by the American Institute of Certified Public Accountants and the Comptroller General of the United States.

Consistent with OLA's mission, the Financial Audit Division works to:

- Promote Accountability,
- Strengthen Legislative Oversight, and
- Support Good Financial Management.

Through its Program Evaluation Division, OLA conducts several evaluations each year and one best practices review.

OLA is under the direction of the Legislative Auditor, who is appointed for a six-year term by the Legislative Audit Commission (LAC). The LAC is a bipartisan commission of Representatives and Senators. It annually selects topics for the Program Evaluation Division, but is generally not involved in scheduling financial audits.

All findings, conclusions, and recommendations in reports issued by the Office of the Legislative Auditor are solely the responsibility of the office and may not reflect the views of the LAC, its individual members, or other members of the Minnesota Legislature.

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All OLA reports are available at our Web Site: <http://www.auditor.leg.state.mn.us>

If you have comments about our work, or you want to suggest an audit, investigation, evaluation, or best practices review, please contact us at 651-296-4708 or by e-mail at auditor@state.mn.us

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Audit Participation

The following members of the Office of the Legislative Auditor prepared this report:

Claudia J. Gudvangen, CPA	Deputy Legislative Auditor
Cecile Ferkul, CPA, CISA	Audit Manager
Steven Johnson, CPA, CISA	Auditor-In-Charge
Heather White	Auditor

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Report Summary

Audit Conclusions

- We issued an unqualified opinion on the financial statements of the Minnesota State Retirement System as of and for the year ended June 30, 2001.
- We issued a Report on Compliance and internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. We did not report any material weaknesses involving the internal control over financial reporting and its operation or noncompliance that would be required to be reported under *Government Auditing Standards*.

Background Information

The Minnesota State Retirement System provides retirement coverage for most state employees, the University of Minnesota, and selected public-service organizations. The Minnesota State Retirement System administers six defined benefit retirement plans (State Employees, State Patrol, Correctional Employees, Judges, Legislators, and Elected State Officials) and one defined contribution plan (Unclassified Employees). In addition, the system contracts for the administration of a deferred compensation plan available to state employees and other public employees throughout the state.

At June 30, 2001, the Minnesota State Retirement System's total assets were nearly \$9 billion. In fiscal year 2001, the plans provided retirement coverage for over 55,400 active members, 22,100 retired members, and nearly 22,000 deferred members (members who no longer contribute but are eligible for future monthly benefits). The Minnesota State Retirement System provides retirement counseling, benefit-package seminars, newsletters and pamphlets, and an interactive website (www.msrs.state.mn.us). The Minnesota State Retirement System designed the website to allow members to check their own account balances and service credits and to calculate buy-back amounts and annuities.



**Report on Compliance and Internal Control Over Financial Reporting
Based on an Audit of Financial Statements Performed in Accordance with
*Government Auditing Standards***

Ms. Mary Benner, Chair
Minnesota State Retirement System Board of Directors

Members of the Minnesota State Retirement System Board of Directors

Mr. David Bergstrom, Executive Director
Minnesota State Retirement System

We have audited the financial statements of the Minnesota State Retirement System as of and for the year ended June 30, 2001, and have issued our report thereon dated December 7, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Minnesota State Retirement System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Minnesota State Retirement System's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to

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the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned function. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Legislative Audit Commission and the Minnesota State Retirement System and is not intended to be and should not be used by anyone other than those specified parties.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: December 7, 2001

Report Signed On: January 3, 2002