OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial Audit Division Report

Minnesota State Retirement System

Special Review: Administration of the Minnesota Deferred Compensation Plan

APRIL 20, 2005 05-24

Financial Audit Division

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OFFICE OF THE LEGISLATIVE AUDITOR
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Ms. Mary Benner, Chair
Minnesota State Retirement System Board of Directors

Members of the Minnesota State Retirement System Board of Directors

Mr. Dave Bergstrom, Executive Director
Minnesota State Retirement System

We have conducted a special review of selected issues related to the Minnesota State Deferred Compensation Plan, a voluntary tax-deferred savings plan administered by the Minnesota State Retirement System (MSRS). In December 2004, the chair of the MSRS Board of Directors notified the Office of the Legislative Auditor of concerns raised by an employee of the agency. Specifically, the employee was concerned that MSRS had not adequately disclosed the activity and balance of the administrative account maintained by the state's third-party administrator. In addition, the employee alleged that MSRS entered into questionable contractual arrangements with some employees of the third-party administrator, and that MSRS employees inappropriately conducted business for other tax-sheltered plans. Based on the information obtained, we decided to pursue the matter further and issue this special report.

The following Report Summary highlights our objectives and conclusions. We discuss the issues more fully in Chapter 2 of the report.

The report is intended for the information of the Legislative Audit Commission and the management of the Minnesota State Retirement System. This restriction is not intended to limit the distribution of this report, which was released as a public document on April 20, 2005.

/s/ James R. Nobles	*/s/ Claudia J. Gudvangen*
James R. Nobles Legislative Auditor	Claudia J. Gudvangen, CPA Deputy Legislative Auditor

Report Signed On: April 15, 2005

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Special Review
Minnesota State Retirement System's Administration of the Minnesota Deferred Compensation Plan

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Audit Participation

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

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Cecile Ferkul, CPA, CISA	Audit Manager
Marla Conroy, CPA, CISA	Director of Investigations

Exit Conference

The following representatives from the Minnesota State Retirement System participated in the exit conference held on April 11, 2005:

Mary Benner	Board Chair
Dave Bergstrom	Executive Director

Special Review
Minnesota State Retirement System's Administration of the Minnesota Deferred Compensation Plan

Report Summary

Audit Scope:

We conducted this special review in response to concerns raised by a Minnesota State Retirement System (MSRS) employee about administration of the Minnesota State Deferred Compensation Plan. We considered these concerns when establishing the audit scope. We focused this special review primarily on controls over financial activity of the plan's administrative account. Our review was not a full audit of the deferred compensation plan.

Audit Period:

January 1, 2002, through December 31, 2004

Background:

The Minnesota State Retirement System administers the Minnesota State Deferred Compensation Plan. The deferred compensation plan is available to all public employees in the state. Employees who choose to participate in the plan invest a portion of their wages to accumulate on a tax-deferred basis, until withdrawn. At June 30, 2004, the plan had approximately 80,000 participants with assets exceeding $2 billion.

Conclusions:

We did not find evidence of financial wrongdoing by MSRS employees. In addition, we did not find evidence that MSRS employees were actively involved in the administration of other tax-sheltered annuity plans. However, we identified several weaknesses in MSRS's administration of the state's deferred compensation plan, including weaknesses in controls over the administrative account, contract administration, and system access.

Key Findings:

- MSRS did not have adequate controls over the deferred compensation plan administrative account. The lack of adequate controls put a significant amount of money at risk. (Finding 1, page 7)
- MSRS did not follow the state's contracting process when seeking additional services from the third-party administrator. (Finding 2, page 9)
- MSRS hired a consulting firm without following a competitive process or executing a written contract. (Finding 3, page 10)
- MSRS did not actively monitor access to participant data maintained on the third-party administrator's computer systems. (Finding 4, page 11)

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Chapter 1. Background

In December 2004, the chair of the Minnesota State Retirement System (MSRS) Board of Directors notified the Office of the Legislative Auditor that an MSRS employee expressed concerns about administration of the Minnesota State Deferred Compensation Plan. Specifically, the employee was concerned that MSRS had not adequately disclosed the financial activity and balance of the deferred compensation plan's administrative account maintained by the state's third-party administrator. In addition, the employee alleged that MSRS entered into questionable contractual arrangements with some employees of the third-party administrator. Finally, the employee alleged that MSRS employees inappropriately conducted business related to tax-sheltered plans not offered by MSRS but managed by the third-party administrator. Based on our initial assessment, we decided to conduct a special review and issue this report. Our review was not a full audit of the deferred compensation plan, the administrative account, or the third-party administrator's records.

Objective and Methodology

Our objective in conducting this special review was to answer the following questions:

- Did MSRS have adequate internal controls over the deferred compensation plan's administrative account to ensure that the funds were adequately safeguarded and that the use of funds was authorized?
- Did MSRS follow appropriate contracting practices when obtaining consulting and other services?
- Did MSRS employees inappropriately transact business for other tax-sheltered annuity plans?

To answer these questions, we reviewed the financial activity of the deferred compensation plan's administrative account. We also interviewed various employees of the Minnesota State Retirement System and the third-party administrator.

Conclusions

We did not find evidence of financial wrongdoing by MSRS employees. In addition, we did not find evidence that MSRS employees were actively involved in the administration of other tax-sheltered annuity plans. However, we identified several weaknesses in MSRS's administration of the state's deferred compensation plan, including weaknesses in controls over the administrative account, contract administration, and system access. We discuss these weaknesses in Findings 1 through 4, in Chapter 2.

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Chapter 2. Plan Administration

Chapter Conclusions

The Minnesota State Retirement System (MSRS) did not have adequate controls over the deferred compensation plan's administrative account. MSRS did not adequately separate the key incompatible duties of authorizing payment and reviewing the account's financial activity. In addition, the retirement system's executive director did not routinely provide the board with an accounting of the administrative account's financial activity. Finally, by allowing the third-party administrator to maintain this account, MSRS is not able to use the controls provided by the state's accounting system and the state's treasury division.

MSRS's contract with the third-party administrator included an unusual clause that allowed unspecified services to be provided beyond the original scope of the contract. MSRS obtained a variety of services under this provision without documenting the type of additional services or the terms of compensation or performance. MSRS entered into verbal agreements subjecting the agency to unnecessary financial risks. In addition, MSRS hired a consulting firm without following a competitive process or executing a written contract. From March 2004 through January 2005, MSRS paid the consultant nearly $113,000 to help connect its computers with the third-party administrator's system.

MSRS did not actively monitor employee access to participant data maintained on the third-party administrator's computer systems. MSRS initiated system access changes by e-mail or telephone conversations with the third-party administrator. In addition, MSRS did not review initial security clearances to identify people with inappropriate levels of system access.

In addition to the mandatory retirement plans for state employees, the Minnesota State Retirement System administers the Minnesota State Deferred Compensation Plan.[1] The deferred compensation plan is available to all public employees in the state. Employees who choose to participate in the plan invest a portion of their wages to accumulate on a tax-deferred basis until withdrawn. At June 30, 2004, the plan had approximately 80,000 participants with assets exceeding $2 billion, making it one of the largest deferred compensation plans in the nation.

[1] The Minnesota State Deferred Compensation Plan is designed to comply with the Internal Revenue Code Section 457.

MSRS contracts with a third party to administer the deferred compensation plan. The third-party administrator collects participant contributions, maintains individual participant accounts, invests contributions as directed by the participants, and provides MSRS with summary level financial data. Since 1999, the third-party administrator has been Great West Life and Annuity Insurance Company (Great West)[2]. The current contract is effective through June 30, 2009.

Until recently, MSRS had also contracted with NBI/Ochs Services Inc., a local deferred compensation service organization, for education and enrollment services. NBI/Ochs employees met with potential plan participants to explain features of the plan and provide information needed to make investment decisions. In early 2004, Great West acquired NBI/Ochs Services, Inc. Believing that it could reduce administrative costs and maintain customer service, the MSRS board decided starting in July 2004 that MSRS would no longer contract for education and enrollment services. Instead it would use its own staff to provide those services. To provide these and other services, MSRS hired a total of 26 employees, 14 of whom were former Great West employees. MSRS's executive director said MSRS followed the state's hiring process when employing the additional personnel.

Plan Sponsor Account

Participants of the deferred compensation plan pay a fee, up to $225 annually, to fund the costs associated with the plan's administration. In addition, some investment managers pay fees for administrative services. Great West collects the fees and deposits them into an administrative account, called the plan sponsor account.[3] The plan sponsor account is not recorded on the state's accounting system, but is maintained and invested by Great West.[4] Great West invoices MSRS for administrative services and requests MSRS's authorization to transfer funds out of the plan sponsor account as reimbursement for those costs. Great West provides MSRS with quarterly statements of the plan sponsor account's financial activity.

MSRS also used the plan sponsor account to fund its own costs related to the administration of the deferred compensation plan. Annually, MSRS authorized Great West to reimburse MSRS from the plan sponsor account. For fiscal years 2003 and 2004, monies in the plan sponsor account were used to reimburse the agency $196,300 and $404,547 respectively. Since MSRS has assumed the education and enrollment duties, and it will incur higher reimbursable costs, it may be prudent to request reimbursement more often than annually.

Table 1-1 recaps the financial activity recorded in the plan sponsor account for calendar years 2002 through 2004, as reported by Great West.

[2] Great West works in partnership with Minnesota Life Insurance Company.
[3] Great West deducts administrative fees from participants' accounts on a quarterly basis. Fees are disclosed in the plan's quarterly report, *Investment Options at a Glance*.
[4] Investment earnings are credited to MSRS.

Table 1-1
Minnesota Deferred Compensation Plan
Plan Sponsor Account
Receipts and Disbursements
Calendar Years 2002 - 2004

	2002	2003	2004
Beginning Cash	$8,195,243	$8,454,681	$ 9,998,806
Receipts:			
Participant Fees	4,347,758	4,713,174	5,448,763
Other Contributions (1)	2,244,191	2,366,441	2,437,093
Interest	458,622	450,398	471,526
Total Receipts	$7,050,571	$7,530,013	$8,357,382
Disbursements:			
Great West	$3,298,163	$4,931,752	$5,786,804
NBI/Ochs (2)	3,360,541	1,052,117	268,175
MSRS (3)	131,309	0	600,847
Other (4)	1,120	2,019	147,644
Total Disbursements	$6,791,133	$5,985,888	$6,803,470
Ending Cash	$8,454,681	$9,998,806	$11,552,718

Note 1: Includes fees paid to Great West for record keeping services by portfolio and mutual fund managers.
Note 2: Great West acquired NBI/Ochs Services Inc. in spring 2004.
Note 3: In 2004, MSRS sought reimbursement from the plan sponsor account for 2003 and 2004 expenses related to the agency's administration of the deferred compensation plan. For 2003 and 2004, MSRS received $196,300 and $404,547, respectively, in expense reimbursements. Effective July 1, 2004, MSRS began providing the education and enrollment functions that had previously been done by NBI/Ochs Services, Inc. MSRS incurred costs related to this transition, including training and equipment purchases.
Note 4: Other disbursements in calendar year 2004 include direct payments for consulting services and office furniture.

Source: Great West quarterly statements for plan sponsor account.

We reviewed the financial activity in the plan sponsor account for calendar years 2002 through 2004. We noted internal control weaknesses regarding administration of the plan sponsor account that we address in the following findings and recommendations.

1. MSRS did not have adequate controls over the deferred compensation plan's administrative account.

MSRS did not establish the internal controls necessary to ensure that funds in the plan sponsor account were used only for authorized transactions. The lack of adequate controls put a significant amount of money at risk. Without proper controls, errors or irregularities in the plan sponsor account could occur and go undetected.

MSRS did not adequately separate the key incompatible duties of authorizing payment and reviewing the account's financial activity. The MSRS manager who authorized the plan sponsor account expenditures was also the only MSRS employee who regularly reviewed the quarterly account statements from the third-party administrator. An employee who is independent of authorizing expenditures from the account should be responsible for reviewing the quarterly statements.

In addition, the retirement system's executive director did not routinely provide the board with an accounting of the plan sponsor account's financial activity. The board generally received information about the balance of funds in the sponsor account as part of the annual assessment of the adequacy of the administrative fee charged to plan participants. The board passed a resolution in 2001 that the account's balance should be maintained in a range from $3 to $5 million. Although MSRS has significantly lowered the administrative fees in an effort to reduce the balance, the account's actual year end balance increased from $8.5 to $11.5 million during the last three calendar years. More information about the account's financial activity would have allowed the board to better monitor the administrative costs and account balance.

Finally, by allowing the third-party administrator to maintain this account, MSRS is not able to use the controls provided by the state's accounting system and the state's treasury division. Statutes do not explicitly authorize MSRS to maintain these funds outside of the state treasury. However, there may be federal regulations that would impact custody of these funds. If these funds were held in the state treasury and accounted for on the state's accounting system, MSRS would have detailed, reliable financial information for decision making. We suggest MSRS review the federal and state requirements applicable to the deferred compensation plan sponsor account and determine whether it can maintain the account in the state treasury and on the state's accounting system. If necessary, MSRS should pursue legislative changes to clarify state statutes.

Recommendations

- *MSRS should ensure an independent review is conducted of the plan sponsor account quarterly statements.*
- *MSRS should ensure the board receives periodic reports on the financial activity of the plan sponsor account.*
- *MSRS should review the federal and state requirements applicable to the deferred compensation plan sponsor account and determine whether it can maintain the account in the state treasury and on the state's accounting system. If necessary, MSRS should pursue legislative changes to clarify state statutes.*

2. MSRS did not follow the state's contracting process when seeking additional services from Great West.

MSRS's contract with Great West includes an unusual clause that allows MSRS to obtain additional, unspecified services that could exceed the scope of the original contract. Further, the clause does not identify the amount that Great West would be paid for each additional service, but states that compensation would be mutually agreed upon by the parties. This clause allowed MSRS to obtain services without going through the state's contracting process that would have formalized the negotiation and documentation of contract terms.

MSRS obtained a variety of services under this provision through verbal agreements with Great West. Statutes require that contracts entered into by representatives of the state be written. Without a written agreement outlining the terms of these additional services, misunderstandings could occur that may lead to contract disputes and litigation. The specific terms and conditions of the additional services should have been formalized through written contract amendments.

As an example, the executive director determined that MSRS needed to ensure a smooth transition from Great West to MSRS employees for delivery of education and enrollment services. He verbally agreed to have two Great West managerial employees, who had formerly worked for NBI/Ochs, continue working with MSRS beyond the July 1, 2004, transition date. These Great West employees were the relatives of a Great West executive (also formerly an NBI/Ochs executive). Their future employment with Great West was uncertain once MSRS took over education and enrollment services. The executive director told us that he agreed to pay Great West the employees' salaries and benefits ($56,250 each) for nine months, from July 1, 2004, through March 31, 2005. He also said the two individuals performed various duties, including closing a St. Paul office, reviewing participant files for record retention purposes, drafting procedures, consolidating information about Minnesota State Colleges and Universities' retirement plan options, and providing technical assistance with regard to compliance issues. They did not submit regular timesheets or other comprehensive documentation of actual work performed. One of the individuals occasionally submitted weekly updates listing the date, hours worked, and description of work done. We reviewed some of their work product relating to the Minnesota State Colleges and Universities. However, without a written description of the services MSRS expected these employees to provide, we were unable to determine whether they fulfilled the terms of the agreement and whether MSRS received good value for its expenditures.

MSRS hired other Great West employees to ensure a smooth transition. Early in fiscal year 2004, the executive director said he agreed to pay for the two managers as a precaution in case MSRS encountered significant problems during the transition. The executive director said these two individuals had over 20 years of experience with the state's deferred compensation plan. Since the transition went relatively smoothly, the executive director's expectations as to the services to be provided by these two managers changed. Had the executive director detailed their responsibilities in a written contract amendment, MSRS would have had better assurance that it received the anticipated services.

Recommendations

- *MSRS should ensure any additional services provided by Great West are properly documented and authorized in a contract amendment.*

- *In the future, MSRS should not enter into contractual arrangements that allow for additional services beyond the original scope of the contract without formalizing such changes through contract amendments.*

3. MSRS did not comply with state contracting requirements for professional technical services.

MSRS hired a consulting firm without following a competitive process or executing a written contract. From March 2004 through January 2005, the consultant was paid nearly $113,000 to help provide computer connectivity with Great West. MSRS's executive director stated the agency paid the contractor based on a rate from a previous state contract. The executive director also said the decision to hire the vendor was based on the vendor's knowledge of MSRS's computer systems and the vendor's presence at MSRS while providing services under a previous MSRS state contract. The executive director believed that critical time constraints and the necessity of computer and telephone connectivity were appropriate considerations in his decision to have the vendor perform additional services. The Department of Administration does not usually consider these to be legitimate reasons to disregard the contracting process. MSRS should have followed state contracting requirements and may have been able to obtain the services of this particular contractor through existing state agreements.

We found no evidence that the MSRS board approved the arrangement with the consultant. The review and approval of the MSRS board provides a level of accountability regarding the necessity of the services and reasonableness of cost. In addition, MSRS did not initiate a written contract for the consultant services. Without a written contract, MSRS is unable to respond to disputes or litigation should misunderstandings occur between MSRS and the selected vendor. In addition, since MSRS paid the contractor through the plan sponsor account, it was able to avoid vendor and payment controls in the state's accounting system.

Recommendations

- *MSRS should follow a competitive process when selecting professional technical services consultants.*

- *The MSRS board of directors should establish procedures for its review and authorization of consulting service contracts. The board may wish to specify varying levels of oversight depending on the dollar value of the contracts. All consulting services agreements should be written.*

Data Access Controls

One of the concerns we addressed was that some MSRS employees inappropriately conducted business related to tax-sheltered plans not offered by MSRS but managed by the third-party administrator. There was no evidence to suggest that MSRS employees were actively involved in the administration of other tax-sheltered annuity plans, some MSRS employees had inappropriate access to participant information for these plans. MSRS management took timely action to terminate the inappropriate access. However, as explained in Finding 4, we recommend additional steps MSRS needs to take to ensure it properly limits access to sensitive personal data.

4. MSRS did not actively monitor employee access to participant data maintained on the third-party administrator's computer systems.

Weaknesses in MSRS's and Great West's security controls allowed inappropriate access to certain public employee benefit information. The inappropriate access occurred unintentionally during the transition of Great West employees to MSRS. To verify that the inappropriate access existed, an MSRS employee entered one transaction at the direction of an MSRS manager and with the knowledge of the account holder. When MSRS management learned of the inappropriate access, it worked with Great West to resolve the issue.

MSRS could improve its administration of system security in several ways. MSRS needs to document changes to and authorization of security clearances. MSRS had communicated system access changes to Great West by e-mail or telephone conversations. This process did not sufficiently document the reasons for the access changes or MSRS's authorization. MSRS did not review initial security clearances to identify people with inappropriate levels of system access. Review of access is critical in complex environments with sensitive data, such as employee benefit plans.

Recommendations

- *MSRS should implement procedures to document authorizations and changes to access its computer systems.*
- *MSRS should periodically review all security clearances to ensure that only authorized individuals have appropriate levels of access to the deferred compensation plan data.*

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MSRS | **Minnesota State Retirement System**
MNDCP | Minnesota State Deferred Compensation Plan
HCSP | Health Care Savings Plan

April 14, 2005

Mr. James R. Nobles, Legislative Auditor
Office of the Legislative Auditor
Room 140 Centennial Building
658 Cedar Street
St. Paul, Minnesota 55155-1603

Dear Mr. Nobles:

First, we want to thank you and your staff for completing an audit of the Minnesota Deferred Compensation Plan (MNDCP). Secondly, we are pleased to acknowledge that the audit did not find any financial wrongdoings on the part of the Minnesota State Retirement System (MSRS) staff and found no evidence that MSRS staff engaged in selling deferred compensation products other than the MNDCP.

The report did identify some control weaknesses in the MNDCP, most of which have already been resolved and the remaining to be resolved at the next MSRS Board meeting. Many of the weaknesses occurred in the past year when MSRS went through a major transition period as it incorporated all of the main MNDCP duties internally with the exception of the record keeping services, which are being handled by Great-West Retirement Services. This decision was made by the MSRS Board of Directors and needed to be completed by July 1, 2004, since the contract with the private firm ended June 30, 2004. Bringing the enrollment and education services in-house will provide savings to the MNDCP participants by reducing administrative costs. We were able to lower MNDCP expenses by about $1 million and, in May of this year, we will be bringing a proposal to the MSRS Board to lower participant fees once again, for the eighth time in the past 13 years. Below is a chart that shows the various fee reductions which were implemented by the MSRS Board since 1992:

MNDCP History of Fee Reduction

The costs of the MNDCP are paid by participant fees. The amounts shown below are the annual fees based on a participant's account balance. For example, .25% on a $40,000 account would result in an annual administrative fee of $100.	
Year	***Administrative Fees***
1992	1.25% for investment options offered through an insurance company; .40% for investment options offered by the State Board of Investment
1994	.95% for investment options offered through an insurance company; .40% for investment options offered by the State Board of Investment.
1999	.35% (Converted all funds to an outside record keeper and the administrative costs were equalized for all investment options.)
2000	.33% on first $100,000 (maximum fee of $333)
2001	.30% on first $100,000 (maximum fee of $300)
2002	.28% on first $90,000 (maximum fee of $252)
2004	.25% on first $90,000 (maximum fee of $225)

MSRS Administrators of:
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60 Empire Drive Suite 300 Saint Paul, Minnesota 55103-3000 1-800-657-5757 651-296-2761 651-297-5238 fax

We have listed each of the findings and recommendations below, along with our responses:

1. MSRS did not have adequate controls over the deferred compensation plan's administrative account.

Recommendation: MSRS should ensure an independent review is conducted of the plan sponsor account quarterly statements.

The quarterly reports are now being reviewed by our Accounting Director in addition to our Deferred Compensation Plan Manager.

Recommendation: MSRS should ensure the board receives periodic reports on the financial activity of the plan sponsor account.

The MSRS Board has been receiving periodic balance account reports. The plan sponsor account was given to the MSRS Board in November 2004, and we will continue to provide the Board with copies of the plan sponsor account on a regular basis.

Recommendation: MSRS should review the federal and state requirements applicable to the deferred compensation plan sponsor account and determine whether it can maintain the account in the state treasury and on the state's accounting system. If necessary, MSRS should pursue legislative changes to clarify state statutes.

MSRS will review whether or not the money in the plan sponsor account can be, or should be, maintained in the state treasury. Money in the plan sponsor account is mainly collected from employees participating in the plan, and therefore we will research whether or not federal law allows for such money to be held in the state treasury.

2. MSRS did not follow the state's contracting process when seeking additional services from Great West.

Recommendation: MSRS should ensure any additional services provided by Great-West are properly documented and authorized in a contract amendment.

We are in the process of amending our contract to cover the additional duties being performed by Great-West. In almost all cases, the additional services could only be handled by Great-West as our record keeper. The services provided by Great-West and the cost of these services were discussed and agreed to prior to implementation.

Recommendation: In the future, MSRS should not enter into contractual arrangements that allow for additional service beyond the scope of the contract without formalizing such changes through contract amendments.

All contract changes will be formalized through contract amendments, and we will establish procedures as to when the MSRS Board will approve any additional contract duties. The example of the two individuals described in your report was not intended to be a contract with MSRS since they were employees of Great-West, nor did we intend to hire them as MSRS employees. We did request of Great-West that they be assigned to the MNDCP account during our transition period through March 2005 due to their valuable years of experience. In the future, we will prepare a formalized document regarding any additional duties.

3. **MSRS did not comply with state contracting requirements for professional technical services.**

Recommendation: MSRS should follow a competitive process when selecting professional technical services consultants.

MSRS does follow the competitive process when selecting professional service consultants. This is the first instance when MSRS did not follow a competitive process to extend an existing contract. The particular consultant you addressed was under an approved contract to perform duties for MSRS when the decision was made to ask him to perform critical duties related to handling the transition of the MNDCP to MSRS. The financial terms of his most recent contract carried over into the additional duties.

During the middle of implementing the MNDCP transition, we could not afford the time or business risk of starting an RFP process that would have taken four to five months to complete. MSRS was involved in the most significant changes of the transition since we implemented our new IP phone system, improved virus protection and computer security, developed a new data base, and initiated transactional capabilities with Great-West, the MNDCP record keeper.

As we have done in the past for all but this one contract, MSRS will comply with the competitive process when selecting professional technical services consultants.

Recommendation: The MSRS board of directors should establish procedures for its review and authorization of consulting service contracts. The board may wish to specify varying levels of oversight depending on the dollar value of the contracts. All consulting services agreements should be written.

At the Board's May meeting, we will consider procedures for review and authorization of consulting service contracts and all agreements will be documented.

4. **MSRS did not actively monitor employee access to participant data maintained on the third-party administrator's computer systems.**

Recommendation: MSRS should implement procedures to document authorizations and changes to access its computer systems.

MSRS has already strengthened its oversight of its authorizations and changes to access computer systems. During the transition period, two employees were inadvertently given access to participant data maintained on Great-West's computer systems. As your report indicates, only one employee completed a future allocation request at the direction of an MSRS assistant director. Prior to that requested transaction, the two employees had no knowledge of their access and they did not transact any business under the access. We immediately requested Great-West to remove the access and verify that there were no other transactions.

To this point, we have been notifying Great-West of access changes by e-mail or by phone. We now have developed a form to authorize access changes.

Recommendation: MSRS should periodically review all security clearances to ensure that only authorized individuals have appropriate levels of access to the deferred compensation plan data.

MSRS currently reviews all its security clearances and we have appointed an MSRS staff to review security clearances of MSRS and Great-West employees on a quarterly basis.

Again, we are pleased that the audit did not find that any MSRS staff was involved in any financial wrongdoings and that you found no evidence that MSRS was engaged in selling deferred compensation plan products other than the MNDCP. We will implement all of the report's recommendations to further strengthen the integrity of the plan.

This integration of MSRS and the MNDCP was a major undertaking, and the staff and Board attempted to anticipate all facets and potential roadblocks of the transition. It was important to maintain a seamless transition of the funds and services for the benefit of the participants. The MSRS Board is committed to providing an excellent, cost-effective deferred compensation plan to all participants.

We appreciate your staff's review and suggestions, and if you have any questions or further concerns about the information, please contact us at (651) 284-7888.

Sincerely,

/s/ Mary Benner

Mary Benner, Chair
MSRS Board of Directors

/s/ David Bergstrom

David Bergstrom
MSRS Executive Director