



FINANCIAL AUDIT DIVISION REPORT

Teachers Retirement Association

Financial Statement Audit

Year Ended June 30, 2011

February 2, 2012

Report 12-02

FINANCIAL AUDIT DIVISION

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OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

February 2, 2012

Representative Michael Beard, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Members of the Teachers Retirement Association Board of Trustees

Ms. Laurie Hacking, Executive Director
Teachers Retirement Association of Minnesota

In auditing the Teachers Retirement Association's basic financial statements for the year ended June 30, 2011, we considered internal controls over financial reporting. We also tested compliance with significant legal provisions impacting the basic financial statements. We did not identify any instances of noncompliance with legal provisions material to the financial statements. This report contains our finding and recommendation on internal controls over financial reporting. However, given the limited nature of our audit work, we do not express an overall opinion on the effectiveness of the Teachers Retirement Association's internal controls or compliance. In addition, our work may not have identified all significant control deficiencies or instances of noncompliance with legal requirements.

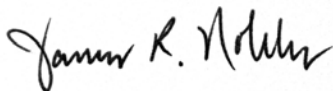
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. This report meets the audit standard requirements of the American Institute of Certified Public Accountants and the Government Accountability Office to communicate internal control matters identified in a financial statement audit. The audit was conducted by Jim Riebe, CPA, (audit manager), Carl Otto, CPA, (audit coordinator), Lindsay Tietze, CPA, (auditor-in-charge), and assisted by Reidar Gullicksrud, CPA (auditor).

Our audit opinion on the financial statements was included in the association's annual financial report. Access to the report is available at the following web site:
<http://www.minnesotatra.org/FORMSPUB/2011annualrpt.html>.

We did not identify any deficiencies in internal controls over financial reporting that we consider to be material weaknesses. A material weakness is a deficiency, or combination of deficiencies, in internal controls such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. The issue described in Finding 1 did not have a direct or material effect on the financial statements; however, it addresses noncompliance with state statutes.

We discussed the results of the audit with the Teachers Retirement Association at the completion of the audit. Management's response to our finding and recommendation is presented in the accompanying section of this report titled, *Agency Response*. We did not audit the response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Teachers Retirement Association's management and the Legislative Audit Commission and is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit the distribution of this report, which was released as a public document on February 2, 2012.



James R. Nobles
Legislative Auditor



Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

End of Fieldwork: December 16, 2011

Report Signed On: January 31, 2012

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Report Summary

Conclusion

The Teachers Retirement Association's (TRA) financial statements for the year ended June 30, 2011, were fairly presented in all material respects.

TRA resolved one prior audit finding by accurately reporting derivative investment risks in the footnotes to the financial statements.¹ However, as noted below, TRA had not fully resolved a prior finding.

Finding

- Prior Audit Finding Partially Resolved: TRA did not receive the correct amount of direct appropriation aid contributions from the City of Minneapolis. ([Finding 1, page 3](#))

Audit Objectives and Scope

Audit Objectives:

- To audit TRA's basic financial statements for the fiscal year ended June 30, 2011.
- To report on TRA's internal controls and compliance over financial reporting.
- To follow up on the status of prior audit findings.

Audit Scope:

- Cash and Investments
- Contributions and Investment Income
- Benefit Payments

¹ Office of the Legislative Auditor's Financial Audit Division Report 11-03, *Teachers Retirement Association*, issued February 18, 2011.

Finding and Recommendation

Prior Finding Partially Resolved:² TRA did not receive the correct amount of direct appropriation aid contributions from the City of Minneapolis.

Finding 1

TRA did not collect the correct amount of payments from the City of Minneapolis, as required by two state statutes.³ One statute governs the reallocation of amortization or supplementary amortization of state aid for unfunded actuarial liabilities of local police and fire fighters relief associations. The other statute pertains to the merger of the Minneapolis Teachers Retirement Fund into the state retirement fund. Despite TRA's efforts to achieve statutory compliance, TRA and the City of Minneapolis continued to interpret the statutes differently. TRA believes, and the statutes require, that the City of Minneapolis should remit \$2.25 million annually while the city believes that only the money collected through a tax levy should be remitted to TRA, regardless of whether the collected amount is less than \$2.25 million.

For the fiscal year ending June 30, 2011, the City of Minneapolis underpaid its direct aids by \$6,854. However, the cumulative amount in dispute, based on TRA's records, is \$733,924; \$666,212 pertains to the reallocation of state aid dating back to 1998 and \$67,712 pertains to payments related to the merger since 2006. TRA's management continued to work with the City of Minneapolis in 2011 to resolve the issue and plans to work with the Legislature to introduce an administrative bill in 2012 to clarify the statutes.

Recommendation

- *TRA should resolve the conflicting interpretation of Minnesota Statutes to ensure that it collects the correct amount from the City of Minneapolis and reaches agreement on a settlement of the past due amount.*

² Office of the Legislative Auditor's Financial Audit Division Report 11-03, *Teachers Retirement Association*, issued February 18, 2011.

³ *Minnesota Statutes* 2011, 354A.12, subd. 3(b), and *Minnesota Statutes* 2011, 423A.02 subd.3(c).



January 30, 2012

Mr. James R. Nobles
Legislative Auditor
Room 140 Centennial Building
658 Cedar Street
Saint Paul, MN 55155-1603

Dear Mr. Nobles:

Thank you for the opportunity to review and respond to your report on TRA's internal controls over financial reporting.

Finding #1- Prior Finding Partially Resolved: TRA did not receive the correct amount of direct appropriation aid contributions from the City of Minneapolis.

Recommendation:

TRA should resolve the conflicting interpretation of Minnesota Statutes to ensure that it collects the correct amount from the City of Minneapolis and reaches agreement on a settlement of past due amounts.

TRA Response:

On January 27, 2012, the City of Minneapolis Board of Estimate and Taxation proposed actions to resolve the issue and pay the existing contribution deficiency. TRA is currently responding to them with our calculation of the past due contribution amounts. In recent months, TRA has also worked with the staff of the Legislative Commission on Pensions and Retirement (LCPR) to draft legislative options to resolve the statutory conflict that caused this issue. We are preparing to testify on the matter before the LCPR during the 2012 session.

Thank you for the opportunity to respond to your report and the professionalism of your staff during the performance of the audit. Please contact me if you have further questions.

Sincerely,

Laurie Fiori Hacking
Executive Director