

**MINNESOTA STATE RETIREMENT SYSTEM
FINANCIAL AND COMPLIANCE AUDIT
FOR THE YEAR ENDED JUNE 30, 1985**

JANUARY 1986

**Financial Audit Division
Office of the Legislative Auditor
State of Minnesota**



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator Randolph W. Peterson, Chairman
Legislative Audit Commission

Members of the Legislative Audit Commission

and

Mr. Paul L. Groschen, Executive Director
Minnesota State Retirement System

Audit Scope

We have completed a financial and compliance audit of the Minnesota State Retirement System for the year ended June 30, 1985. The audit also included a review of selected transactions from the prior two fiscal years. Our audit was made in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in the U.S. General Accounting Office Standards for Audit of Governmental Organizations, Programs, Activities, and Functions, and accordingly, included such audit procedures as we considered necessary in the circumstances. Field work was completed on November 27, 1985.

The objectives of the audit were to:

- express an opinion on the financial statements of the Minnesota State Retirement System (MSRS) for the year ended June 30, 1985;
- study and evaluate major MSRS internal control systems, including a review of annuity payments and other withdrawals, receipts including contributions, payroll, administrative disbursements, fixed assets, and imprest cash; and
- verify that financial transactions were made in accordance with applicable laws, regulations, and policies, including Minnesota Statute Chapters 352, 352B, 352C, 352D, and 356, and other finance-related laws and regulations.

The management of MSRS is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly.

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Because of inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

The management of MSRS is also responsible for the agency's compliance with laws and regulations. In connection with our audit, we selected and tested transactions and records from the programs administered by MSRS. The purpose of our testing of transactions was to obtain reasonable assurance that MSRS had, in all material respects, administered their programs in compliance with applicable laws and regulations.

Conclusions

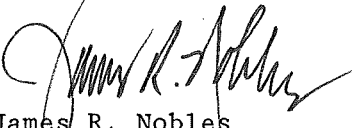
We have issued an unqualified opinion on the MSRS financial statements for the year ended June 30, 1985. Our audit opinion, dated November 27, 1985, is included within the 1985 MSRS Comprehensive Annual Report.

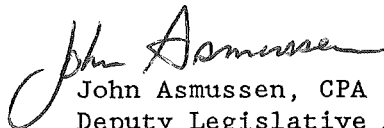
In our opinion, except for the issues raised in Section I, recommendations 1-2, the MSRS system of internal accounting control in effect on June 30, 1985, taken as a whole, was sufficient to provide management with reasonable, but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly.

In our opinion, for the year ended June 30, 1985, MSRS administered its' programs in compliance, in all material respects, with applicable finance-related laws and regulations.

Section I of this audit report contains the recommendations we developed during this audit. They are presented to assist you in improving accounting procedures and controls. Progress on implementing these recommendations will be reviewed during our audit next year.

We would like to thank the Minnesota State Retirement System staff for the cooperation extended to us during this audit.


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

January 9, 1986

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AUDIT PARTICIPATION

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

| | |
|--------------------|----------------------------|
| John Asmussen, CPA | Deputy Legislative Auditor |
| Jeanine Leifeld | Audit Manager |
| Jerry McCallson | Auditor-in-Charge |
| Pat Ryan | Staff Auditor |
| Mary Lentsch | Staff Auditor |

An exit conference was held with the following MSRS staff on December 30, 1985:

Paul Groschen, Executive Director
Arvin Herman, Assistant Director for Finance and Systems
Gerry Rushenburg, Accounting Division Manager

MINNESOTA STATE RETIREMENT SYSTEM

I. CURRENT AUDIT FINDINGS AND RECOMMENDATIONS

Controls over accounting for the deferred compensation plan at MSRS should be improved by performing certain reconciliations.

The deferred compensation plan was set up at MSRS under Minn. Stat. Section 352.96. This plan allows state employees and employees of political subdivisions to defer taxes on part of their compensation until their money is withdrawn. Participating employees have various investment options, including the option to purchase shares in the Minnesota Supplemental Retirement Investment ("Supplemental") Fund. The market value of deferred compensation shares within the Supplemental Fund as of June 30, 1985 was \$88,053,576.

The MSRS general ledger maintains the control total of shares invested within the Supplemental Fund. A separate computer system accounts for the number of shares purchased or withdrawn by individual participants. Currently, there is no reconciliation of total number of shares posted to the individual participants' accounts to total shares invested in the Supplemental Fund.

Due to programming changes made to the investment withdrawal system over several years, the cumulative share totals generated by the system are not accurate. Since these system-generated totals could not be relied upon, share reconciliations have not been done. In response to this problem, MSRS is working to provide accurate cumulative share data from the investment withdrawal system.

Preliminary share totals show that, as of June 30, 1985, MSRS had more actual shares invested in the Supplemental Fund than the total of individual participants' shares according to the investment withdrawal system. MSRS is currently working to resolve the discrepancy between the subsidiary and control accounts. They also are implementing a new system for monitoring deferred compensation shares owned by individual participants.

It is important that the current discrepancy between the subsidiary and control accounts be resolved before a new system begins. Monthly reconciliations of individual participants' shares to control totals should begin immediately. These reconciliations are important to assure that all participants are properly credited for contributions made. They are also important to detect errors in posting to individual member accounts.

RECOMMENDATIONS:

1. *MSRS staff should investigate the discrepancies between the number of shares credited to individual participants' accounts per the investment withdrawal system and the actual number of shares on hand in the Supplemental Fund. Corrections to individual participants' accounts should be made, if necessary.*
2. *MSRS staff should perform monthly reconciliations of shares on hand in individual participants' accounts per the investment withdrawal system to the actual number of shares on hand in the Supplemental Fund.*



MINNESOTA STATE RETIREMENT SYSTEM

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No. January 9, 1986

Mr. James R. Nobles
Legislative Auditor
Veterans Service Building
First Floor, West Wing
St. Paul, MN 55155

Dear Mr. Nobles:

This is in response to the recommendations in your management letter for the fiscal year 1985 audit.

The reconciliation process has been difficult due to the limitations and inflexibility of the current Investment/Withdrawal system. We have developed a process using the statistical analysis system (SAS) which summarizes the detail separate from the existing programs. This process will be used to resolve the small discrepancy in total account shares before June 30, 1986. Monthly reconciliations of current transactions have already been implemented using SAS.

We are currently developing a new Investment/Withdrawal system which will be part of our overall data base. Conversion is scheduled for July 1, 1986. The new system will ease the administrative and accounting process of our defined contribution plans.

We appreciate the professional manner in which the audit was conducted and the guidance that is offered.

Sincerely,

Paul L. Groschen
Paul L. Groschen
Executive Director

PLG:jb