

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION  
FINANCIAL AUDIT  
FOR THE YEAR ENDED JUNE 30, 1991**

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**FEBRUARY 1992**

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



# SUMMARY

State of Minnesota  
Office of the Legislative Auditor  
Centennial Office Building • St. Paul, MN 55155  
612/296-4708

## **PUBLIC EMPLOYEES RETIREMENT ASSOCIATION**

### **FINANCIAL AUDIT FOR THE YEAR ENDED JUNE 30, 1991**

Public Release Date: February 7, 1992

No. 92-11

#### **OBJECTIVES:**

- EXAMINE THE ASSOCIATION'S FINANCIAL STATEMENTS.
- EVALUATE INTERNAL CONTROL STRUCTURE: Employee and employer contributions, annuity payments, Police and Fire Fund consolidations.
- TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.

#### **CONCLUSIONS:**

We issued an unqualified opinion on the association's financial statements.

We found one area where the internal control structure needed improvement.

- The Public Employees Retirement Association computer system access controls need improvement.

We found no departures from finance-related legal provisions.

Contact the Financial Audit Division for additional information.  
(612) 296-1730





STATE OF MINNESOTA

**OFFICE OF THE LEGISLATIVE AUDITOR**

CENTENNIAL BUILDING, ST. PAUL, MN 55155 • 612/296-4708

JAMES R. NOBLES, LEGISLATIVE AUDITOR

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Representative Ann Rest, Chair  
Legislative Audit Commission

Members of the Legislative Audit Commission

George Cicmil, Board of Trustees  
Public Employees Retirement Association

Ms. Laurie Fiori Hacking, Executive Director  
Public Employees Retirement Association

## **Audit Scope**

We have audited the financial statements of the Public Employees Retirement Association for the year ended June 30, 1991, and issued our report thereon dated November 29, 1991. We have also made a study and evaluation of the internal control structure of the Public Employees Retirement Association in effect at June 30, 1991.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial activities attributable to the transactions of the Public Employees Retirement Association are free of material misstatements.

As part of our examination of the financial statements and our study and evaluation of the internal control structure, we performed tests of Public Employee Retirement Association's compliance with certain provisions of laws, regulations, and contracts. However, our objective was not to provide an opinion on overall compliance with such provisions.

## **Management Responsibilities**

The management of the Public Employees Retirement Association is responsible for establishing and maintaining an internal control structure. This responsibility includes compliance with applicable laws, regulations, and contracts. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- assets are safeguarded against loss from unauthorized use or disposition;
- transactions are executed in accordance with applicable legal and regulatory provisions, as well as management's authorization; and
- transactions are recorded properly on the Public Employees Retirement Association's records.

Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

### **Internal Accounting Control Structure**

For purposes of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- employee and employer contributions;
- annuity payments; and
- Police and Fire Fund consolidations.

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

### **Conclusions**

Our study and evaluation disclosed the condition discussed in finding 1 involving the internal control structure of the Public Employees Retirement Association. We consider this condition to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data.

A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial activities being audited may occur and not be detected within a timely period by employees in

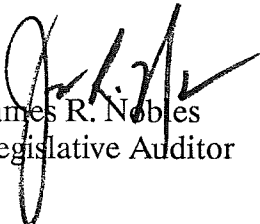
Representative Ann Rest, Chair  
Members of the Legislative Audit Commission  
George Cicmil, Board of Trustees  
Ms. Laurie Fiori Hacking, Executive Director  
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the normal course of performing their assigned functions. We believe the reportable condition described above is not a material weakness.

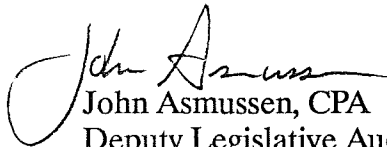
The results of our tests indicate that, with respect to the items tested, the Public Employees Retirement Association complied, in all material respects, with the provisions referred to in the audit scope paragraphs. With respect to items not tested, nothing came to our attention that caused us to believe that the Public Employees Retirement Association has not complied, in all material respects, with those provisions.

This report is intended for the information of the Legislative Audit Commission and management of the Public Employees Retirement Association. This restriction is not intended to limit the distribution of this report, which was released as a public document on February 7, 1992.

We would like to thank the staff of the Public Employees Retirement Association for their cooperation during this audit.



James R. Nobles  
Legislative Auditor



John Asmussen, CPA  
Deputy Legislative Auditor

End of Fieldwork: November 29, 1991

Report Signed On: January 31, 1992





# Public Employees Retirement Association

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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
Claudia Gudvangen, CPA	Audit Manager
David Poliseno, CPA	Auditor-In-Charge
Janet Knox, CPA	Staff Auditor
Dale Ogren	Intern

### Exit Conference

The finding and recommendations in this report were discussed with the following staff of the Public Employees Retirement Association on January 17, 1992:

Laurie Fiori Hacking	Executive Director
Diane Rognrud	Manager of Data Processing
J. Stoffel	Manager of Finance
Gary Hovland	Accounting Supervisor



# Public Employees Retirement Association

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## Introduction

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The Minnesota Public Employees Retirement Association (PERA) administers pension funds that serve approximately 160,000 public employees, their survivors and dependents. Approximately 2,250 separate units of government in Minnesota participate in the retirement system. These units include counties, cities, townships and school districts. The association provides a variety of retirement annuities, and survivor and disability benefits.

The PERA Board of Trustees is responsible for administering the pension funds in accordance with Minnesota Statutes and has a fiduciary obligation to PERA's members, the governmental employer units, the state and its taxpayers. The Board is composed of nine members. The State Auditor is a member by statute. Five members who are appointed by the governor serve four-year terms and represent cities, counties, school boards, retired annuitants and the general public, respectively. The remaining three board members are elected by the PERA active membership.

The board appoints an executive director to serve as chief administrative officer of PERA. With approval of the board, the director develops the annual administrative budget, determines staffing requirements, contracts for actuarial and other services, and directs the day-to-day operations of the association. The director also serves as a member of the State Investment Advisory Council, which advises the State Board of Investment on the management and investment of pension funds and other assets. James Hacking resigned as executive director effective August 15, 1990. Mary Most Vanek served as acting executive director until January 27, 1991. Laurie Fiori Hacking was appointed executive director effective January 28, 1991.

The following schedule shows financial activity (in thousands) for the major funds administered by PERA.

	Public Employees Retirement Fund	Police and Fire Fund	Police and Fire Consolidation Fund
<b>Operating Revenues:</b>			
Member Contributions	\$ 94,413	\$ 17,636	\$ 1,065
Employer Contributions	101,907	26,440	9,847
Investment Income	292,847	61,908	10,715
Other	<u>1,040</u>	<u>43</u>	<u>3</u>
Total Operating Revenue	<u>\$490,207</u>	<u>\$107,533</u>	<u>\$21,630</u>
<b>Operating Expenses:</b>			
Benefits	\$198,325	\$ 19,672	\$ 7,624
Other	<u>17,968</u>	<u>3,804</u>	<u>516</u>
Total Operating Expenses	<u>\$216,293</u>	<u>\$23,476</u>	<u>\$ 8,140</u>

Source: PERA Annual Report.

## Public Employees Retirement Association

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### Current Finding and Recommendations

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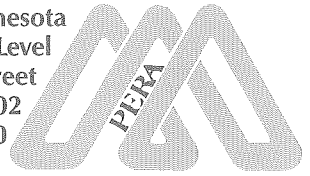
#### 1. The Public Employees Retirement Association computer system access controls need improvement.

PERA's computer security package does not sufficiently limit computer system access. PERA employs approximately 65 employees, most of whom have access to the system through personal computers at their work stations. Employees may access classified data or process transactions, including benefit payments and membership information. The data processing division controls clearance to the various applications by issuing user ID numbers and passwords to authorized employees. The data processing division works with other division supervisors to update the security files for employees. The association uses the security features that were provided with their operating system. The software contains some features typically used to control access to computer systems. One of those features, requiring users to change passwords at designated intervals, is not used by PERA. In addition, the system does not generate security violation reports to detect unauthorized access attempts or automatically log users off the system after a certain length of inactivity. The current security software used by PERA does not provide for these options. The lack of access controls increases the risk that errors or irregularities could occur and not be prevented or detected. The weaknesses compromise the integrity of the data by not controlling access.

The association does not promptly suspend or terminate Logon IDs for users on extended leaves of absence or those who terminate employment. The data processing division controls clearance to the various applications that run on the system by issuing user ID numbers and passwords to authorized employees. The data processing division works with the other division supervisors to update the security files for new operators and cancel employees who transfer or terminate employment. Logon ID's and passwords remain active on the system during leaves of absence. Also, during our audit we noted one employee who terminated employment on August 1, 1991, but his Logon ID and password were not deleted for three weeks. During this time, his supervisor used the terminated employee's Logon ID and password in addition to his own. The prompt suspension and deletion of Logon IDs and passwords prevents unauthorized access to the system.

#### *Recommendations*

- *PERA should institute sufficient computer access controls to properly secure user ID numbers and passwords.*
- *PERA should promptly suspend or terminate Logon IDs when they are no longer required by the user. Each user should be assigned a unique Logon ID and password.*



January 30, 1992

Mr. James R. Nobles  
Legislative Auditor  
Centennial Building  
First Floor South  
St. Paul, MN 55155

Dear Mr. Nobles:

We have reviewed the Legislative Auditor's comments and recommendations resulting from the audit of PERA for the year ended June 30, 1991. Our responses to the recommendations are as follows:

1. To minimize the possibility that transaction errors or irregularities could occur and go undetected, PERA has built into its systems and processes comprehensive transaction balancing, auditing, and data verification procedures which past audit findings reported were sufficient and reliable internal controls.

To further expand our internal controls, by June 30, 1992, PERA management staff will review positions responsible for accessing and processing critical transaction data and implement ID number and password controls to minimize unauthorized computer access. Additionally, PERA has acquired and will be using more advanced computer software products that will enable us to provide better computer access security as we redesign systems over the next several years.

2. Action has been taken to ensure prompt suspension or termination of Logon IDs when they are no longer required by the user.

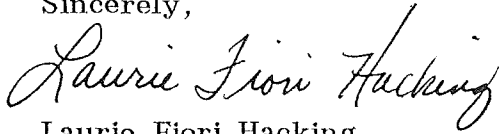
Diane Rognrud, PERA's Manager of Data Processing, will be responsible for implementing these recommendations.

It is our understanding that the Department of Administration, Information Policy Office (IPO), is currently working on developing a state policy and identifying standards for computer security so state agencies will have guidance as to the types and level of control they should institute to protect their information systems. Once IPO's recommendations are available to us and once we have had an opportunity

to review them, we will establish necessary policies and procedures to ensure PERA is in compliance.

Thank you for the opportunity to respond to your recommendations.

Sincerely,

A handwritten signature in cursive script that reads "Laurie Fiori Hacking". The signature is written in dark ink and is positioned above the printed name.

Laurie Fiori Hacking  
Executive Director

LFH/sak