

**MINNESOTA STATE RETIREMENT SYSTEM
FINANCIAL AUDIT
FOR THE YEAR ENDED JUNE 30, 1992**

FEBRUARY 1993

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

93-04

MINNESOTA STATE RETIREMENT SYSTEM

FINANCIAL AUDIT FOR THE YEAR ENDED JUNE 30, 1992

Public Release Date: February 25, 1993

No. 93-04

OBJECTIVES:

- EXAMINE THE SYSTEM'S FINANCIAL STATEMENTS.
- EVALUATE INTERNAL CONTROL STRUCTURE: employer and employee contributions, defined benefit annuities, and defined contribution and deferred compensation refunds and withdrawals.

CONCLUSIONS:

We issued an unqualified opinion on the financial statements which are published in the system's annual report.

We found the internal control structure to be effective.

We found no departures from finance-related legal provisions.

Contact the Financial Audit Division for additional information
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JAMES R. NOBLES, LEGISLATIVE AUDITOR

Representative Ann Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Francis Marshall, Board Chairman
Minnesota State Retirement System

Members of the Board of Directors
Minnesota State Retirement System

David Bergstrom, Executive Director
Minnesota State Retirement System

Audit Scope

We have audited the financial statements of the Minnesota State Retirement System (MSRS) as of and for the year ended June 30, 1992, and issued our report thereon dated November 20, 1992. We have also made a study and evaluation of the internal control structure of MSRS in effect during June 1992.

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 MSRS 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 the Minnesota State Retirement System's compliance with certain provisions of laws, regulations, contracts, and grants. However, our objective was not to provide an opinion on overall compliance with such provisions.

Management Responsibilities

The management of MSRS is responsible for establishing and maintaining an internal control structure. This responsibility includes compliance with applicable laws, regulations, contracts, and grants. 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:

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- 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 statewide accounting system in accordance with Department of Finance policies and procedures.

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 Control Structure

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

- employer and employee contributions,
- defined benefit annuities, and
- defined contribution and deferred compensation refunds and withdrawals.

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

In our opinion, the internal control structure of the Minnesota State Retirement System in effect as of June 1992, taken as a whole, was sufficient to meet the objectives stated above insofar as those objectives pertain to the prevention or detection of errors or irregularities in the amounts that would be material in relation to the financial transactions of the Minnesota State Retirement System.

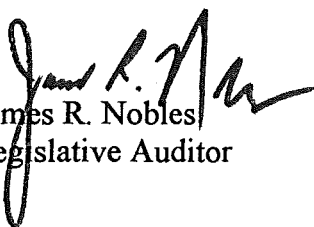
However, we noted certain matters involving the internal control structure and its operation that we reported to the management of the Minnesota State Retirement System at the exit conference held on December 10, 1992.

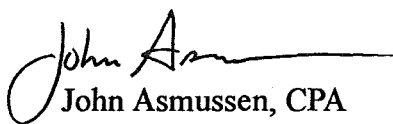
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The results of our tests indicate that, with respect to the items tested, the Minnesota State Retirement System complied, in all material respects, with the provisions referred to in the audit scope paragraphs. With respect to items not tested, nothing came to our attention that caused us to believe that the Minnesota State Retirement System had 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 Minnesota State Retirement System. This restriction is not intended to limit the distribution of this report, which was released as a public document on February 25, 1993.

We would like to thank the MSRS staff for their cooperation during this audit.


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: November 20, 1992

Report Signed On: February 19, 1993

Minnesota State Retirement System

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Audit Participation

The following members of the Office of the Legislative Auditor participated in this audit:

John Asmussen, CPA	Deputy Legislative Auditor
Jeanine Leifeld, CPA	Audit Manager
Carl Otto, CPA	Auditor-in-Charge
Pat Ryan	Senior Auditor
Judy Hunt, CPA	Staff Auditor

Exit Conference

An exit conference was held with the following MSRS staff on December 10, 1992:

David Bergstrom	Executive Director
Arvin Herman	Assistant Director for Finance and Systems
Dennis Jensen	Accounting Director

Minnesota State Retirement System

Background

The Minnesota State Retirement System (MSRS) administers retirement programs for state employees, correctional employees, unclassified employees, state troopers, legislators, elective state officers, and judges. The system provides income for covered employees or their beneficiaries upon retirement, disability, or death. MSRS also administers a deferred compensation plan available to all Minnesota public employees and officials.

The policy-making function for MSRS is vested in a board of directors, consisting of 11 members. The board consists of three members appointed by the governor, four state employees elected by state employees covered by the system, one employee of the Metropolitan Transit Commission, one member of the state patrol retirement plan, one employee covered by the correctional employees plan, and one retired employee. Paul Groschen served as executive director until his retirement in September 1991. The board appointed David Bergstrom as the new executive director effective March 11, 1992.

The Unclassified Retirement Fund, a Defined Contribution Plan, had a net fund balance addition of \$9,522,000 during fiscal year 1992, increasing to \$92,617,000 as of June 30, 1992.

The Deferred Compensation Fund is reported as an Agency Fund pursuant to generally accepted governmental accounting principles. Total assets of the Deferred Compensation Fund increased \$121,551,000 during fiscal year 1992. Total assets of the plan as of June 30, 1992 were \$708,823,000.

The following schedule shows fiscal year 1992 financial activity for the defined benefit fund type administered by MSRS.

<u>Operating Revenues:</u>	<u>Defined Benefit Plans</u>
Member Contributions	\$ 65,217,000
Employer Contributions	72,525,000
Investment Income	340,848,000
Other	<u>20,000</u>
Total Operating Revenue	<u>\$478,610,000</u>
<u>Operating Expenses</u>	
Annuities	\$114,596,000
Other	<u>13,719,000</u>
Total Operating Expenses	<u>\$128,315,000</u>

Source: Financial information included within the 1992 audited MSRS Annual Financial Report.