

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION
FINANCIAL AUDIT
FOR THE YEAR ENDED JUNE 30, 1992**

FEBRUARY 1993

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

93-05

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

FINANCIAL AUDIT FOR THE YEAR ENDED JUNE 30, 1992

Public Release Date: February 25, 1993

No. 93-05

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.

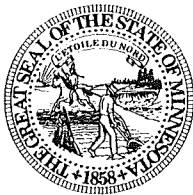
CONCLUSIONS:

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

We found the internal control structure to be effective.

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

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JAMES R. NOBLES, LEGISLATIVE AUDITOR

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Members of the Legislative Audit Commission

George Cicmil, Chair, Board of Trustees
Public Employees Retirement Association

Members of the Board of Trustees
Public Employees Retirement Association

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, 1992, and issued our report thereon dated November 25, 1992. We have also made a study and evaluation of the internal control structure of the Public Employees Retirement Association 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 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 the 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

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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 statewide accounting system and 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;
- Police and Fire Fund consolidations; and
- payroll.

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

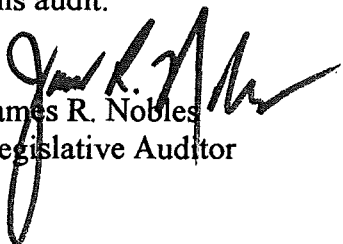
In our opinion, the internal control structure of the Public Employees Retirement Association in effect as of June 1992, taken as a whole, was sufficient to meet the objectives stated above insofar as those objectives pertain to the prevention or detection of errors or irregularities in amounts that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

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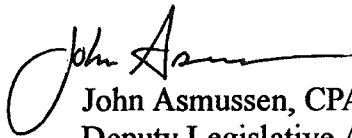
The results of our tests indicate that, with respect to the items tested, the Public Employees Retirement Association complied, in all material respects, with the provisions referred to in the audit scope paragraphs. With respect to items not tested, nothing came to our attention that caused us to believe that the Public Employees Retirement Association 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 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 25, 1993.

We thank the Public Employees Retirement Association staff for their cooperation during this audit.



James R. Nobles
Legislative Auditor



John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: November 25, 1992

Report Signed On: February 19, 1993

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
Carrie Brown	Staff Auditor

Exit Conference

An exit conference with the following staff of the Public Employees Retirement Association was held on December 11, 1992:

Laurie Fiori Hacking	Executive Director
Gary Hovland	Accounting Officer

Public Employees Retirement Association

Background

The Minnesota Public Employees Retirement Association (PERA) administers pension funds that serve approximately 165,000 public employees, their survivors and dependents. Approximately 2,000 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 ten members. The State Auditor is a member by statute. Six members who are appointed by the governor serve four-year terms and represent cities, counties, school boards, retired annuitants, police and fire members, 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. Laurie Fiori Hacking is the executive director for PERA.

The following schedule shows fiscal year 1992 financial activity for the major funds administered by PERA.

	Public Employees Retirement Fund	Police and Fire Fund	Police and Fire Consolidation Fund
<u>Operating Revenues:</u>			
Member Contributions	\$101,655,000	\$ 19,217,000	\$ 1,330,000
Employer Contributions	109,203,000	28,766,000	8,726,000
Investment Income	432,734,000	116,528,000	18,521,000
Other	<u>1,347,000</u>	<u>1,933,000</u>	<u>52,000</u>
Total Operating Revenue	<u>\$644,939,000</u>	<u>\$166,444,000</u>	<u>\$28,629,000</u>
<u>Operating Expenses:</u>			
Benefits	\$216,953,000	\$ 22,164,000	\$10,157,000
Other	<u>18,934,000</u>	<u>3,839,000</u>	<u>392,000</u>
Total Operating Expenses	<u>\$235,887,000</u>	<u>\$ 26,003,000</u>	<u>\$10,549,000</u>

Source: 1992 PERA audited financial statements.