

TEACHERS RETIREMENT ASSOCIATION
FINANCIAL AUDIT
FOR THE YEAR ENDED JUNE 30, 1993

JANUARY 1994

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

94-03

TEACHERS RETIREMENT ASSOCIATION

FINANCIAL AUDIT FOR THE YEAR ENDED JUNE 30, 1993

Public Release Date: January 21, 1994

No. 94-03

OBJECTIVES:

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

CONCLUSIONS:

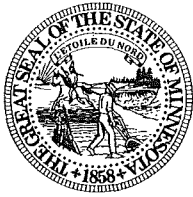
We issued an unqualified opinion on the association's financial statements.

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.
296-1730

FINANCIAL AUDIT DIVISION



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator Phil Riveness, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Vernell R. Jackels, President
Teachers Retirement Association Board of Trustees

Members of the Board of Trustees
Teachers Retirement Association

Mr. Gary Austin, Executive Director
Teachers Retirement Association

Audit Scope

We have audited the financial statements of the Teachers Retirement Association for the year ended June 30, 1993, and issued our report thereon dated November 19, 1993. We have also made a study and evaluation of the internal control structure of the Teachers Retirement Association in effect at June 30, 1993.

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 Teachers 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 Teachers 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 Teachers 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:

Senator Phil Riveness, Chair
Members of the Legislative Audit Commission
Mr. Vernell R. Jackels, President
Members of the Board of Trustees
Mr. Gary Austin, Executive Director
Page 2

- 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 Teachers 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 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; and,
- annuity payments.

For 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 Teachers Retirement Association in effect at June 30, 1993, 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 Teachers Retirement Association.

However, we noted certain matters involving the internal control structure and its operation that we reported to the management of the Teachers Retirement Association at the exit conference held on December 21, 1993.

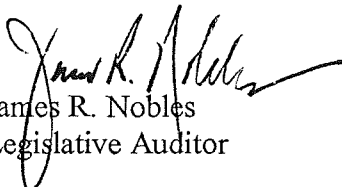
The results of our tests indicate that, with respect to the items tested, the Teachers Retirement Association complied, in all material respects, with the provisions referred to in the audit scope

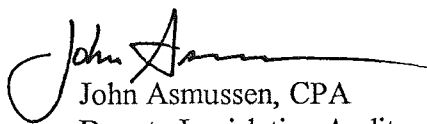
Senator Phil Riveness, Chair
Members of the Legislative Audit Commission
Mr. Vernell R. Jackels, President
Members of the Board of Trustees
Mr. Gary Austin, Executive Director
Page 3

paragraphs. With respect to the items not tested, nothing came to our attention that caused us to believe that the Teachers 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 Teachers Retirement Association. This restriction is not intended to limit the distribution of this report, which was released as a public document on January 21, 1994.

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


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: November 19, 1993

Report Signed On: January 14, 1994

Teachers Retirement Association

Table of Contents

	Page
Background Information	1

Audit Participation

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

John Asmussen, CPA	Deputy Legislative Auditor
Tom Donahue, CPA	Audit Manager
Jean Mellett, CPA	Auditor-in-Charge
Karen Klein	Auditor

Exit Conference

The findings and recommendations in this report were discussed with the following staff of the Teachers Retirement Association on December 21, 1993:

Gary Austin	Executive Director
John Wicklund	Assistant Executive Director
John Gardner	Assistant Executive Director
Frank Merry	Accounting Director

Teachers Retirement Association

Background

The Teachers Retirement Association (TRA) was established on July 1, 1931, by the Minnesota State legislature. It is governed by a board of trustees which manages the Teachers Retirement Fund. The board consists of eight trustees: three ex-officio trustees (the commissioners of Education, Finance, and Commerce); four members elected by the members of the fund; and a retiree elected by the retirees of the fund. The board elects an executive director to serve at its pleasure and manage the association. Mr. Gary Austin is the current executive director.

All teachers employed in Minnesota's public elementary and secondary schools (except those teachers employed by the cities of Minneapolis, St. Paul, and Duluth and by the University of Minnesota) are required to be TRA members. Previously, all state university and community college faculty contributed to the Teachers Retirement Fund; however, recent legislative changes require all new faculty members to contribute to retirement plans administered by the state university board or community college board.

Pension costs of the Teachers Retirement Fund are funded by member and employer contributions collected by TRA and by earnings on investments. Each coordinated or basic member contributes 4.5 percent or 8.5 percent of their salary, respectively. Basic members are not covered by social security. All new members of the fund are automatically considered coordinated members and are covered by social security. Employers, in addition to matching their employee's contribution, pay an additional 3.64 percent of the member's salary for the purpose of amortizing the unfunded liability of the fund. The projected date of full funding is the year 2020.

The following schedule shows fiscal year 1993 financial activity for the Teachers Retirement Fund administered by TRA:

Operating Revenues:

Employer Contributions	\$168,070,511
Member Contributions	94,709,399
Investment Income	688,071,570
Other	<u>2,347,431</u>

Total Operating Revenue \$953,198,911

Operating Expenses:

Benefits	\$256,630,249
Other	<u>13,644,837</u>

Total Operating Expenses \$270,275,086

Source: 1993 audited TRA Statement of Revenues, Expenditures, and Changes in Fund Balance.