

# Minnesota State Retirement System

## Financial Audit

For the Year Ended June 30, 1994

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January 1995

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Financial Audit Division  
Office of the Legislative Auditor  
State of Minnesota

95-02



# SUMMARY

State of Minnesota  
Office of the Legislative Auditor  
Centennial Office Building • St. Paul, MN 55155  
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## Minnesota State Retirement System

### Financial Audit For The Year Ended June 30, 1994

Public Release Date: January 20, 1995

No. 95-02

#### Objectives:

- Examine the system's financial statements.
- Review internal control structure: Employer and employee contributions, defined benefit annuities, and defined contribution and deferred compensation refunds and withdrawals.
- Test compliance with certain finance-related legal provisions.

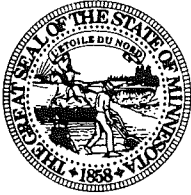
#### Conclusions:

We issued an unqualified opinion on the financial statements which were published in the system's annual report for fiscal year 1994.

We found no weaknesses in the internal control structure.

We found no departures in the system's compliance with finance-related legal provisions.





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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Senator Phil Riveness, Chair  
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Kenneth Yozamp, Board Chair  
Minnesota State Retirement System

Members of the Board of Directors  
Minnesota State Retirement System

Mr. 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, 1994, and issued our report thereon dated November 23, 1994. We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we consider the internal control structure in order to plan our audit, and that we perform tests of the department's compliance with certain material provisions of laws, regulations, contracts and grants. However, our objective was not to provide an opinion on the internal control structure or on overall compliance with finance-related legal provisions.

## **Internal Control Structure**

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

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

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.

Senator Phil Riveness, Chair  
Members of the Legislative Audit Commission  
Mr. Kenneth Yozamp, Board Chair  
Members of the Board of Directors  
Mr. David Bergstrom, Executive Director  
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## **Management Responsibilities**

The management of MSRS is responsible for establishing and maintaining the 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:

- 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 internal control 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.

## **Conclusions**


The internal control structure categories that we examined included: employer and employee contributions, defined benefit annuities, and defined contribution and deferred compensation refunds and withdrawals. We found no weaknesses involving the internal control structure and its operation for these areas, except for certain minor matters that we reported to the management of the Minnesota State Retirement System at the exit conference held on January 9, 1995.

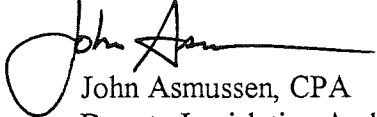
The results of our tests of compliance indicate that, with respect to the items tested, the Minnesota State Retirement System complied, in all material respects, with the provisions referred to in the audit scope paragraphs. With respect to the items not tested, nothing else came to our attention that caused us to believe that the Minnesota State Retirement System had not complied, in all material respects, with those provisions.

Senator Phil Riveness, Chair  
Members of the Legislative Audit Commission  
Mr. Kenneth Yozamp, Board Chair  
Members of the Board of Directors  
Mr. David Bergstrom, Executive Director  
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This report is intended for the information of the Legislative Audit Commission and management of Minnesota State Retirement System. This restriction is not intended to limit the distribution of this report, which was released as a public document on January 20, 1995.

We thank the Minnesota State Retirement System staff for their cooperation during this audit.

  
James R. Nobles  
Legislative Auditor

  
John Asmussen, CPA  
Deputy Legislative Auditor

End of Fieldwork: November 23, 1994

Report Signed On: January 13, 1995





# Minnesota State Retirement System

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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, CPA	Audit Manager
Joan Haskin, CPA	Auditor-in-Charge
Sonya Hill, CPA	Senior Auditor
Steven Johnson	Intern

### Exit Conference

We discussed the results of the audit at an exit conference with the following MSRS staff on January 9, 1995:

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



# Minnesota State Retirement System

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## Background Information

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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. David Bergstrom serves as the executive director of MSRS.

The Unclassified Retirement Fund, a Defined Contribution Plan, had a net fund balance addition of \$3,152,000 during fiscal year 1994, increasing to \$107,276,000 as of June 30, 1994.

The Deferred Compensation Fund is reported as an Agency Fund pursuant to generally accepted government accounting principles. Total assets of the Deferred Compensation Fund increased \$124,869,000 during fiscal year 1994. Total assets of the plan as of June 30, 1994 were \$968,656,000.

The following schedule shows fiscal year 1994 financial activity for the defined benefit fund type administered by MSRS.

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### Minnesota State Retirement System 1994 Financial Activity

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<u>Operating Revenues</u>	<u>Defined Benefit Plans</u>
Member Contributions	\$ 70,284,000
Employer Contributions	74,169,000
Investment Income	350,524,000
Other	3,262,000
Total Operating Revenue	<u>\$498,239,000</u>
<u>Operating Expenses</u>	
Annuities	\$139,721,000
Other	14,787,000
Total Operating Expenses	<u>\$154,508,000</u>

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Source: Financial information included within the 1994 audited MSRS Annual Financial Report.

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