

Minnesota State Retirement System

Financial Audit

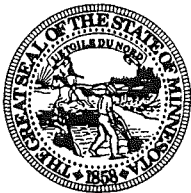
Fiscal Year Ended June 30, 1995

January 1996

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Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

96-1



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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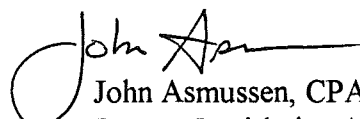
Mr. David Bergstrom, Executive Director
Minnesota State Retirement System

We have audited the financial statements of the Minnesota State Retirement System (MSRS) as of and for the fiscal year ended June 30, 1995, as further explained in the Background Information section of this report. The work conducted at MSRS is part of our Statewide Audit of the State of Minnesota's fiscal year 1995 financial statements. The MSRS Comprehensive Annual Financial Report for the year ended June 30, 1995 includes our unqualified audit opinion thereon, dated November 20, 1995. The following Summary highlights the audit objectives and conclusions.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we obtain an understanding of management controls relevant to the audit. The standards require that we design the audit to provide reasonable assurance that the MSRS complied with provisions of laws, regulations, contracts, and grants that are significant to the audit. The management of the MSRS is responsible for establishing and maintaining the internal control structure and complying with applicable laws, regulations, contracts, and grants.

This report is intended for the information of the Legislative Audit Commission and the 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 January 19, 1996.


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: November 20, 1995

Report Signed On: January 12, 1996

SUMMARY

State of Minnesota

Office of the Legislative Auditor

Centennial Office Building • St. Paul, MN 55155

612/296-4708

Minnesota State Retirement System

Financial Audit Fiscal Year Ended June 30, 1995

Public Release Date: January 19, 1996

No. 96-1

Agency 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. MSRS assets at June 30, 1995 totaled \$5,199,218,000 for all of its retirement plans.

Audit Scope and Conclusions

The primary objective of our audit was to render an opinion on the Minnesota State Retirement System's financial statements. These statements are included both in MSRS's and in the State of Minnesota's Comprehensive Annual Financial Reports for fiscal year 1995. This objective included whether the financial statements presented fairly its financial position, results of operations, and changes in cash flows in conformity with generally accepted accounting principles.

As part of our work, we were required to gain an understanding of the internal control structure and ascertain whether MSRS complied with laws and regulations that may have a material effect on its financial statements. During our audit, we gained an understanding of the cash and investments, contributions, annuities, General Fund appropriations, refunds, investment income, and financial statement preparation control cycles.

The MSRS Comprehensive Annual Financial Report for the year ended June 30, 1995 includes our unqualified audit opinion thereon, dated November 20, 1995. The MSRS financial statements are also a part of the State of Minnesota's Comprehensive Annual Financial Report for the year ended June 30, 1995, which includes our audit opinion dated December 1, 1995. The compliance section of the Minnesota Financial and Compliance Report on Federally Assisted Programs for the year ended June 30, 1995 will include our reports on the internal control structure and compliance with laws and regulations for the state as a whole. We anticipate issuing that report in June 1996.

Contact the Financial Audit Division for additional information.

296-1235

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
Warren Bartz, CPA	Audit Manager
Pat Ryan	Auditor-in-Charge
Laura Puig-White	Auditor
Chad Leiker	Intern

Exit Conference

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

Arvin Herman	Assistant Director of Finance and Systems
Dennis Jensen	Director of Accounting

Minnesota State Retirement System

Background Information

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.

A board of directors provides the policy-making function for MSRS. The board consists of 11 members, including three members appointed by the governor (one of whom must be a constitutional officer or appointed state official), four state employees elected by state employees covered by the system, one employee of the transit operating division of the Metropolitan Council, 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.

MSRS assets at June 30, 1995 totaled \$5,199,218,000 for all of its retirement plans. The following table shows the fiscal year 1995 operating revenues and expenses for the defined benefit and defined contribution plans MSRS administers.

MSRS Revenues and Expenses Fiscal Year 1995

	Defined Benefit Plans	Defined Contribution Plan
Operating Revenues:		
Member Contributions	\$ 70,223,000	\$ 2,945,000
Employer Contributions	78,101,000	4,226,000
General Fund Revenues	4,563,000	0
Investment Income	310,600,000	18,783,000
Other Income	12,000	436,000
Total	<u>\$463,499,000</u>	<u>\$26,390,000</u>
Operating Expenses:		
Annuity Benefits	\$152,343,000	\$ 0
Other	15,434,000	3,099,000
Total	<u>\$167,777,000</u>	<u>\$ 3,099,000</u>

Source: MSRS Comprehensive Annual Financial Report for the year ended June 30, 1995.

MSRS also administers the Deferred Compensation Plan for public employees and officials. MSRS reports the Deferred Compensation Plan as an Agency Fund pursuant to generally accepted government accounting principles. Total assets of the Deferred Compensation Plan increased \$166,348,000 during fiscal year 1995, to a total of \$1,135,044,000 as of June 30, 1995.

Minnesota State Retirement System

During our audit, we gained an understanding of the cash and investments, contributions, annuities, General Fund appropriations, refunds, and investment income control cycles. The State Board of Investment performs a significant portion of the controls over MSRS investments. We review the controls over state investments as part of our annual audit of the State Board of Investment.

The primary objective of our audit was to render an opinion on the Minnesota State Retirement System's financial statements. These statements are included both in MSRS's and in the State of Minnesota's Comprehensive Annual Financial Reports for fiscal year 1995. Our objective included whether the MSRS financial statements presented fairly its financial position, results of operations, and changes in cash flows in conformity with generally accepted accounting principles. As part of our work, we were required to gain an understanding of the internal control structure and ascertain whether MSRS complied with laws and regulations that may have a material effect on its financial statements.

To address our audit objectives, we interviewed key department employees, reviewed applicable policies and procedures, reviewed MSRS's preparation of the financial statements through its general ledger, tested representative samples of financial transactions, and performed analytical procedures, as appropriate. We relied on the annual actuarial valuation performed by the Legislative Commission on Pensions and Retirement's actuary. The purpose of the actuarial valuation is to test how MSRS is achieving its fundamental financing objectives and to determine the actuarial status of its retirement funds.

The MSRS Comprehensive Annual Financial Report for the year ended June 30, 1995 includes our unqualified audit opinion thereon, dated November 20, 1995. The MSRS financial statements are also a part of the State of Minnesota's Comprehensive Annual Financial Report for the year ended June 30, 1995, which includes our audit opinion dated December 1, 1995. The compliance section of the Minnesota Financial and Compliance Report on Federally Assisted Programs for the year ended June 30, 1995 will include our reports on the internal control structure and compliance with laws and regulations for the state as a whole. We anticipate issuing that report in June 1996.