

# **Public Employees Retirement Association**

## **Financial Audit**

**Fiscal Year Ended June 30, 1995**

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**February 1996**

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

**96-5**





STATE OF MINNESOTA

**OFFICE OF THE LEGISLATIVE AUDITOR**

CENTENNIAL BUILDING, 658 CEDAR STREET • ST. PAUL, MN 55155 • 612/296-4708 • TDD RELAY 612/297-5353

JAMES R. NOBLES, LEGISLATIVE AUDITOR

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Representative Ann H. Rest, Chair  
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Richard H. Stafford, President, Board of Trustees  
Public Employees Retirement Association

Ms. Laurie Fiori Hacking, Executive Director  
Public Employees Retirement Association

We have audited the financial statements of the Public Employees Retirement Association (PERA) 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 PERA is part of our Statewide Audit of the State of Minnesota's fiscal year 1995 financial statements. PERA's Comprehensive Annual Financial Report for the year ended June 30, 1995 includes our unqualified audit opinion thereon, dated December 1, 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 also require that we design the audit to provide reasonable assurance that PERA complied with provisions of laws, regulations, contracts, and grants that are significant to the audit. The management of PERA 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 PERA. This restriction is not intended to limit the distribution of this report, which was released as a public document on February 2, 1996.

James R. Nobles  
Legislative Auditor

John Asmussen, CPA  
Deputy Legislative Auditor

End of Fieldwork: December 1, 1995

Report Signed On: January 26, 1996



# SUMMARY

State of Minnesota

Office of the Legislative Auditor

Centennial Office Building • St. Paul, MN 55155  
612/296-4708

## **Public Employees Retirement Association**

Financial Audit

Fiscal Year Ended June 30, 1995

Public Release Date: February 2, 1996

No. 96-5

### **Agency Background**

The Public Employees Retirement Association (PERA) administers pension funds that serve approximately 185,000 county, school, and local public employees, their survivors and dependents. Approximately 2,000 separate Minnesota government units participate in the retirement funds administered by PERA. These units include counties, cities, townships, and school districts.

The association administers three defined benefit funds. These funds provide retirement annuities and survivor and disability benefits to members. The PERA board of trustees is responsible for administering these funds in accordance with state statutes and has a fiduciary obligation to PERA's members, the employers, and the state. PERA also administers a defined contribution plan. PERA assets at June 30, 1995 totaled \$7,114,001,000 for all of its retirement plans.

### **Audit Objectives and Scope**

The primary objective of our audit was to render an opinion on PERA's financial statements. These financial statements are included both in PERA's and in the State of Minnesota's Comprehensive Annual Financial Reports for fiscal year 1995. Our objective included determining whether PERA's 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 PERA complied with laws and regulations that may have a material effect on its financial statements. During our audit we gained an understanding of the contributions, annuities, defined contribution refunds, and the financial statement preparation cycles.

### **Conclusions**

PERA's Comprehensive Annual Financial Report for the year ended June 30, 1995 includes our unqualified audit opinion thereon, dated December 1, 1995. The PERA financial statements are also included in 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 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**



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### **Audit Participation**

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

John Asmussen, CPA  
Jim Riebe, CPA  
Carl Otto, CPA  
Marina Mirman

Deputy Legislative Auditor  
Audit Manager  
Auditor-in-Charge  
Auditor





# Public Employees Retirement Association

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## Background Information

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The Public Employees Retirement Association (PERA) administers pension funds that serve approximately 185,000 county, school, and local public employees, their survivors and dependents. Approximately 2,000 separate Minnesota government units participate in the retirement funds administered by PERA. These units include counties, cities, townships, and school districts.

The association administers three defined benefit funds. These funds provide retirement annuities and survivor and disability benefits to members. The PERA board of trustees is responsible for administering these funds in accordance with state statutes and has a fiduciary obligation to PERA's members, the employers, and the state. PERA also administers a defined contribution plan.

Legislation passed during the 1994 session changed the composition of the Board of Trustees as of January 1, 1995, to include ten members and the State Auditor. The governor appoints five of the members who serve four-year terms. These members represent cities, counties, school boards, retired annuitants, and the general public. The PERA active membership elects the remaining five trustees. One of these trustees must be a member of the Police and Fire Fund, and one member must be a former member of PERA or a member who receives a disability benefit.

The board appoints the executive director of PERA. Laurie Fiori Hacking has been the executive director since January 1991. With the 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 is a member of the State Investment Advisory Council. The council advises the State Board of Investment on the management and investment of pension funds and other assets.

Legislation passed in 1987 allows local police and salaried firefighters' relief associations to consolidate retirement programs with PERA. As of the effective date of each merger, the law states that the local relief association shall transfer all assets to PERA. At June 30, 1995, 35 local relief associations had consolidated with PERA.

PERA assets at June 30, 1995 totaled \$7,114,001,000 for all of its retirement plans. Table 1-1 shows the fiscal year 1995 operating revenues and expenses for the three defined benefit pension plans administered by PERA.

## Public Employees Retirement Association

**Table 1-1**  
**Public Employees Retirement Association**  
**1995 Defined Benefit Fund Revenues and Expenses**

	<u>Public Employees Retirement Fund</u>	<u>Police and Fire Fund</u>	<u>Police and Fire Consolidation Fund</u>
<u>Operating Revenues:</u>			
Member Contribution	\$115,986,000	\$ 22,356,000	\$ 4,237,000
Employer Contribution	123,983,000	33,548,000	16,849,000
Investment Income	411,049,000	105,283,000	47,597,000
Other	<u>790,000</u>	<u>2,470,000</u>	<u>3,000</u>
Total Operating Revenues	<u>\$651,808,000</u>	<u>\$163,657,000</u>	<u>\$ 68,686,000</u>
<u>Operating Expenses:</u>			
Benefits Paid	\$290,484,000	\$ 32,151,000	\$ 38,669,000
Other	<u>20,812,000</u>	<u>5,096,000</u>	<u>779,000</u>
Total Operating Expenses	<u>\$311,296,000</u>	<u>\$ 37,247,000</u>	<u>\$ 39,448,000</u>

Source: 1995 PERA audited financial statements.

PERA also administers a defined contribution plan for public employees, which is reported as an Agency Fund pursuant to generally accepted government accounting principles. Total assets of the plan increased \$1,422,000 during fiscal year 1995 to a total of \$5,266,000 as of June 30, 1995.

During our audit, we gained an understanding of the cash and investments, contributions, annuities, defined contribution refunds, and investment income control cycles. The State Board of Investment (SBI) performs a significant portion of the controls over PERA investments. We review the controls over state investments as part of our annual audit of SBI.

The primary objective of our audit was to render an opinion on PERA's financial statements. These financial statements are included both in PERA's and in the State of Minnesota's Comprehensive Annual Financial Reports for fiscal year 1995. Our objective included determining whether PERA's 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 PERA 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 PERA's preparation of the financial statements, 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 Pension and Retirement's actuary. The purpose of the actuarial valuation is to

## **Public Employees Retirement Association**

test how the retirement system is achieving its fundamental financing objectives and to determine the actuarial status of PERA's defined benefit funds.

PERA's Comprehensive Annual Financial Report for the year ended June 30, 1995 includes our unqualified audit opinion thereon, dated December 1, 1995. The PERA financial statements are also included in 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. In addition, 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.