



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial Audit Division Report

**Public Employees Retirement
Association of Minnesota
Fiscal Year Ended June 30, 2004**



Financial Audit Division

The Office of the Legislative Auditor (OLA) is a professional, nonpartisan office in the legislative branch of Minnesota state government. Its principal responsibility is to audit and evaluate the agencies and programs of state government (the State Auditor audits local governments).

OLA's Financial Audit Division annually audits the state's financial statements and, on a rotating schedule, audits agencies in the executive and judicial branches of state government, three metropolitan agencies, and several "semi-state" organizations. The division also investigates allegations that state resources have been used inappropriately.

The division has a staff of approximately forty auditors, most of whom are CPAs. The division conducts audits in accordance with standards established by the American Institute of Certified Public Accountants and the Comptroller General of the United States.

Consistent with OLA's mission, the Financial Audit Division works to:

- Promote Accountability,
- Strengthen Legislative Oversight, and
- Support Good Financial Management.

Through its Program Evaluation Division, OLA conducts several evaluations each year.

OLA is under the direction of the Legislative Auditor, who is appointed for a six-year term by the Legislative Audit Commission (LAC). The LAC is a bipartisan commission of representatives and senators. It annually selects topics for the Program Evaluation Division, but is generally not involved in scheduling financial audits.

All findings, conclusions, and recommendations in reports issued by the Office of the Legislative Auditor are solely the responsibility of the office and may not reflect the views of the LAC, its individual members, or other members of the Minnesota Legislature.

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All OLA reports are available at our Web Site: <http://www.auditor.leg.state.mn.us>

If you have comments about our work, or you want to suggest an audit, investigation, or evaluation, please contact us at 651-296-4708 or by e-mail at auditor@state.mn.us

Public Employees Retirement Association

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Audit Participation

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

Claudia Gudvangen, CPA	Deputy Legislative Auditor
David Poliseno, CPA, CISA	Audit Manager
Patrick Phillips, CPA	Auditor-in-Charge
Ching-Huei Chen, CPA	Auditor

Report Summary

Audit Conclusions:

- We issued an unqualified opinion on the financial statements of the Public Employees Retirement Association of Minnesota as of and for the year ended June 30, 2004.
- We issued our Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. We did not report any material weaknesses involving the internal control over financial reporting and its operation or noncompliance that would be required to be reported under *Government Auditing Standards*.

Background Information:

The Public Employees Retirement Association (PERA) administers four separate funds: the Public Employees Retirement Fund (PERF); the Public Employees Police and Fire Fund (PEPFF); the Public Employees Correctional Fund (PECF); and the Public Employees Defined Contribution Plan (PEDCP). The PERF covers employees of counties, cities, and townships and employees of schools in noncertified positions. The PEPFF covers police officers and fire fighters. The PECF covers employees in county correctional institutions who have direct contact with inmates. The PEDCP covers elected local government officials (except elected county sheriffs), emergency medical service personnel employed by or providing service to any of the participating ambulance services, and physicians employed at public facilities.

PERA served approximately 2,000 units of government and had 358,421 members in its four funds as of June 30, 2004. Its net assets totaled \$14.2 billion at June 30, 2004. For the year ended June 30, 2004, PERA received contributions of about \$550 million and paid benefits and refunds of about \$950 million.



**Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

Representative Tim Wilkin, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Members of the Public Employee Retirement Association of Minnesota Board of Trustees

Ms. Mary Most Vanek, Executive Director
Public Employee Retirement Association of Minnesota

We have audited the financial statements of the Public Employee Retirement Association of Minnesota as of and for the year ended June 30, 2004, and have issued our report thereon dated January 12, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Public Employees Retirement Association of Minnesota's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Public Employees Retirement Association of Minnesota's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant

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agreements, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Legislative Audit Commission and the Public Employees Retirement Association of Minnesota's management and is not intended to be and should not be used by anyone other than these specified parties.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: January 12, 2005

Report Signed On: February 3, 2005

Public Employees Retirement Association of Minnesota

Status of Prior Audit Issues As of January 12, 2005

Most Recent Audit

January 15, 2004, Legislative Audit Report 04-02 covered the fiscal year ended June 30, 2003. The audit scope included employer and employee contributions, annuity benefits, and refunds. We audit the Public Employees Retirement Association of Minnesota on an annual basis. There were no reportable issues in that report.

State of Minnesota Audit Follow-Up Process

The Department of Finance, on behalf of the Governor, maintains a quarterly process for following up on issues cited in financial audit reports issued by the Legislative Auditor. The process consists of an exchange of written correspondence that documents the status of audit findings. The follow-up process continues until Finance is satisfied that the issues have been resolved. It covers entities headed by gubernatorial appointees, including most state agencies, boards, commissions, and Minnesota state colleges and universities. It is not applied to audits of the University of Minnesota, any quasi-state organizations, such as metropolitan agencies or the State Agricultural Society, the state constitutional officers, or the judicial branch.