

# STATE OF LOUISIANA LEGISLATIVE AUDITOR

Louisiana Public Employees  
Deferred Compensation Plan  
State of Louisiana  
Baton Rouge, Louisiana

June 10, 1999



*Financial and Compliance Audit Division*

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*Daniel G. Kyle, Ph.D., CPA, CFE*  
*Legislative Auditor*

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### LEGISLATIVE AUDITOR

Daniel G. Kyle, Ph.D., CPA, CFE

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**LOUISIANA PUBLIC EMPLOYEES  
DEFERRED COMPENSATION PLAN  
STATE OF LOUISIANA  
Baton Rouge, Louisiana**

**General Purpose Financial Statement  
and Independent Auditor's Reports  
As of December 31, 1997**

Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report has been made available for public inspection at the Baton Rouge office of the Legislative Auditor.

June 10, 1998

LOUISIANA PUBLIC EMPLOYEES  
DEFERRED COMPENSATION PLAN  
STATE OF LOUISIANA

General Purpose Financial Statement  
and Independent Auditor's Report  
As of December 31, 1997

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May 10, 1997

Independent Auditor's Report  
on the Financial Statement

LOUISIANA PUBLIC EMPLOYEES  
DEFERRED COMPENSATION COMMISSION  
LOUISIANA PUBLIC EMPLOYEES  
DEFERRED COMPENSATION PLAN  
STATE OF LOUISIANA  
Baton Rouge, Louisiana

We have audited the accompanying general purpose financial statement of the Louisiana Public Employees Deferred Compensation Plan, a component unit of the State of Louisiana, as of December 31, 1997, as listed in the foregoing table of contents. This financial statement is the responsibility of management of the Louisiana Public Employees Deferred Compensation Plan. Our responsibility is to express an opinion on this financial statement based on our audit. We did not audit the financial statements of the Government Guaranteed Fund IV, an investment product managed by GreatWest Life & Annuity Insurance Company, which represents 19.1% of the total assets of the Louisiana Public Employees Deferred Compensation Plan Agency Fund. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Government Guaranteed Fund IV, is based on the report of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of the other auditors, the accompanying general purpose financial statement presents fairly, in all material respects, the financial position of the Louisiana Public Employees Deferred Compensation Plan as of December 31, 1997, in conformity with generally accepted accounting principles.

LEGISLATIVE AUDITOR

LOUISIANA PUBLIC EMPLOYEES  
DEFERRED COMPENSATION COMMISSION  
LOUISIANA PUBLIC EMPLOYEES  
DEFERRED COMPENSATION PLAN  
STATE OF LOUISIANA  
Audit Report, December 31, 1997

In accordance with Government Auditing Standards, we have also issued a report dated May 19, 1998, on our consideration of the Louisiana Public Employees Deferred Compensation Plan's internal control over financial reporting and its compliance with certain provisions of laws, regulations, and contracts.

Respectfully submitted,



Grover C. Austin, CPA  
First Assistant Legislative Auditor

BOD:THC:as

cc:cm

LOUISIANA PUBLIC EMPLOYEES  
DEFERRED COMPENSATION PLAN  
STATE OF LOUISIANA  
ALL FUND TYPES AND ACCOUNT GROUPS

Balance Sheet, December 31, 1997

	FOURTH FUND - DEFERRED COMPENSATION PLAN - AGENCY FUND	ACCOUNT GROUP - GENERAL FUND ASSETS	TOTAL (MEMORANDUM ONLY)
<b>ASSETS</b>			
Cash (note 2)	\$25,193		\$25,193
Investments (note 2)	269,899,992		269,899,992
Cash surrender value of life insurance (note 2)	1,295,807		1,295,807
Contributions receivable	1,869,478		1,869,478
Other receivables	22,791		22,791
Fixed assets - equipment (note 4)		\$1,737	1,737
<b>TOTAL ASSETS</b>	<b>\$277,911,261</b>	<b>\$1,737</b>	<b>\$277,912,998</b>
<b>LIABILITIES AND FUND EQUITY</b>			
<b>Liabilities:</b>			
Accounts payable	\$240,190		\$240,190
Due to - commission activity account (note 2)	90,227		90,227
Due to participants	272,871,821		272,871,821
<b>Total Liabilities</b>	<b>273,102,238</b>	<b>NONE</b>	<b>273,102,238</b>
Fund Equity - Investment (general)		\$1,737	1,737
Fixed assets	NONE		
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$273,102,238</b>	<b>\$1,737</b>	<b>\$273,103,975</b>

The accompanying notes are an integral part of this statement.

**LOUISIANA PUBLIC EMPLOYEES  
DEFERRED COMPENSATION PLAN  
STATE OF LOUISIANA**

**Notes to the Financial Statement  
As of December 31, 1997**

**INTRODUCTION**

As required by Louisiana Revised Statutes (R.S.) 48:1301-1309, the Louisiana Public Employees Deferred Compensation Plan is supervised by the Louisiana Public Employees Deferred Compensation Commission, a political subdivision of the State of Louisiana within the executive branch of government. The commission is composed of seven board members who serve without compensation. The plan was established to allow employees of the state to voluntarily elect to contribute, through payroll deductions, a portion of their compensation into the plan for the purpose of deferring the payment of federal and state income taxes on the contributions until such time as they are withdrawn by the employees. At December 31, 1997, there are approximately 22,268 participants in the plan.

On August 20, 1995, the commission selected Great-West Life & Annuity Insurance Company as the plan administrator for a term of three years beginning on January 1, 1997, and had extended the contract through December 31, 1998. On June 19, 1996, the commission selected, through a bid process, Great-West Life & Annuity Insurance Company as the plan administrator for a term of three years beginning on January 1, 1998. The commission has no employees.

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. BASIS OF PRESENTATION**

The accompanying financial statement has been prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and reporting principles.

**B. REPORTING ENTITY**

GASB Codification Section 2100 has defined the governmental reporting entity to be the State of Louisiana. The Louisiana Public Employees Deferred Compensation Plan is considered a component unit (agency fund) of the State of Louisiana because the state has financial accountability as follows: (1) four of seven board members are elected or appointed officials from the executive branch of state government; (2) the State of Louisiana has fiduciary responsibility for the exercise of due care in the administration of the plan; and (3) under the provisions of Section 487 of the Internal Revenue Code, all assets of the plan may be used to satisfy debts of the state. The accompanying financial statement presents information only as to the balances of the Louisiana Public Employees Deferred Compensation Plan, a component unit of the



**LOUISIANA PUBLIC EMPLOYEES  
DEFERRED COMPENSATION PLAN  
STATE OF LOUISIANA**  
Notes to the Financial Statement (Continued)

State of Louisiana. Annually, the State of Louisiana issues general purpose financial statements, which include the activity contained in the accompanying financial statement. The general purpose financial statements are audited by the Louisiana Legislative Auditor.

**C. FUND ACCOUNTING**

The Louisiana Public Employees Deferred Compensation Plan uses a fiduciary fund (agency fund) and an account group to report on its financial position. The agency fund accounts for the receipt of contributions and the payment of benefits to participants. Benefits are funded through employee contributions and investment earnings on these contributions. The state does not make any contribution to the plan.

**D. BASIS OF ACCOUNTING**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. They are accounted for using the modified accrual basis of accounting. Accordingly, assets and liabilities are recognized when they occur, regardless of the timing of related cash flows.

**E. CASH AND INVESTMENTS**

Cash includes demand deposits. Under state law, the plan may deposit funds within a fiscal agent bank organized under the laws of the State of Louisiana, the laws of any other state in the Union, or the laws of the United States. The plan is authorized to invest in various investment products, including mutual funds, United States Treasury bills or notes, life insurance, fixed or variable annuities, and other investments approved by the commission.

**F. FIXED ASSETS**

Fixed assets are accounted for in the general fixed assets account group, rather than in the agency fund. No depreciation has been provided on general fixed assets. All fixed assets are valued at historical cost. The account group is not a fund. It is concerned only with the measurement of financial position, not with the measurement of results of operations.

**G. TOTAL COLUMN ON BALANCE SHEET**

The total column on the balance sheet is captioned Memorandum Only (overview) to indicate that it is presented only to facilitate financial analysis. Data in this column does

**LOUISIANA PUBLIC EMPLOYEES  
DEFERRED COMPENSATION PLAN  
STATE OF LOUISIANA  
Notes to the Financial Statement (Continued)**

not present financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation.

**2. CASH**

At December 31, 1997, the plan has cash in demand deposits totaling \$236,182. The commission has directed that the deposits of the plan in excess of federal insurance be secured by the pledge of securities owned by the fiscal agent banks. Deposit balances (bank balances) of \$959,548 at December 31, 1997, are fully secured by federal deposit insurance (FASB Category 1).

**3. INVESTMENTS**

Investments of \$269,899,892, as presented on Statement A, are valued at fair value. The plan maintains investments with several product companies offering different types of investment options. The following summarizes the various product companies, the carrying value of the investments at December 31, 1997, the valuation method used in determining the carrying value, and the fair value of investments at December 31, 1997:

Product/Company/Investment Option	Valuation Method	Carrying Value at December 31, 1997	Fair Value at December 31, 1997
<i>Investments not categorized:</i>			
<i>Great-West Life &amp; Annuity Insurance Company:</i>			
Insurance contracts - fixed annuity	Fair value	\$79,600,714	\$79,600,714
MetLife Stable Fund - mutual fund	Fair value	\$3,799,548	\$3,799,548
American Century Investors Fund - mutual fund	Fair value	\$8,191,588	\$8,191,588
Fidelity Advisor Growth Opportunities Fund - mutual fund	Fair value	\$,824,791	\$,824,791
Annuity contracts	Fair value	\$,872,818	\$,872,818
Total Great-West Life & Annuity Insurance Company		<u>217,422,840</u>	<u>217,422,840</u>
Government Guaranteed Fund IV - United States government obligations	Amortized cost	\$1,661,818	\$2,137,248
Commercial Life Insurance Company - annuity	Fair value	<u>196,954</u>	<u>196,954</u>
<b>Total Investments</b>		<u><b>\$259,220,458</b></u>	<u><b>\$269,899,892</b></u>

The plan also has an investment in life insurance with Reliance Standard Life Insurance Company. This investment is valued at the cash surrender value of the life insurance policies, which is \$1,268,697 at December 31, 1997.

LOUISIANA PUBLIC EMPLOYEES  
 DEFERRED COMPENSATION PLAN  
 STATE OF LOUISIANA  
 Notes to the Financial Statement (Continued)

4. CHANGES IN GENERAL FIXED ASSETS

Fixed assets of the plan, administered by the Louisiana Public Employees Deferred Compensation Commission, total \$3,737 at December 31, 1997. A summary of changes in movable property follows:

Balance December 31, 1996	Additions	Deletions	Balance December 31, 1997
\$5,830	NONE	\$2,093	\$3,737

5. CHANGES IN ASSETS AND LIABILITIES

The following represents changes in assets and liabilities for the Louisiana Public Employees Deferred Compensation Plan occurring during the year ended December 31, 1997:

	Balance at January 1, 1997	Additions	Deletions	Balance at December 31, 1997
<b>Assets</b>				
Cash	\$504,188	\$48,888,294	\$48,855,001	\$506,281
Investments, at market value	(1,591,888)	100,887,790	52,759,118	\$98,895,063
Cash surrender value of life insurance	1,272,233	188,758	156,127	1,284,864
Accounts receivable:				
Participant	1,867,558	1,888,475	1,597,229	1,895,475
Other receivables	112,279	2,128,188	2,218,881	\$2,991
Administrative guarantee	478,280		(52,280)	
<b>Total Assets</b>	<b>\$215,823,580</b>	<b>\$150,793,545</b>	<b>\$52,843,126</b>	<b>\$213,773,999</b>
<b>Liabilities</b>				
Accounts payable	\$388,350	\$12,375,490	\$12,492,071	\$391,769
Deferred compensation accrual account	114,157	2,908,898	2,919,588	\$6,237
Due to participants	214,822,073	71,243,885	12,988,822	273,077,133
<b>Total Liabilities</b>	<b>\$215,823,580</b>	<b>\$86,523,263</b>	<b>\$27,490,481</b>	<b>\$111,311,139</b>

6. PLAN RESTRICTIONS

The deferred compensation plan is authorized under Section 457 of the Internal Revenue Code. Amounts deferred by participants are limited to the lesser of \$7,500, or 33.10% of the

**LOUISIANA PUBLIC EMPLOYEES  
DEFERRED COMPENSATION PLAN  
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Notes to the Financial Statement (Continued)**

participants' includible compensation. Any amounts deferred are not subject to federal or state income tax withholdings, nor are they includible as gross income until actually paid or otherwise made available to the participant. All assets of the plan are subject to the cognizable claims of general creditors of the State of Louisiana; may be used in satisfaction of the debts of the state; and are subject to the operation of law, attachment, levy, judgments, garnishments, executions, or any other process of law that may be employed by creditors of the state or any person or entity claiming by, through, or under such creditors. Participant rights under the plan are equal to those of general creditors of the state in an amount equal to the fair value of the deferred account for each participant. The Small Business Job Protection Act of 1990 (Public Law 104-188) amended Section 457 of the Internal Revenue Code to require that amounts deferred under a Section 457 plan be held in trust for the exclusive benefit of participating employees and not be accessible by the government or its creditors. However, the trust provision of this Act for plans existing as of August 20, 1990, does not apply until January 1, 1998. As a result, GASB Statement 32 was issued in October 1997, which requires that the plan be reported as an expendable trust fund effective for periods beginning after December 31, 1996, or earlier upon implementation of the trust provisions of the Act. As of December 31, 1997, the Louisiana Public Employees Deferred Compensation Commission had not implemented the trust provisions of the Act.

Participants of the plan may withdraw funds from the plan only upon retirement or disability as determined in accordance with retirement laws of the state, termination of employment with the state, or financial hardship as approved by the plan's hardship committee. Upon retirement or disability, employees may select various benefit options, including lump sum payments and periodic payments for a designated term that is not in excess of the life expectancy of the participant or the joint and last survivor life expectancy of the participant and his or her spouse.

It is the opinion of the state's legal counsel, the Louisiana Attorney General, that the state has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. Of the \$272,678,621 in the plan at December 31, 1997, \$252,953,443 is applicable to the State of Louisiana, while the remaining \$19,625,178 represents the assets of other governmental jurisdictions participating in the plan.

As of April 1, 1997, the Government Securities Fund was closed to new plan participants. Participants joining the plan after this date are restricted to the Great-West Life Investment option. The Government Securities Fund is now reported as the Government Guaranteed Fund N.

**7. INVESTMENT EARNINGS**

The annual rate of interest credited to participant accounts on investments with the various product companies for the year ended December 31, 1997, is as follows:

**LOUISIANA PUBLIC EMPLOYEES  
DEFERRED COMPENSATION PLAN  
STATE OF LOUISIANA**  
Notes to the Financial Statement (Continued)

<u>Product/Company</u>	<u>Product</u>	<u>Interest Rate</u>
Government Guaranteed Fund IV	Various Investments:	
	January - March	5.25%
	April - June	5.15%
	July - September	5.25%
	October - December	5.35%
Great-West Life & Annuity Insurance Company - Guaranteed Fund	Fixed annuity:	
	January - March	5.41%
	April - June	5.42%
	July - September	5.40%
	October - December	5.41%

Investment earnings for the Maxim Series Fund, American Century Investors Fund, and Fidelity Advisor Growth Opportunities Fund are not expressed as a percentage because earnings result from gains or losses arising from investment transactions and fluctuations in fair market value of the applicable investments. Investment earnings for the Government Guaranteed Fund IV and Great-West Life & Annuity Insurance Company - Guaranteed Fund are reported at net, less the .85% charged by the plan.

**8. ADMINISTRATIVE CHARGES**

The contract between the commission and Great-West Life & Annuity Insurance Company provides for charges of .85% of earnings on investments in the Government Guaranteed Fund IV and all Great-West Life & Annuity funds that are calculated and deducted daily on a pro-rata basis. As of January 1, 1998, the commission entered into an agreement for the Great-West Life & Annuity Insurance Company to provide management advisory services for the Government Guaranteed Fund IV. The annual fee for these services include a .15% fund management fee and a .22% insurance wrapper fee on investments in the fund to be paid to the administrator at the end of each quarter on a pro-rata basis. The insurance wrapper guarantees that each Government Guaranteed Fund IV participant will receive the full book value of his/her account upon transfer and/or distribution from the plan. During the year ended December 31, 1997, administrative charges of \$1,872,378 were paid to Great-West Life & Annuity Insurance Company.

**9. RELATED PARTY TRANSACTIONS**

In addition to acting in the capacity of plan administrator of the Louisiana Public Employees Deferred Compensation Plan, Great-West Life Assurance Company, through its wholly-owned subsidiary, Great-West Life & Annuity Insurance Company, offers fixed annuity and mutual

LOUISIANA PUBLIC EMPLOYEES  
DEFERRED COMPENSATION PLAN  
STATE OF LOUISIANA

Notes to the Financial Statement (Continued)

fund products to plan participants. At December 31, 1997, investments in these products represent 58.0% of total plan assets. Of this figure, 71% represents monies held in separate trust accounts, which are not subject to the general creditors of Great-West Life & Annuity Insurance Company.

**10. GOVERNMENT GUARANTEED FUND IV DISTRIBUTIONS**

At December 31, 1997, the participant account balances, which comprise the Government Guaranteed Fund IV, total \$51,174,511. The fair value of the net assets of the Government Guaranteed Fund IV as of December 31, 1997, is \$52,137,348. Participant distributions are based on the amount of their account balance, whereas distributions as a result of termination of the group annuity contract are based on net assets attributable to the contract and can be made to the plan through (1) transfer of the underlying securities and any remaining cash balance or (2) transfer of the cash balance after sale of the fund's securities.

**11. LITIGATION**

There is no pending litigation at December 31, 1997.

**12. COMMISSION ACTIVITY ACCOUNT**

The Louisiana Public Employees' Deferred Compensation Commission maintains a commission activity account to fund the expenses of the commission and to pay administrator fees. Balances of this account are included within the agency fund balances shown on Statement A. The following represents a summary of additions and deductions to the commission activity account balances during the year ended December 31, 1997:

Balance at January 1, 1997		\$114,157
Additions:		
Product company fees	\$1,995,856	
Interest earnings	<u>6,813</u>	2,001,669
Deductions:		
Administrator fees	1,072,378	
Other expenses	<u>47,323</u>	2,019,699
Balance at December 31, 1997		<u>\$95,227</u>

**OTHER REPORTS REQUIRED BY  
GOVERNMENT AUDITING STANDARDS**

The following pages contain a report on compliance with laws and regulations and on internal controls as required by Government Auditing Standards, issued by the Comptroller General of the United States. This report is based solely on the audit of the financial statement and includes, where appropriate, any reportable conditions and/or material weaknesses in internal control or compliance matters that would be material to the presented financial statement.



OFFICE OF  
LEGISLATIVE AUDITOR  
STATE OF LOUISIANA  
BATON ROUGE, LOUISIANA 70804-0007

DAVID G. KYLLHEED, CHIEF OF  
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May 19, 1998

Report on Compliance and on Internal Control Over  
Financial Reporting Based on an Audit of the Financial Statement  
Performed in Accordance With Government Auditing Standards

LOUISIANA PUBLIC EMPLOYEES  
DEFERRED COMPENSATION COMMISSION  
LOUISIANA PUBLIC EMPLOYEES  
DEFERRED COMPENSATION PLAN  
STATE OF LOUISIANA  
Baton Rouge, Louisiana

We have audited the general purpose financial statement of the Louisiana Public Employees Deferred Compensation Plan, a component unit of the State of Louisiana, as of and for the year ended December 31, 1997, and have issued our report thereon dated May 19, 1998. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the Louisiana Public Employees Deferred Compensation Plan's general purpose financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of 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 that are required to be reported under Government Auditing Standards.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Louisiana Public Employees Deferred Compensation Plan's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statement and not to provide assurance 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 over financial reporting that might be material weaknesses. A material weakness is a 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 in



LEGISLATIVE AUDITOR

LOUISIANA PUBLIC EMPLOYEES  
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Compliance and Internal Control Report

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Page 2

amounts that would be material in relation to the general purpose financial statement 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.

This report is intended for the information and use of the plan and its management. By provisions of state law, this report is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,



Grover C. AUBREY, CPA

First Assistant Legislative Auditor

BDD:THC:aa

cc:ccm