



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial Audit

Minnesota State Board of Investment
Fiscal Year Ended June 30, 2000



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 fifty 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 and one best practices review.

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, evaluation, or best practices review, please contact us at 651-296-4708 or by e-mail at auditor@state.mn.us

Minnesota State Board of Investment

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Audit Participation

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

Claudia J Gudvangen, CPA	Deputy Legislative Auditor
Jim Riebe, CPA	Audit Manager
Jack Hirschfeld, CPA	Audit Director
Patrick Phillips, CPA	Auditor
Alan Sasse	Auditor
Ellen Sibley	Auditor
Amanda Voltz	Intern

Exit Conference

We discussed this report and other issues involving the internal control structure with the following State Board of Investment staff at an exit conference on December 20, 2000:

Howard Bicker	Executive Director
L. Michael Schmitt	Administrative Director
Mansco Perry, III	Assistant Executive Director
Bill Nicol	Accounting Supervisor Senior

Minnesota State Board of Investment

Report Summary

Audit Conclusions:

- We issued an unqualified opinion on the financial statements of the Supplemental Investment Fund and the Post Retirement Fund for the year ended June 30, 2000.
- We issued a Report on Compliance and Internal Control Over Financial Reporting 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*.
- We audited payroll and other administrative expenditures of the Minnesota State Board of Investment (SBI) for the three years ended June 30, 2000. We concluded that SBI's controls provided reasonable assurance that administrative expenditures were properly recorded in the accounting records and complied with applicable legal provisions.

Background Information:

SBI manages the investment of retirement fund assets of the Minnesota State Retirement System, Teachers Retirement Association, and the Public Employees Retirement Association. SBI also invests funds for other state agencies, including invested treasurer's cash which is the idle cash in state accounts. At June 30, 2000, SBI administered over \$53 billion in state assets. SBI uses both internal staff and external investment managers to fulfill its responsibilities. The external firms invest and manage the assets of the retirement funds and the assigned risk plan. SBI staff manage the other state investments.

SBI incurs approximately \$3.3 million annually in expenditures for payroll and other administrative costs such as rent, supplies, equipment, and travel. SBI finances approximately \$2.3 million of the administrative expenditures from General Fund appropriations. SBI charges the remaining administrative costs directly to the funds receiving the investment services. State agencies reimburse SBI for the investment services provided. SBI deposits the reimbursements in the General Fund as nondedicated receipts.



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

Representative Dan McElroy, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Members of the Minnesota State Board of Investment

Howard J. Bicker, Executive Director
Minnesota State Board of Investment

We have audited the financial statements of the Supplemental Investment Fund and the Post Retirement Investment Fund of the Minnesota State Board of Investment as of and for the year ended June 30, 2000, and have issued our report thereon dated December 1, 2000. 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 Minnesota State Board of Investment's financial statements are 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 Minnesota State Board of Investment'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 assurance on the internal control over financial reporting. Our consideration of the internal control over

Representative Dan McElroy, Chair
Members of the Legislative Audit Commission
Members of the Minnesota State Board of Investment
Howard J. Bicker, Executive Director
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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 amounts that would be material in relation to 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.

This report is intended solely for the information and use of the Legislative Audit Commission and the Minnesota State Board of Investment, 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: December 1, 2000

Report Signed On: December 21, 2000

Minnesota State Board of Investment

Status of Prior Audit Issues As of December 1, 2000

Most Recent Audit

February 10, 2000, Legislative Audit Report 00-02 covered the fiscal year ended June 30, 1999. The audit scope included the investment functions material to the State of Minnesota's financial statements and the Supplemental Investment Fund and the Post Retirement Investment Fund included in the Minnesota State Board of Investment's (SBI) Annual Report. We audit SBI on an annual basis. The report had one reportable issue. We questioned whether the statutory basis used to calculate participation in the Post Retirement Investment Fund (Post Fund) should be used for financial reporting purposes. As we recommended, SBI consulted with the Department of Finance, retirement fund administrators, and staff of Governmental Accounting Standards Board (GASB) regarding methods for calculating participation in the Post Fund. The parties concluded that the current method of calculating participation was acceptable.

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.