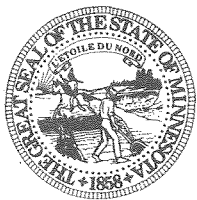


**STATE BOARD OF INVESTMENT
FINANCIAL AND COMPLIANCE AUDIT
FOR THE YEAR ENDED JUNE 30, 1987**

JANUARY 1988

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



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

VETERANS SERVICE BUILDING, ST. PAUL, MN 55155 • 612/296-4708

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Representative Phillip J. Riveness, Chairman
Legislative Audit Commission

Members of the Legislative Audit Commission

and

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

Audit Scope

We have completed a financial and compliance audit of the State Board of Investment (SBI) for the year ended June 30, 1987. Our audit was made in accordance with generally accepted auditing standards, and the standards for financial and compliance audits contained in the U.S. General Accounting Office Standards for Audit of Governmental Organizations, Programs, Activities, and Functions, and accordingly, included such audit procedures as we considered necessary in the circumstances. Field work was completed on November 17, 1987.

The objectives of the audit were to:

- express an opinion on the financial statements of the State Board of Investment for the year ended June 30, 1987;
- study and evaluate major SBI internal control systems, including a review of investment transactions and administrative disbursements;
- verify that financial transactions were made in accordance with applicable laws, regulations, and policies, including Minn. Stat. Chapter 11A and other finance-related laws and regulations; and
- determine the status of the prior audit recommendations.

Management Responsibilities

The management of SBI is responsible for establishing and maintaining a system of internal accounting control designed to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures.

Representative Phillip J. Riveness
Members of the Legislative Audit Commission
and
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Because of inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected. These limitations were considered when evaluating the effectiveness of SBI's system of accounting control. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

The management of SBI is also responsible for the agency's compliance with laws and regulations. In connection with our audit, we selected and tested transactions and records from the programs administered by SBI. The purpose of our testing of transactions was to obtain reasonable assurance that SBI had, in all material respects, administered their programs in compliance with applicable laws and regulations.

Conclusions

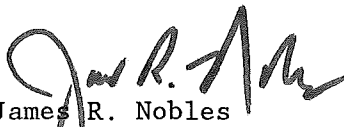
We have issued an unqualified opinion on the SBI financial statements for the year ended June 30, 1987. Our audit opinion, dated November 17, 1987, is included in the 1987 SBI Annual Report.

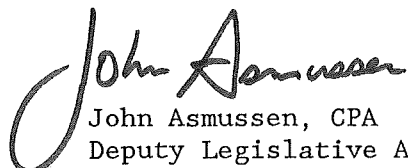
In our opinion, the SBI system of internal accounting control in effect on June 30, 1987, taken as a whole, was sufficient to provide management with reasonable, but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly.

In our opinion, for the year ended June 30, 1987, SBI administered its programs in compliance, in all material respects, with applicable finance-related laws and regulations.

Included in this report is a summary of the progress made on all audit recommendations developed during our fiscal year 1986 audit.

We would like to thank the State Board of Investment staff for the cooperation extended to us during this audit.


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

January 14, 1988

STATE BOARD OF INVESTMENT

I. STATUS OF PRIOR AUDIT RECOMMENDATIONS
AND
PROGRESS TOWARD IMPLEMENTATION

The method used and amount of income distributed from the pooled investment accounts in fiscal year 1986 was incorrect.

1. The amount of income distributed on June 30, 1986 to the participants of the pooled investment accounts should be adjusted in fiscal year 1987 to correct for the three errors made.
2. In the future, the method used to distribute income from the pooled investment accounts should be based on average unit holdings of the participants during the fiscal year.
3. Any transfer of assets between pooled accounts should be recorded at the time the transaction occurs and not as part of the income distribution at the end of the year.

RECOMMENDATION IMPLEMENTED. On June 30, 1987, SBI and State Street Bank made the adjustments necessary to properly record the income distributed for the year ended June 30, 1986 and to correct the distortions caused by including asset transfers with the year end income distributions on June 30, 1986. Income for fiscal year 1987 was properly distributed, and asset transfers were recorded as purchases and sales, rather than included with the income distributions.

SBI did not follow appropriate procedures for the payment of advisory council meals.

4. In the future, advisory council meals should be paid from the department head expense account, or prior approval should be obtained to pay them in accordance with a special expense plan.

RECOMMENDATION IMPLEMENTED. On July 27, 1987, SBI's special expense plan for fiscal year 1988 was approved. This plan provides prior approval for meals, refreshments, and facility charges related to advisory council meetings and two other conferences planned during the fiscal year. For the period in fiscal year 1987 after our prior audit report was issued, SBI paid for advisory council meals from the department head expense account.