

STATE BOARD OF INVESTMENT
FINANCIAL AUDIT
FOR THE YEAR ENDED JUNE 30, 1990

FEBRUARY 1991

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

91-6

**STATE BOARD OF INVESTMENT
FINANCIAL AUDIT
FOR THE YEAR ENDED JUNE 30, 1990**

FEBRUARY 1991

SUMMARY

State of Minnesota
Office of the Legislative Auditor
Veterans Service Building • St. Paul, MN 55155
612/296-4708

STATE BOARD OF INVESTMENT

FINANCIAL AUDIT FOR THE YEAR ENDED JUNE 30, 1990

Public Release Date: February 1, 1991

No. 91-6

OBJECTIVES:

- EXAMINE THE BOARD'S FINANCIAL STATEMENTS.
- EVALUATE INTERNAL CONTROL STRUCTURE: Investment purchases and sales, investment custody and valuation, investment income collection and allocation, management fee payments and reimbursements, and administrative disbursements.
- TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.

CONCLUSIONS:

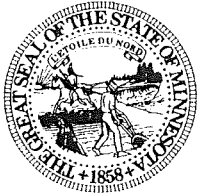
We issued an unqualified opinion on the financial statements.

We found the internal control structure to be effective.

We found no departures from finance-related legal provisions.

Contact the Financial Audit Division for additional information.
(612) 296-1730

FINANCIAL AUDIT DIVISION



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Representative Dee Long, Acting Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Members of the State Board of Investment

Howard J. Bicker, Executive Director
State Board of Investment

Audit Scope

We have audited the financial statements of the State Board of Investment as of and for the year ended June 30, 1990 and issued our report thereon dated December 3, 1990. We have also made a study and evaluation of the internal control structure of State Board of Investment in effect at June 30, 1990.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements.

As part of our examination of the financial statements and our study and evaluation of the internal control structure, we performed tests of the State Board of Investment's compliance with certain provisions of laws, regulations, contracts, and grants. However, our objective was not to provide an opinion on overall compliance with such provisions.

Management Responsibilities

The management of the State Board of Investment is responsible for establishing and maintaining an internal control structure. This responsibility includes compliance with applicable laws, regulations, contracts, and grants. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- assets are safeguarded against loss from unauthorized use or disposition;
- transactions are executed in accordance with applicable legal and regulatory provisions, as well as management's authorization; and

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- transactions are recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Internal Control Structure

For purposes of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- investment purchases and sales,
- investment custody and valuation,
- investment income collection and allocation,
- management fee payments and reimbursements, and
- administrative disbursements.

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

Conclusions

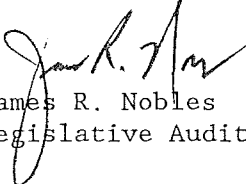
In our opinion, the internal control structure of the State Board of Investment in effect at June 30, 1990, taken as a whole, was sufficient to meet the objectives stated above insofar as those objectives pertain to the prevention or detection of errors or irregularities in amounts that would be material in relation to the financial transactions of the State Board of Investment.

However, we noted other matters involving the internal control structure and its operation that we reported to the management of the State Board of Investment in a meeting held on January 18, 1991.

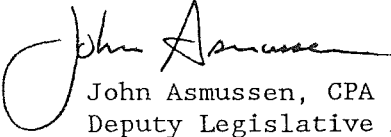
The results of our tests indicate that, with respect to the items tested, the State Board of Investment complied, in all material respects, with the provisions referred to in the audit scope paragraphs. With respect to items not tested, nothing came to our attention that caused us to believe that the State Board of Investment had not complied, in all material respects, with those provisions.

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This report is intended for the information of the Legislative Audit Commission and management of the State Board of Investment. This restriction is not intended to limit the distribution of this report, which was released as a public document on February 1, 1991.



James R. Nobles
Legislative Auditor



John Asmussen, CPA
Deputy Legislative Auditor

END OF FIELDWORK: November 30, 1990

REPORT SIGNED ON: January 25, 1991