

**STATE BOARD OF INVESTMENT  
FINANCIAL AUDIT  
FOR THE YEAR ENDED JUNE 30, 1992**

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**APRIL 1993**

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Financial Audit Division  
Office of the Legislative Auditor  
State of Minnesota

**93-17**



# **STATE BOARD OF INVESTMENT**

## **FINANCIAL AUDIT FOR THE YEAR ENDED JUNE 30, 1992**

Public Release Date: April 23, 1993

No. 93-17

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### **OBJECTIVES:**

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

### **CONCLUSIONS:**

We issued an unqualified opinion on the board's 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





STATE OF MINNESOTA

**OFFICE OF THE LEGISLATIVE AUDITOR**

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JAMES R. NOBLES, LEGISLATIVE AUDITOR

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Representative Ann Rest, 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, 1992 and issued our report thereon dated December 1, 1992. We have also made a study and evaluation of the internal control structure of State Board of Investment in effect at June 30, 1992.

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

- 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, and
- management fee payments and reimbursements.

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**

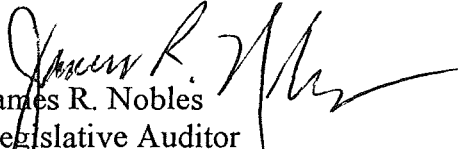
In our opinion, the internal control structure of the State Board of Investment in effect at June 30, 1992, taken as a whole, was sufficient to meet the objectives stated above insofar as those objectives pertain to the prevention or detection of errors or irregularities in amounts that would be material in relation to the financial transactions of the State Board of Investment.

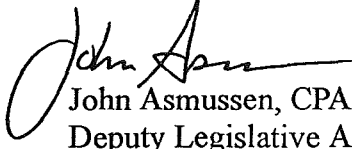
However, we noted other matters involving the internal control structure and its operation that we reported to the management of the State Board of Investment in a meeting held on December 17, 1992

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.

Members of the State Board of Investment  
Howard J. Bicker, Executive Director  
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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 April 23, 1993.

  
James R. Nobles  
Legislative Auditor

  
John Asmussen, CPA  
Deputy Legislative Auditor

End of Fieldwork: December 1, 1992

Report Signed On: April 14, 1993



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### **Audit Participation**

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

John Asmussen, CPA	Deputy Legislative Auditor
Claudia Gudvangen, CPA	Audit Manager
Brad White, CPA	Auditor-in-Charge
Ron Mavetz, CPA	Auditor
Melissa Gamble	Auditor
Mark Johnson	Auditor
Christina Weiss	Auditor
Todd Froelich	Intern

### **Exit Conference**

This report was discussed with the following officials from the State Board of Investment at an exit conference on December 17, 1992;

Howard J. Bicker	Executive Director
L. Michael Schmitt	Administrative Director



## State Board of Investment

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### Background

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Article XI, Section 8 of the Constitution of the State of Minnesota creates the State Board of Investment consisting of the governor, state auditor, state treasurer, secretary of state, and attorney general. The board administers and directs the investment of state funds, primarily retirement funds. Minn. Stat. Chapter 11A establishes general guidelines and standards governing investment activities of the board. Howard J. Bicker currently serves as Executive Director of the board.

The board uses both internal and external management to fulfill its responsibilities. Each requires different strategies and investment vehicles. The board employs various private external firms to invest and manage Basic Retirement Fund, Supplemental Investment Fund, and the Assigned Risk Plan assets. The board internally managed the Post Retirement fund and other state investment accounts during fiscal year 1992. However, during fiscal year 1993 the assets of the Post Retirement Fund were shifted to external investment managers.

The June 30, 1992 market value of investments for funds under the control of the State Board of Investment was as follows:

<u>Fund</u>	<u>Market Value</u>
Basic Retirement Funds	\$8,672,151,090
Post Retirement Fund	6,980,242,167
Supplemental Investment Fund	567,311,814
State Cash Accounts	2,328,813,098
Permanent School Fund	395,205,229
Assigned Risk Plan	344,431,455
Other Funds	<u>358,476,430</u>
Total	<u>\$19,663,189,771</u>

Source: State Board of Investment Fiscal Year 1992 audited financial statements and accounting system records.

For the year ended June 30, 1992, investment income, including interest and dividend income and realized gains and losses, for the above funds totalled \$1,733,569,334.