

STATE BOARD OF INVESTMENT

FINANCIAL AUDIT

FOR THE YEAR ENDED JUNE 30, 1993

MAY 1994

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

94-25

SUMMARY

State of Minnesota

Office of the Legislative Auditor

Centennial Office Building • St. Paul, MN 55155
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STATE BOARD OF INVESTMENT

FINANCIAL AUDIT FOR THE YEAR ENDED JUNE 30, 1993

Public Release Date: May 26, 1994

No. 94-25

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.

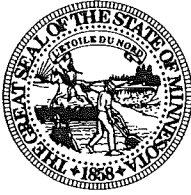
We found the internal control structure to be effective.

We found no departures from finance-related legal provisions.

Contact the Financial Audit Division for additional information.

296-1730

FINANCIAL AUDIT DIVISION



STATE OF MINNESOTA
OFFICE OF THE LEGISLATIVE AUDITOR
CENTENNIAL BUILDING, ST. PAUL, MN 55155 • 612/296-4708
JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator Phil Riveness, 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, 1993 and issued our report thereon dated December 1, 1993. We have also made a study and evaluation of the internal control structure of State Board of Investment in effect at June 30, 1993.

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, 1993, 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.

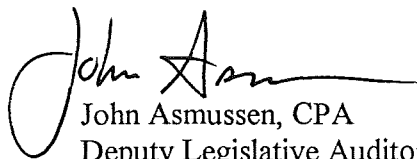
However, we noted other matters involving the internal control structure and its operation that we reported to the management of the State Board of Investment in a meeting held on April 5, 1994.

Senator Phil Riveness, Chair
Members of the Legislative Audit Commission
Members of the State Board of Investment
Howard J. Bicker, Executive Director
Page 3

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.

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 May 26, 1994.


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: December 1, 1993

Report Signed On: May 19, 1994

State Board of Investment

Table of Contents

	Page
Background	1

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
Melissa Gamble, CPA	Auditor
Mark Johnson	Auditor
Mark Mathison	Auditor
Christina Weiss	Auditor
Natalie Pugachevsky	Intern

Exit Conference

This report was discussed with the following officials from the State Board of Investment at an exit conference on April 5, 1994;

Howard J. Bicker	Executive Director
Beth Lehman	Assistant Executive Director
L. Michael Schmitt	Administrative Director
Mable Patrick	Accounting Supervisor

State Board of Investment

Background

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 the Post Retirement Fund and the Supplemental Investment Fund, as well as the assets of the basic retirement funds and the assigned risk plan. The board internally managed other state investment accounts during fiscal year 1993.

Table 1-1 shows the June 30, 1993 market value of investments for funds under the control of the State Board of Investment.

Table 1-1
Investments Balances (at Market Value)
June 30, 1993

<u>Fund</u>	<u>Market Value</u>
Basic Retirement Funds	\$ 9,751,640,183
Post Retirement Fund	7,906,727,447
Supplemental Investment Fund	596,951,975
State Cash Accounts	2,695,499,416
Permanent School Fund	449,253,017
Assigned Risk Plan	396,857,243
Other Funds and Accounts	<u>399,794,806</u>
Total	<u>\$22,196,724,087</u>

Source: State Board of Investment Fiscal Year 1993 audited financial statements and accounting system records.

For the year ended June 30, 1993, investment income, including interest and dividend income and realized gains and losses, for the above funds totaled \$1,782,070,054.
