

State Board of Investment

Financial Audit

For the Year Ended June 30, 1994

March 1995

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

95-07

SUMMARY

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

State Board of Investment

Financial Audit For The Year Ended June 30, 1994

Public Release Date: March 17, 1995

No. 95-07

Objectives:

- Examine the board's financial statements.
- Review 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.



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, 1994 and issued our report thereon dated December 1, 1994. We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we consider the internal control structure in order to plan our audit, and that we perform tests of the department's compliance with certain material provisions of laws, regulations, contracts and grants. However, our objective was not to provide an opinion on the internal control structure or on overall compliance with finance-related legal provisions.

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.

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

Conclusions


The internal control structure categories that we examined included: investment purchases and sales, investment custody and valuation, investment income collection and allocation, and management fee payments and reimbursements. We found no weaknesses involving the internal control structure and its operation for these areas, except for certain matters that we reported to the management of the State Board of Investment at the exit conference held on January 19, 1995.

The results of our tests of compliance 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 the 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.

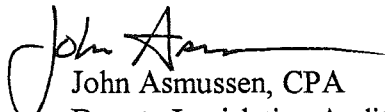
Senator Phil Riveness, Chair
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Howard J. Bicker, Executive Director
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This report is intended for the information of the Legislative Audit Commission and management of the State Board of Investment. This restriction is not intended to limit the distribution of this report, which was released as a public document on March 17, 1995.

We thank the State Board of Investment staff for their cooperation during this audit.



James R. Nobles
Legislative Auditor



John Asmussen, CPA
Deputy Legislative Auditor

End Of Fieldwork: December 13, 1994

Report Signed On: March 10, 1995

State Board of Investment

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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
Michael Hassing	Auditor-in-Charge
Mark Mathison, CPA	Auditor
Carl Otto, CPA	Auditor
Jenny Lee, CPA	Auditor
Dale Ogren, CPA	Auditor
Matthew Hoffer	Intern

Exit Conference

We discussed the results of the audit with the following officials from the State Board of Investment at an exit conference on January 19, 1995:

Howard J. Bicker	Executive Director
Beth Lehman	Assistant Executive Director
L. Michael Schmitt	Administrative Director

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 1994.

Table 1-1 shows the June 30, 1994 market value of investments for funds under the management of the State Board of Investment.

Table 1-1
Investments Balances (at Market Value)
June 30, 1994
(000's Omitted)

<u>Type</u>	<u>Amount</u>	<u>Percent</u>
Domestic Common Stock	\$ 9,303,709	39%
International Common Stock	1,967,550	8%
Alternative Equities	1,005,216	4%
Fixed Income Securities	7,586,136	32%
Short Term Securities	3,978,457	17%
Total	\$23,841,068	100%

Source: State Board of Investment Fiscal Year 1994 annual report and portfolio listings.
