

State Board of Investment

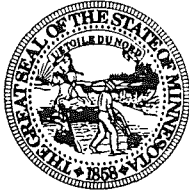
Programs Selected For Fiscal Year 1995 Statewide Audit

March 1996

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Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

96-11



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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JAMES R. NOBLES, LEGISLATIVE AUDITOR

Representative Ann H. Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission


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


Members of the Minnesota State Board of Investment

We have audited the financial statements of the Minnesota State Board of Investment (SBI) as of and for the fiscal year ended June 30, 1995, as further explained in the Background Information section of this report. The work conducted in the department is part of our Statewide Audit of the State of Minnesota's fiscal year 1995 financial statements. SBI's Annual Report for the year ended June 30, 1995 includes our unqualified audit opinion thereon, dated December 1, 1995. The following Summary highlights the audit objectives and conclusions.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we obtain an understanding of management controls relevant to the audit. The standards also require that we design the audit to provide reasonable assurance that SBI complied with provisions of laws, regulations, contracts, and grants that are significant to the audit. The management of SBI is responsible for establishing and maintaining the internal control structure and complying with applicable laws, regulations, contracts, and grants.

This report is intended for the information of the Legislative Audit Commission and the management of SBI. This restriction is not intended to limit the distribution of this report, which was released as a public document on March 29, 1996.


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: December 1, 1995

Report Signed On: March 26, 1996

SUMMARY

State of Minnesota

Office of the Legislative Auditor

Centennial Office Building • St. Paul, MN 55155
612/296-4708

State Board of Investment

Programs Selected for Fiscal Year 1995 Statewide Audit

Public Release Date: March 29, 1996

No. 96-11

Background Information

The Minnesota State Board of Investment (SBI) administers and directs the investment of state funds, primarily retirement funds. Minn. Stat. Chapter 11A governs the investment activities of the board. Howard J. Bicker is the executive director of the board.

The board uses both internal staff and external investment managers to fulfill its responsibilities. The external firms invest and manage the Post Retirement Fund and Supplemental Investment Fund, as well as the assets of the basic retirement funds and the assigned risk plan. SBI staff manage the other investments.

Audit Objectives

The primary objective of our audit was to render an opinion on the Investment Trust Fund financial statements. These financial statements are included both in SBI's Annual Report and in the State of Minnesota's Comprehensive Annual Financial Report for fiscal year 1995. Our objective included determining whether the financial statements presented fairly the financial position, results of operations, and changes in net assets in conformity with generally accepted accounting principles.

As part of our work, we were required to gain an understanding of the internal control structure and ascertain whether SBI complied with laws and regulations that may have a material effect on its financial statements. During our audit, we gained an understanding of the investment purchases and sales, investment custody and valuation, investment income collection and allocation, and management fee payments and reimbursement control cycles.

Conclusions

SBI's Annual Report for the year ended June 30, 1995 includes our unqualified audit opinion on the Investment Trust Fund's financial statements, dated December 1, 1995. The SBI financial statements are also included in the State of Minnesota's Comprehensive Annual Financial Report for the year ended June 30, 1995, which includes our audit opinion dated December 1, 1995. In addition, the Minnesota Financial and Compliance Report on Federally Assisted Programs for the year ended June 30, 1995 will include our reports on the internal control structure and compliance with laws and regulations for the state as a whole. We anticipate issuing that report in June 1996.

Contact the Financial Audit Division for additional information.
296-1235

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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
Jim Riebe, CPA	Audit Manager
Michael Hassing	Auditor-in-Charge
Mark Mathison, CPA	Auditor
Dale Ogren, CPA	Auditor
Beaujon Guerin	Auditor
Anna Lamin	Intern

Exit Conference

We discussed this report and minor issues involving the internal control structure with the following SBI staff at an exit conference on March 21, 1996:

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

State Board of Investment

Background Information

The Minnesota State Board of Investment (SBI) administers and directs the investment of state funds, primarily retirement funds. Article XI, Section 8 of the Constitution of the State of Minnesota creates the State Board of Investment. The board is comprised of the governor, state auditor, state treasurer, secretary of state, and attorney general. Minn. Stat. Chapter 11A governs the investment activities of the board. Howard J. Bicker is the executive director of the board.

The board uses both internal staff and external investment managers to fulfill its responsibilities. The external firms invest and manage the Post Retirement Fund and Supplemental Investment Fund, as well as the assets of the basic retirement funds and the assigned risk plan. SBI staff manage the other investments. Table 1-1 shows total funds under the management of the State Board of Investment as of June 30, 1995.

Table 1-1
Funds Under Management
June 30, 1995

<u>Fund</u>	<u>Market Value</u>
Basic Retirement Funds	\$11,130,000,000
Post Retirement Funds	10,241,832,000
State Cash Accounts	3,700,000,000
Supplemental Investment Fund	682,940,000
Assigned Risk Plan	513,013,102
Permanent School Fund	438,616,238
Environmental Trust Fund	108,969,459
Total Assets	<u>\$26,815,370,799</u>

Source: State Board of Investment fiscal year 1995 annual report.

The primary objective of our audit was to render an opinion on the Investment Trust Fund financial statements. These financial statements are included both in SBI's Annual Report and in the State of Minnesota's Comprehensive Annual Financial Report for fiscal year 1995. Our objective included determining whether the financial statements presented fairly the financial position, results of operations, and changes in net assets in conformity with generally accepted accounting principles.

As part of our work, we were required to gain an understanding of the internal control structure and ascertain whether SBI complied with laws and regulations that may have a material effect on its financial statements. During our audit, we gained an understanding of the following internal control cycles:

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

State Board of Investment

To address our audit objectives, we interviewed key department employees, reviewed applicable policies and procedures, confirmed investment balances with private investment managers and the custodial bank - State Street Bank of Boston - and performed analytical procedures, as appropriate. We reviewed the audit report and supporting workpapers of the external auditors of State Street Bank to ensure that controls within the bank were operating effectively. We also reviewed an audit of the Minnesota account conducted by the bank's internal audit staff; the report contained no findings or recommendations.

We also considered the annual actuarial valuation performed by the Legislative Commission on Pension and Retirement's actuary. The purpose of the actuarial valuation is to test how the retirement systems are achieving their fundamental financing objectives and to determine the actuarial status of the individual retirement system's participation in SBI's Post Retirement Fund.

SBI's Annual Report for the year ended June 30, 1995 includes our unqualified audit opinion on the Investment Trust Fund's financial statements, dated December 1, 1995. The SBI financial statements are also included in the State of Minnesota's Comprehensive Annual Financial Report for the year ended June 30, 1995, which includes our audit opinion dated December 1, 1995. In addition, the Minnesota Financial and Compliance Report on Federally Assisted Programs for the year ended June 30, 1995 will include our reports on the internal control structure and compliance with laws and regulations for the state as a whole. We anticipate issuing that report in June 1996.