



State of Wisconsin \ LEGISLATIVE AUDIT BUREAU

JANICE MUELLER
STATE AUDITOR

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February 25, 2004

Mr. David Mills, Executive Director and
Members of the Investment Board Audit Committee
121 East Wilson Street
Madison, Wisconsin 53703

Dear Mr. Mills and Members of the Investment Board Audit Committee:

We have completed a financial audit of the investment activity of the State Investment Fund, the Retirement Trust Funds, and the Various Funds managed by the State of Wisconsin Investment Board for the year ended June 30, 2003. We issued an unqualified auditor's report on the fair presentation of the financial statements. These financial statements and related opinions are included in the Investment Board's 2003 Annual Report.

As provided for in *Government Auditing Standards*, we are also furnishing you with the auditor's report on compliance and on internal control over financial reporting. We did not identify any compliance or control concerns required to be reported under these standards. Further, we note that the Investment Board continues to improve its valuation process for private equity investments, which had been an area of concern noted in past audits.

We appreciate the courtesy and cooperation extended to us by Investment Board staff during the audit.

Sincerely,

A handwritten signature in cursive script that reads 'Janice Mueller'.

Janice Mueller
State Auditor

JM/DA/bm

cc: Senator Carol Roessler
Senator Robert Cowles
Senator Alberta Darling
Senator Jeffrey Plale
Senator Julie Lassa

Representative Suzanne Jeskewitz
Representative Samantha Kerkman
Representative Dean Kaufert
Representative David Cullen
Representative Mark Pocan

Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

We have audited the financial statements of the State Investment Fund, the Retirement Trust Funds, and the Various Funds managed by the State of Wisconsin Investment Board as of and for the years ended June 30, 2003 and 2002, and have issued our reports thereon dated August 28, 2003, and November 24, 2003. The financial statements and related auditor's opinions have been included in the State of Wisconsin Investment Board's annual report for 2003. We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Investment Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Investment Board's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Further, we note that the Investment Board continues to improve the valuation process for its private equity investments. In past audits, we expressed concerns about the timeliness, completeness, and communication of valuation information for private equity investments. Recently, the Investment Board has taken steps to improve the valuation process. For example:

- the Private Markets Group provides operations staff an analysis of the direct investments in private equity within 90 days of the end of each quarter;
- the Private Markets Group has recently begun to formally track the receipt of annual and quarterly reports for private equity investments;
- the Investment Board has updated the Alternative Investment Pricing Procedures to reflect current policies; and
- the Private Markets Group is in the process of rewriting the Private Equity Procedures Manual.

This independent auditor's report is intended for the information and use of the Investment Board's management and Audit Committee, and the Wisconsin Legislature. This independent auditor's report, upon submission to the Joint Legislative Audit Committee, is a matter of public record, and its distribution is not limited. However, because we do not express an opinion on compliance or provide assurance on internal control over financial reporting, this report is not intended to be used by anyone other than these specified parties.

LEGISLATIVE AUDIT BUREAU

November 24, 2003

by



Diann Allsen
Audit Director