

**Report 17-3
February 2017**

State Investment Fund Fiscal Year 2015-16

State of Wisconsin Investment Board

STATE OF WISCONSIN



Legislative Audit Bureau ■

State Investment Fund

Fiscal Year 2015-16

State of Wisconsin Investment Board

Joint Legislative Audit Committee Members

Senate Members:

Robert Cowles, Co-chairperson
Chris Kapenga
Alberta Darling
Kathleen Vinehout
Mark Miller

Assembly Members:

Samantha Kerkman, Co-chairperson
John Macco
John Nygren
Melissa Sargent
Terese Berceau

LEGISLATIVE AUDIT BUREAU

State Auditor
Joe Chrisman

**Special Assistant to
the State Auditor**
Anne Sappenfield

**Financial Audit
Director**
Sherry Haakenson

Team Leader
Amanda Murkley

**Publications and
Design Coordinator**
Susan Skowronski

The Bureau is a nonpartisan legislative service agency responsible for conducting financial audits and performance evaluations of state agencies. The Bureau's purpose is to provide assurance to the Legislature that financial transactions and management decisions are made effectively, efficiently, and in compliance with state law and that state agencies carry out the policies of the Legislature and the Governor. Bureau reports typically contain reviews of financial transactions, analyses of agency performance or public policy issues, conclusions regarding the causes of problems found, and recommendations for improvement.

Reports are submitted to the Joint Legislative Audit Committee and made available to other committees of the Legislature and to the public. The Audit Committee may arrange public hearings on the issues identified in a report and may introduce legislation in response to the audit recommendations. However, the findings, conclusions, and recommendations in the report are those of the Legislative Audit Bureau.

The Bureau accepts confidential tips about fraud, waste, and mismanagement in any Wisconsin state agency or program through its hotline at 1-877-FRAUD-17.

For more information, visit www.legis.wisconsin.gov/lab.



Contact the Bureau at 22 East Mifflin Street, Suite 500, Madison, Wisconsin 53703;
AskLAB@legis.wisconsin.gov; or (608) 266-2818.

CONTENTS

Letter of Transmittal	1
------------------------------	----------

Auditor's Report	3
-------------------------	----------

OPINION PUBLISHED SEPARATELY

The financial statements and our opinion on them are included in the State of Wisconsin Investment Board's *State Investment Fund Annual Financial Report* for the fiscal year ended June 30, 2016



STATE OF WISCONSIN | Legislative Audit Bureau

22 East Mifflin St., Suite 500 ■ Madison, WI 53703 ■ (608) 266-2818 ■ Hotline: 1-877-FRAUD-17 ■ www.legis.wisconsin.gov/lab

Joe Chrisman
State Auditor

February 8, 2017

Senator Robert Cowles and
Representative Samantha Kerkman, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator Cowles and Representative Kerkman:

As required by ss. 13.94 (1) (df) and 25.17 (51), Wis. Stats., we have completed a financial audit of the State Investment Fund managed by the State of Wisconsin Investment Board (SWIB) as of and for the year ended June 30, 2016. The financial statements and our unmodified opinion on them are included in SWIB's *State Investment Fund Annual Financial Report*, which may be found on SWIB's website.

The State Investment Fund invests the excess operating funds of State of Wisconsin agencies, the retirement funds, and the Wisconsin Local Government Investment Pool. Net investment income earned by the State Investment Fund increased from \$7.9 million in fiscal year (FY) 2014-15 to \$25.5 million in FY 2015-16. The increase is attributable to an increase in the State Investment Fund's investment return, which was 0.28 percent for FY 2015-16 compared to 0.11 percent for FY 2014-15. After considering net investment income and net deposit and withdrawals, the State Investment Fund had a net position of \$9.5 billion as of June 30, 2016, an increase from \$7.9 billion as of June 30, 2015.

The Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters, which is required by *Government Auditing Standards*, begins on page 5. We did not identify any compliance or internal control concerns required to be reported under these standards.

Respectfully submitted,


Joe Chrisman
State Auditor

JC/SH/ss

Auditor's Report ■



Report 17-3

**Independent Auditor's Report on Internal Control over
Financial Reporting and on Compliance and Other Matters**

Senator Robert Cowles and
Representative Samantha Kerkman, Co-chairpersons
Joint Legislative Audit Committee

Mr. Michael Williamson, Executive Director and
Members of the Board of Trustees
State of Wisconsin Investment Board

We have audited the financial statements and the related notes of the State Investment Fund as of and for the year ended June 30, 2016, and have issued our report thereon dated January 26, 2017. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, which is issued by the Comptroller General of the United States. The financial statements and related auditor's opinion have been included in the *State Investment Fund Annual Financial Report* for the fiscal year ended June 30, 2016.

Internal Control over Financial Reporting

Management of the State of Wisconsin Investment Board (SWIB) is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit of the financial statements, we considered SWIB's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SWIB's internal control. Accordingly, we do not express an opinion on the effectiveness of SWIB's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent misstatements, or to detect and correct misstatements on a timely basis. A *material weakness* is a deficiency or a combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the State Investment Fund's financial statements will not be prevented, or that a material misstatement will not be detected and corrected on a timely basis. A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State Investment Fund's financial statements are free from material misstatement, we performed tests of 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 or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be used when considering SWIB's internal control and compliance. The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of SWIB's internal control or on compliance. Accordingly, this report is not suitable for any other purpose.

LEGISLATIVE AUDIT BUREAU



Joe Chrisman
State Auditor

January 26, 2017