

FINANCIAL AUDIT

Montana Board of Investments

For the Fiscal Year Ended June 30, 2015

DECEMBER 2015

14-04B

REPORT SUMMARY

The Montana Board of Investments has sole authority to invest public funds, public retirement system funds, and state compensation insurance fund assets in accordance with state law and the Montana Constitution. In addition, the board manages the investments of state agencies and certain investments of local governments, such as cities, counties, and school districts. The board managed and invested \$16.5 billion at June 30, 2015.

### Context

Article VIII, Section 13 of the Montana Constitution requires the Legislature to provide for a Unified Investment Program (UIP) for public funds.

To manage the UIP, the Montana Board of Investments (board) created seven investment pools that operate similar to mutual funds. Those pools are: Retirement Funds Bond Pool, Trust Funds Investment Pool, Montana Domestic Equity Pool, Montana International Equity Pool, Montana Private Equity Pool, Montana Real Estate Pool, and Short Term Investment Pool. The board also manages direct investments in fixed income securities, equity index funds, and commercial loans for approximately 20 state agencies. Those investments are reported collectively in the board's financial statements as All Other Funds.

The Montana Constitution also requires the board to be audited at least annually. To audit the board's UIP, our audit work included comparing the investment transactions recorded by the board to the reports from the custodial bank. The custodial bank is charged with the safekeeping of investment assets, it settles purchases and sales of securities, collects information regarding the assets and the related income, and provides information and support to the board in its administration. We analyzed the financial statements and examined

the underlying transactions. The audit also included testing the board's compliance with selected state laws and regulations related to investments.

The board also administers the state's Municipal Finance Consolidation Act and Economic Development Bond Act programs, known as the Enterprise Fund Program. Under the Municipal Finance Consolidation Act, the board is authorized to issue up to \$190 million in Intermediate Term Capital Program (INTERCAP) bonds which are used to provide loans to eligible Montana governments to finance capital expenditures for up to 15 years. The board makes firm commitments to fund loans from the INTERCAP loan program. The outstanding commitments to eligible Montana governments as of June 30, 2015, total \$38 million. Economic Development Bond Act programs provide access to financing through issuance of conduit debt. The board is authorized to issue stand-alone industrial revenue as conduit (no commitment) debt. Assets and revenues of the borrower are pledged to repay the bonds. Because the board has no obligation for this debt, these bond issues are not reflected on the board's financial statements but are disclosed in the notes.

We are required to audit the Municipal Finance Consolidation Act by §17-5-1529, MCA, and the Economic Development Bond

Act programs by §17-5-1649, MCA. To audit this activity, our audit work included reviewing loan documents and payments. We compared the underlying transactions related to the loans to bank statements. We also tested the board's compliance with selected state laws and regulations related to the issuance of bonds and notes.

## Results

There were no prior audit recommendations; and there are no current audit recommendations.

For a complete copy of the report (14-04B) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to [lad@mt.gov](mailto:lad@mt.gov); or check the web site at <http://leg.mt.gov/audit>  
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