

FINANCIAL-COMPLIANCE AUDIT

Montana Board of Investments

For the Fiscal Year Ended June 30, 2016

JANUARY 2017

16-04A

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 approximately \$16.7 billion of investments at June 30, 2016, and distributed approximately \$555.3 million in income to participants in fiscal year 2016.

Context

Article VIII, Section 13 of the Montana Constitution requires the Legislature to provide for a Unified Investment Program (UIP) for public funds, and Section 17-6-201, MCA, requires the UIP to be administered by the Montana Board of Investments (board). To manage the UIP, the board has created seven investment pools that operate similar to mutual funds. The state's retirement systems are the only eligible participants for five of these pools. State agencies and local governments may participate in the other two pools, provided they meet the requirements for participation. At June 30, 2016, the board managed approximately \$16.7 billion of investments in the UIP. The board distributed approximately \$555.3 million in income to participants in fiscal year 2016.

The board also administers the state's Municipal Finance Consolidation Act (MFC) and Economic Development Bond Act (EDB) programs, known as the Enterprise Fund Program. Under the MFC, the board

is authorized to issue up to \$190 million in bonds. The proceeds of the Intermediate Term Capital Program (INTERCAP) bonds issued under the MFC are loaned to eligible Montana state and local governments to finance capital expenditures. The board makes firm commitments to fund loans through the INTERCAP program. At June 30, 2016, the board's outstanding commitments for INTERCAP loans were \$44.1 million.

Additionally, under both the MFC and EDB programs, the board is authorized to provide governments with access to financing through the issuance of conduit (no-commitment) debt. Assets and revenues of the borrower are pledged to repay the debt. Because the board has no obligation for this debt, these bonds are not reflected on the Enterprise Fund financial statements. They are, however, disclosed in the notes. At June 30, 2016, the total conduit debt outstanding under the MFC program was \$14.6 million, and there was no debt outstanding under the EDB program.

Results

The Montana Constitution and state law require the board to be audited annually. The board issues separate financial statements for the UIP and Enterprise Fund Program. Our audit work included: analyzing the financial statements and note disclosures; examining the underlying financial activity and tying it to support from external parties, as applicable; and reviewing and testing selected control systems. We also tested the board's compliance with selected state laws and regulations.

Based on our audit work, we made no recommendations to the board.

For a complete copy of the report (16-04A) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to lad@mt.gov; or check the web site at <http://leg.mt.gov/audit>
Report Fraud, Waste, and Abuse to the Legislative Auditor's FRAUD HOTLINE
Call toll-free 1-800-222-4446, or e-mail ladhotline@mt.gov.