



MICHIGAN

OFFICE OF THE AUDITOR GENERAL

FOLLOW-UP REPORT
ON THE
BUREAU OF INVESTMENTS

DEPARTMENT OF TREASURY

July 2014



Doug A. Ringler, C.P.A., C.I.A.
AUDITOR GENERAL

The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.

– Article IV, Section 53 of the Michigan Constitution

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AUDITOR GENERAL

July 29, 2014

Mr. R. Kevin Clinton
State Treasurer
Richard H. Austin Building
Lansing, Michigan

Dear Mr. Clinton:

This is our report on our follow-up of the 8 reportable conditions (Findings 1 through 8) and 8 corresponding recommendations reported in the performance audit of the Bureau of Investments (BOI), Department of Treasury. That audit report was issued and distributed in September 2006. Additional copies are available on request or at <<http://audgen.michigan.gov>>.

This report contains an introduction, our purpose of follow-up, a background, our scope, follow-up conclusions and results, and a glossary of abbreviations and terms.

Our follow-up disclosed that BOI had complied with 4 recommendations, BOI had substantially complied with 3 recommendations, and 1 recommendation was no longer applicable.

If you have any questions, please call me or Scott M. Strong, C.P.A., C.I.A., Deputy Auditor General.

Sincerely,

A handwritten signature in black ink that reads "Doug Ringler".

Doug Ringler, C.P.A., C.I.A.
Auditor General

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FOLLOW-UP REPORT BUREAU OF INVESTMENTS DEPARTMENT OF TREASURY

INTRODUCTION

This report contains the results of our follow-up of the reportable conditions* and corresponding recommendations reported in our performance audit* of the Bureau of Investments (BOI), Department of Treasury (27-250-05), which was issued and distributed in September 2006. That audit report included 8 reportable conditions (Findings 1 through 8). This report also contains the Department of Treasury's plan to comply with our prior audit recommendations, which was required by the *Michigan Compiled Laws* and administrative procedures to be developed within 60 days after release of the September 2006 audit report.

PURPOSE OF FOLLOW-UP

The purpose of this follow-up was to determine whether BOI had taken appropriate corrective measures in response to the 8 reportable conditions and 8 corresponding recommendations noted within our September 2006 audit report.

BACKGROUND

The mission* of BOI is to provide quality investment management services, professional expertise, and advice to the State Treasurer as fiduciary of the State of Michigan retirement systems* (SMRS) and State of Michigan boards and agencies. BOI strives to provide consistent and cost-effective* management of funds to achieve competitive investment returns that meet objectives within an acceptable level of risk for the benefit of employees, retirees, and citizens of the State of Michigan.

BOI is responsible for managing the investments of SMRS, which consists of the Michigan Judges', Michigan Public School Employees', Michigan State Employees', and

* See glossary at end of report for definition.

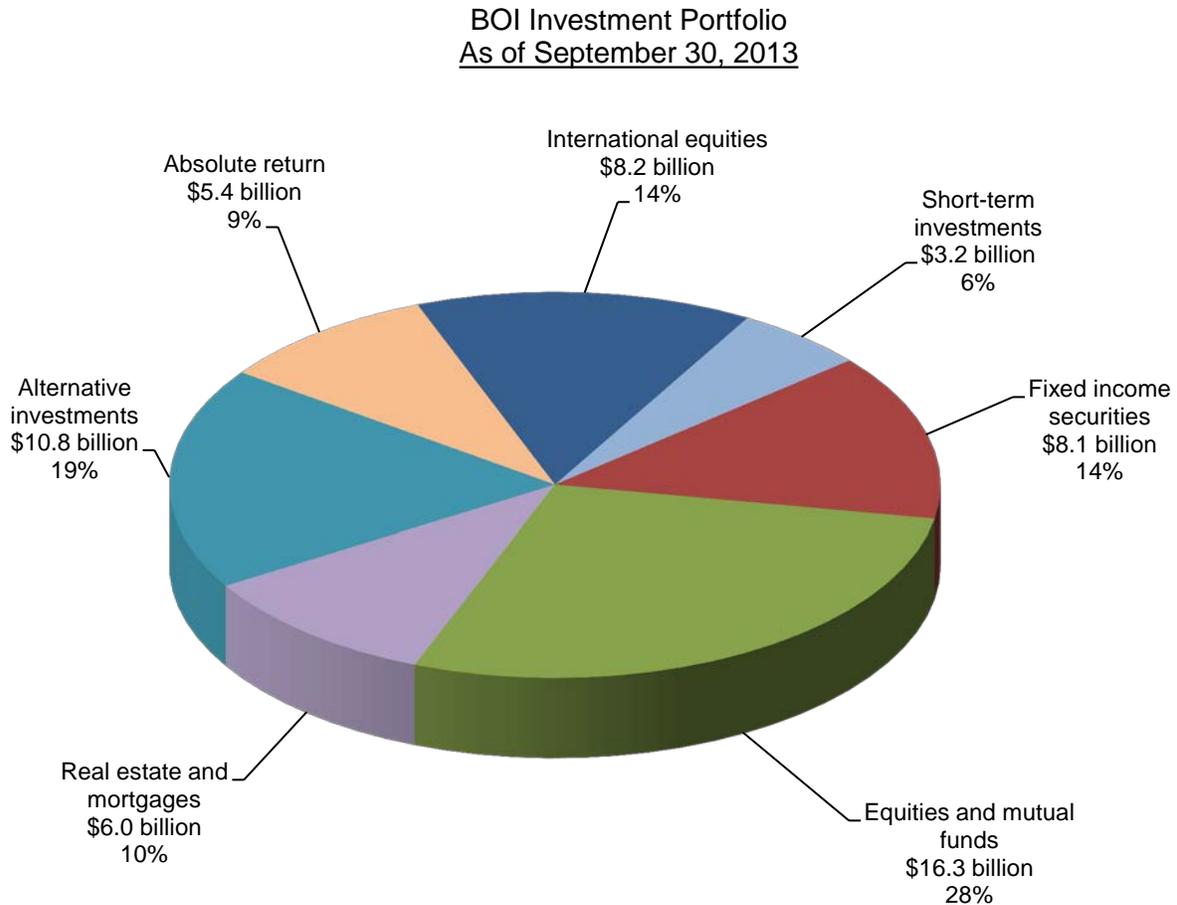
Michigan State Police Retirement Systems. Sections 38.1132 - 38.1140m of the *Michigan Compiled Laws* (Act 314, P.A. 1965) define and limit the investments that may be made by an investment fiduciary with assets of a public employee retirement system and prescribe the powers and duties of investment fiduciaries, including those of the State Treasurer. BOI reports directly to the State Treasurer, as sole investment fiduciary of SMRS, who has final approval for all investment decisions. BOI maintains separate investment performance data and asset allocation policies for each of the four retirement systems. SMRS is the eighteenth largest public pension fund and the twenty-first largest pension fund in the United States.

BOI reports quarterly investment activity related to SMRS to the Investment Advisory Committee (IAC). IAC reviews the investments, goals, and objectives of SMRS and may submit recommendations to the State Treasurer. IAC, which was created by Section 16.191 of the *Michigan Compiled Laws* (Act 380, P.A. 1965), is composed of the director of the Department of Licensing and Regulatory Affairs; the director of the Department of Technology, Management, and Budget; and three public members appointed by the Governor.

BOI is also responsible for managing the investments of surplus cash in the State Treasury in accordance with Sections 21.141 - 21.147 of the *Michigan Compiled Laws* (Act 105, P.A. 1855). This includes managing the State's Common Cash pool to ensure that sufficient money is on hand to meet the cash disbursement needs of the State and managing the investment of surplus cash for various special loan programs.

BOI also manages the investments for various State agency governmental and trust funds, the State Lottery, the Michigan Education Trust, and the Mackinac Bridge Authority, in accordance with the enabling statutes for these funds.

As of September 30, 2013, the total portfolio of investments managed by BOI was \$58.0 billion, consisting of the following types of investments:



Source: Annual Report of the Michigan State Treasurer.

As of September 30, 2013, the market value of SMRS investments was \$55.3 billion, approximately 95% of total investments managed by BOI. Approximately 30% of the total SMRS investment portfolio, made up of primarily alternative investments and real estate investments, was managed by outside advisors.

BOI administers its activities in the following nine divisions:

1. The Alternative Investments Division manages SMRS investments in the private equity market primarily through limited partnerships.
2. The Long-Term Fixed Income Division manages investments in long-term government and corporate bonds.
3. The Short-Term Fixed Income, Absolute and Real Return Division manages investments and deposits in the State's Common Cash pool. Also, the Division manages the absolute return, real return, and opportunistic portfolios of SMRS.
4. The Real Estate and Infrastructure Division manages SMRS investments in real estate and real estate related investments through limited partnerships, limited liability companies, and commingled funds*.
5. The Quantitative Analysis Division manages SMRS investments in passive domestic and international equity pools, including swap agreements and futures contracts.
6. The Stock Analysis Division manages SMRS investments in active equities.
7. The Trust Accounting Division is responsible for accounting and reporting functions for the investments managed by BOI.
8. The Defined Contribution, Trusts and Agencies Division provides investment oversight of the construction, investment lineup, and fund performance of the defined contribution plans and the Michigan Education Savings Program. Also, the Division manages the investment portfolios of the various nonretirement trust and agency funds administered by BOI.
9. The Compliance and Corporate Governance Division monitors investment activities for compliance with laws, regulations, and contracts; assists with the establishment of external manager contracts; provides oversight of proxy voting; and monitors securities litigation and settlements.

** See glossary at end of report for definition.*

SCOPE

Our fieldwork was primarily performed during July through September 2013 and during May and June 2014. We interviewed BOI personnel and reviewed their corrective action plans to determine the status of compliance with our audit recommendations. We reviewed BOI's methods for evaluating and measuring the performance of its employees. We also reviewed BOI's operating procedures for each division. We assessed BOI's practices for participating in and monitoring securities class action claims and settlements. We reviewed and tested BOI's controls over its procedures for restricting personal trading activities of its employees. We assessed the timeliness of BOI's receipt of reports from various investment entities. We reviewed recent SMRS comprehensive annual reports to determine whether expenses paid with "soft dollars" are annually published. We assessed BOI's practices for complying with investment protection principles. We also assessed BOI's efforts to evaluate its investment costs in relation to its peers.

FOLLOW-UP CONCLUSIONS AND RESULTS

EFFECTIVENESS* OF EFFORTS IN ACHIEVING COMPETITIVE RETURNS ON INVESTMENTS WITHIN PRUDENT LEVELS OF RISK

SUMMARY OF THE SEPTEMBER 2006 FINDING

1. **Employee Performance Evaluations**

BOI did not evaluate all of its employees who were responsible for making investment decisions and recommendations on a basis that was consistent with the performance objectives established for its investments.

BOI's investment policy statements for SMRS provide measurable investment performance objectives for each SMRS portfolio and for individual asset classes.

Our review of the performance objectives used to evaluate 21 employees responsible for making investment decisions and recommendations disclosed:

- a. The performance objectives for 3 division administrators were not consistent with the investment performance benchmarks established for their divisions.
- b. The performance objectives for 3 employees were based on the investment performance of the entire portfolio managed by their division, but were not based on the investment performance of the specific investment portfolio assigned to these employees.
- c. The performance objectives for 10 employees were not directly related to investment performance.

RECOMMENDATION (AS REPORTED IN SEPTEMBER 2006)

We recommend that BOI evaluate its employees who are responsible for making investment decisions and recommendations on a basis that is consistent with the performance objectives established for its investments.

* See glossary at end of report for definition.

AGENCY PLAN TO COMPLY*

BOI has updated and improved its employee performance evaluations to better align them with investment performance objectives.

FOLLOW-UP CONCLUSION

We concluded that BOI had substantially complied with the recommendation.

FOLLOW-UP RESULTS

Our follow-up disclosed:

- a. Regarding part a. of the finding, BOI updated its performance evaluations for its division administrators to be consistent with investment performance benchmarks established for their divisions.
- b. Regarding parts b. and c. of the finding, BOI employees continue to be evaluated on division activities such as communicating with companies to obtain investment information and making buy, sell, and hold recommendations that are appropriate for the division's economic and market outlooks. BOI indicated that division administrators make investment decisions and assign investments to an employee's portfolio. Therefore, the responsibility for achieving the divisions' investment performance benchmarks is primarily under the control of the division administrators. As a result, we did not continue to take exception to this practice.

EFFECTIVENESS OF ADMINISTRATIVE CONTROLS OVER INVESTMENT FUNCTION

SUMMARY OF THE SEPTEMBER 2006 FINDING

2. Securities Litigation

BOI did not have effective controls over its securities class action claim and recovery process.

** See glossary at end of report for definition.*

BOI's procedures for managing securities class action claims on behalf of SMRS provide that its custodial bank* shall be responsible for the timely filing of proofs of claim in all actions involving securities held on behalf of SMRS. BOI's procedures also provide that BOI staff shall be responsible for monitoring the timely and effective filing of proofs of claim by BOI's custodial bank.

Our review disclosed:

- a. BOI's contract with its custodial bank did not provide that its custodial bank was responsible for filing proofs of claim for BOI. In addition, BOI informed us that it had not reviewed the custodial bank's written procedures for filing proofs of claim.
- b. BOI did not maintain reports of securities class action claims filed on its behalf as compiled by its custodial bank to track the status of filed claims and proceeds received. Our review of the custodial bank's reports subsequently obtained by BOI noted:
 - (1) BOI's custodial bank did not file 28 (21.7%) of 129 proofs of claim for SMRS within the claim deadline.
 - (2) The custodial bank's report of securities class action claims did not always contain accurate information.

RECOMMENDATION (AS REPORTED IN SEPTEMBER 2006)

We recommend that BOI improve its controls over its securities class action claim and recovery process.

AGENCY PLAN TO COMPLY

BOI has included securities class action filing responsibilities in its new custodial banking contract, which was executed in June 2006. In July 2006, BOI entered into an agreement with an independent securities class action expert, who will assist in monitoring the custodial bank's compliance with contractual requirements for timely filing of proofs of claim.

* See glossary at end of report for definition.

FOLLOW-UP CONCLUSION

We concluded that BOI had complied with the recommendation.

FOLLOW-UP RESULTS

Our follow-up disclosed:

- a. Regarding part a. of the finding, BOI included securities class action filing responsibilities in its current contract with its custodial bank.
- b. Regarding part b. of the finding, BOI entered into a contract with a third party for litigation monitoring services. The scope of this contract requires the third party to monitor and review securities litigations, estimate damages, verify timely submission of claims by the custodian, verify settlements, and provide reports and training. We reviewed the custodial bank's report of 131 securities class action claims with claim deadlines during the period October 1, 2010 through June 30, 2013. We noted that the custodial bank's report of securities class action claims contained accurate information, and we did not note any late or unfiled security class action claims during this period.

SUMMARY OF THE SEPTEMBER 2006 FINDING

3. Personal Trade Controls

BOI should improve controls over its procedures for restricting personal trading activities of its employees.

BOI implemented a policy restricting employee personal trading activities as part of its professional conduct expectations policy. The policy requires BOI employees to obtain approval from BOI's chief administrative officer (currently BOI's chief operating officer) prior to engaging in personal securities transactions for stocks, corporate bonds, exchange-traded funds, convertible securities, warrants, options, and other derivatives. BOI employees, Department of Information Technology (currently Department of Technology, Management, and Budget) employees who provide technology support to BOI, and the State Treasurer are subject to the policy, in addition to their spouses and minor children.

BOI developed an electronic personal trading system whereby stocks that BOI is trading or considering trading are placed on a restricted stock list within the personal trading system. BOI employees can then use the personal trading system to request electronic preapproval for their personal trade requests for stocks.

Also, within 30 days of the end of each quarter, BOI employees are required to submit personal securities brokerage statements to the chief operating officer if the employees engaged in personal trading activity.

Our review of BOI's controls over the personal trading policy disclosed:

- a. BOI did not ensure that the restricted stock list was properly updated and maintained to ensure that BOI employees did not inadvertently trade a stock that should have been restricted.
- b. BOI required only employees who had submitted personal trade requests to submit personal securities brokerage statements; therefore, BOI could not ensure that all employees were complying with the policy.

RECOMMENDATION (AS REPORTED IN SEPTEMBER 2006)

We recommend that BOI improve controls over its procedures for restricting personal trading activities of its employees.

AGENCY PLAN TO COMPLY

BOI notes that the implementation of the current electronic personal trading control system was one of the first of its kind among public pension investment organizations. BOI has implemented a procedure requiring the chief operating officer to review and approve the restricted stock list (including deletions). BOI will evaluate the benefits of requiring all employees to submit personal securities brokerage statements, as well as make enhancements to its current personal trading control system.

FOLLOW-UP CONCLUSION

We concluded that BOI had substantially complied with the recommendation.

FOLLOW-UP RESULTS

Our follow-up disclosed:

- a. Regarding part a. of the finding, our testing of a sample of 25 BOI stock trades, 25 restricted stock list deletions, and 25 employee personal trade requests from December 1, 2013 through June 18, 2014 noted that the restricted stock list was properly updated and maintained.
- b. Regarding part b. of the finding, BOI began to require all employees to respond to a quarterly e-mail to state whether they had engaged in personal trade activities or not. An employee who had engaged in personal trade activities was also required to submit personal securities brokerage statements. Our testing disclosed no instances of noncompliance. However, BOI did not obtain financial information from external sources to provide additional assurance that BOI employees were complying with the policy.

SUMMARY OF THE SEPTEMBER 2006 FINDING

4. Investment Protection Principles

BOI did not ensure that all money management and brokerage firms retained or utilized by BOI complied with the Investment Protection Principles (IPP), as required by Executive Directive No. 2003-11. The IPP was designed to ensure that potential conflicts of interest do not influence the investment decisions of money management firms that handle investments for public pension funds as well as other investors.

RECOMMENDATION (AS REPORTED IN SEPTEMBER 2006)

We recommend that BOI ensure that all money management and brokerage firms retained or utilized by BOI comply with IPP, as required by Executive Directive No. 2003-11.

AGENCY PLAN TO COMPLY

BOI has received signed IPP letters from all securities brokerage firms, external money management firms, and external mutual fund managers retained or utilized

by BOI. Also, BOI has implemented procedures that will ensure that IPP letters are signed and returned as a condition precedent to the commencement of any future relationship with firms providing these services.

FOLLOW-UP CONCLUSION

We concluded that the recommendation was no longer applicable.

FOLLOW-UP RESULTS

Our follow-up disclosed:

- a. Regarding the money management firms, our audit procedures indicated that BOI had begun to include IPP language in the new contracts. We sampled 5 of the 30 external management firms under contract with BOI as of August 2013 and noted that BOI either obtained signed letters stating compliance with IPP or included IPP language in the contract.
- b. Regarding the brokerage firms, our audit procedures indicated that BOI did not continue to require signed acknowledgment and acceptance of IPP or similar principles. As of April 2014, BOI has accounts with 57 brokerage firms.
- c. Executive Directive No. 2003-11, issued during the former governor's administration, is no longer enforceable.

SUMMARY OF THE SEPTEMBER 2006 FINDING

5. Real Estate Investments

BOI did not always ensure that real estate investment entities submitted quarterly and annual reports on a timely basis.

During the period October 1, 2002 through June 30, 2005, BOI held most of its real estate investments through various legal investment entities, such as limited partnerships and limited liability companies. BOI's investment agreements with the legal entities require that they submit quarterly reports and annual audit reports to BOI by various due dates, ranging from 30 to 45 days after the end of each quarter for quarterly reports and ranging from 75 to 120 days after the end of the calendar year for annual audit reports.

Our review of 10 (27.8%) of 36 investment agreements and the quarterly and annual reports received for the period October 1, 2002 through March 31, 2005 disclosed:

- a. Of the 72 quarterly reports submitted, 27 (37.5%) were submitted more than one week late, ranging from 1 to 18 weeks late. On average, the reports were submitted 4.5 weeks late.
- b. Of the 23 annual audited financial statements submitted, 15 (65.2%) were submitted more than one week late, ranging from 1 to 35 weeks late. On average, the reports were submitted 9.5 weeks late.

RECOMMENDATION (AS REPORTED IN SEPTEMBER 2006)

We recommend that BOI ensure that real estate investment entities submit quarterly and annual reports on a timely basis.

AGENCY PLAN TO COMPLY

BOI has improved controls to help ensure that real estate investment entities submit future reports within required time frames. BOI's Mortgage and Real Estate Division (currently BOI's Real Estate and Infrastructure Division [REID]) has implemented policies and procedures to formally notify annually all real estate partners, managers, and/or trustees of their schedule of reporting deadlines for the upcoming year (as specified in their business agreements). Also, REID staff will notify electronically any party who fails to submit a quarterly report within 10 days of its due date or an annual audited report within 30 days of its due date. In addition, BOI is reviewing existing reporting deadlines for those instances in which partnership assets have grown substantially since controlling documents were first written to assess the reasonableness of such deadlines. Finally, REID staff will seek the assistance of the Department of Attorney General to amend partnership documents where warranted.

FOLLOW-UP CONCLUSION

We concluded that BOI had substantially complied with the recommendation.

FOLLOW-UP RESULTS

Our follow-up disclosed that BOI made substantial improvements receiving real estate investment entities' quarterly and annual reports on a timely basis.

Of the 205 quarterly reports submitted for calendar year 2012, only 19 (9.3%) were submitted more than one week late, ranging from 1 to 6 weeks late. This demonstrates a 28.2% improvement in receiving timely quarterly reports as compared with part a. of the finding.

Of the 58 annual audited financial statements submitted for calendar year 2012, 6 (10.3%) were submitted more than one week late, ranging from 4 to 19 weeks late. This demonstrates a 54.9% improvement in receiving timely annual reports as compared with part b. of the finding.

SUMMARY OF THE SEPTEMBER 2006 FINDING

6. Investment Activities Procedures

BOI did not have complete updated operating procedures and did not obtain approval for updated operating procedures for all investment activities in a timely manner.

Our review of BOI's operating procedures disclosed:

- a. BOI did not have complete operating procedures for its Long-Term Fixed Income Division and Quantitative Analysis Division during the audit period. BOI had developed policy statements for these divisions but had not developed specific procedures applicable to these policies. BOI subsequently developed operating procedures for these divisions and submitted them to the Department of Treasury for approval in September 2005.
- b. BOI did not submit updated operating procedures for its Alternative Investments Division and Stock Analysis Division to the Department of Treasury for approval in a timely manner. Our review disclosed that most of the formal operating procedures for the Alternative Investments Division had expired in 2000 and most of the formal operating procedures for the Stock Analysis Division had expired in 2003 and 2004. During our audit fieldwork in

May 2005, BOI submitted updated operating procedures for these divisions to the Department of Treasury for approval.

RECOMMENDATION (AS REPORTED IN SEPTEMBER 2006)

We again recommend that BOI develop complete updated operating procedures and obtain approval for updated operating procedures for all investment activities in a timely manner.

AGENCY PLAN TO COMPLY

BOI has submitted updated operating procedures for all divisions and investment activities to the Department of Treasury's Forms and Document Services Section. BOI's updated procedures have been finalized and approved and are proceeding through the Department of Treasury's review and revision process.

FOLLOW-UP CONCLUSION

We concluded that BOI had complied with the recommendation.

FOLLOW-UP RESULTS

Our follow-up disclosed that each of the nine BOI divisions had complete and updated procedures for BOI's investment activities.

EFFECTIVENESS OF EFFORTS IN ENSURING COST-EFFECTIVENESS OF INVESTMENT FUNCTION

SUMMARY OF THE SEPTEMBER 2006 FINDING

7. Evaluation of Investment Costs

BOI did not conduct a formal evaluation of its investment costs to ensure that it was operating in a cost-effective manner relative to its peers.

BOI's mission states that BOI strives to provide cost-effective management of funds, including the investments of SMRS and various State of Michigan boards and agencies. As of September 30, 2004, the investments of SMRS made up approximately 95% of the \$49.5 billion in investments managed by BOI. One of the investment goals and objectives of SMRS is to operate in a cost-effective manner

relative to its peers. As of June 30, 2005, SMRS was included in a universe consisting of 58 public pension funds with assets exceeding \$1 billion.

For the fiscal year ended September 30, 2004, BOI's operating costs for internally managing SMRS investments were approximately \$8.6 million. Approximately 20% of the total SMRS investment portfolio, made up of primarily alternative investments and real estate investments, was managed by outside advisors during fiscal year 2003-04. BOI informed us that management fees in calendar year 2004 were approximately \$94.6 million and \$20.3 million for alternative investments and real estate investments, respectively.

RECOMMENDATION (AS REPORTED IN SEPTEMBER 2006)

We recommend that BOI conduct a formal evaluation of its investment costs to ensure that it is operating in a cost-effective manner relative to its peers.

AGENCY PLAN TO COMPLY

BOI will continue to improve its own evaluations by assessing internal operating costs and external management fees in relation to total investment returns by investment class. In 2001, a formal comprehensive study of all aspects of its operations, including investment costs, was contracted. The study concluded that BOI's internal investment costs were competitive relative to other public fund systems with in-house management. Considering current State budgetary constraints and the fact that there have been no material changes in the scope of investments managed by BOI or BOI's operating costs and external management fees, a formal third-party evaluation is not justifiable at this time.

FOLLOW-UP CONCLUSION

We concluded that BOI had complied with the recommendation.

FOLLOW-UP RESULTS

Our follow-up disclosed that BOI obtained an evaluation from a third party in 2012 for its investments in SMRS. We noted that this evaluation report included many operational comparisons to peers, such as asset holdings, returns, and investment costs.

SUMMARY OF THE SEPTEMBER 2006 FINDING

8. Soft Dollar Arrangements

BOI did not annually publish a list of all expenses paid by "soft dollars" as required by statute.

Section 38.1133(10) of the *Michigan Compiled Laws* requires that public employee retirement systems annually publish and make available to plan participants and beneficiaries a list of all expenses paid by soft dollars. The U.S. Securities and Exchange Commission (SEC) defines soft dollars as arrangements whereby products or services other than execution of securities transactions are obtained by an investment manager from a brokerage firm in exchange for the investment manager directing securities transactions to the brokerage firm for execution.

BOI paid approximately \$2.6 million to investment brokerage firms for research services in fiscal year 2003-04.

RECOMMENDATION (AS REPORTED IN SEPTEMBER 2006)

We recommend that BOI annually publish a list of all expenses paid by soft dollar arrangements as required by statute.

AGENCY PLAN TO COMPLY

BOI agrees that Section 38.1133(10) of the *Michigan Compiled Laws* requires it to publish and make available to plan participants and beneficiaries a list of all expenses paid by soft dollars. BOI published its estimated brokerage firm research costs within the fiscal year 2004-05 SMRS comprehensive annual financial reports. The SEC recently confirmed that Section 28(e) of the Securities Exchange Act of 1934 regarding soft dollar regulation does not apply to public pension plans. However, in accordance with Section 38.1133(10) of the *Michigan Compiled Laws*, BOI will continue to publish this information in the SMRS comprehensive annual financial reports.

FOLLOW-UP CONCLUSION

We concluded that BOI had complied with the recommendation.

FOLLOW-UP RESULTS

Our follow-up disclosed that the fiscal year 2011-12 and 2012-13 SMRS comprehensive annual financial reports listed the estimated research costs paid to the investment brokerage firms. According to the fiscal year 2012-13 SMRS comprehensive annual financial report, BOI estimated that it paid approximately \$1.8 million to investment brokerage firms for research services in fiscal year 2012-13.

Glossary of Abbreviations and Terms

agency plan to comply	The response required by Section 18.1462 of the <i>Michigan Compiled Laws</i> and the State of Michigan Financial Management Guide (Part VII, Chapter 4, Section 100). The audited agency is required to develop a plan to comply with Office of the Auditor General audit recommendations and submit the plan within 60 days after release of the audit report to the Office of Internal Audit Services, State Budget Office. Within 30 days of receipt, the Office of Internal Audit Services is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.
BOI	Bureau of Investments.
commingled funds	A term applied to all open-end and closed-end pooled investment vehicles designed for institutional tax-exempt investors. A commingled fund may be organized as a group trust, partnership, corporation, insurance company separate account, or other multiple ownership entity.
cost-effective	Economical in terms of tangible benefits produced by money spent.
custodial bank	A financial institution that has the legal responsibility for managing and safekeeping the customer's securities.
effectiveness	Program success in achieving mission and goals.
IAC	Investment Advisory Committee.
IPP	Investment Protection Principles.
mission	The agency's main purpose or the reason that the agency was established.

performance audit	An economy and efficiency audit or program audit that is designed to provide an independent assessment of the performance of a governmental entity, program, activity, or function to improve public accountability and to facilitate decision making by parties responsible for overseeing or initiating corrective action.
REID	Real Estate and Infrastructure Division.
reportable condition	A matter that, in the auditor's judgment, represents either an opportunity for improvement or a significant deficiency in management's ability to operate a program in an effective and efficient manner.
SEC	U.S. Securities and Exchange Commission.
State of Michigan retirement systems (SMRS)	Michigan Judges' Retirement System, Michigan Public School Employees' Retirement System, Michigan State Employees' Retirement System, and Michigan State Police Retirement System.

