



Michigan  
*Office of the Auditor General*  
**REPORT SUMMARY**

*Performance Audit*

*Bureau of Investments*

*Department of Treasury*

Report Number:  
27-250-05

Released:  
September 2006

*The mission of the Bureau of Investments (BOI), Department of Treasury, 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.*

***Audit Objective:***

To assess the effectiveness of BOI's efforts in achieving competitive returns on investments within prudent levels of risk.

***Audit Conclusion:***

We concluded that BOI's efforts were moderately effective in achieving competitive returns on investments within prudent levels of risk. Our assessment disclosed a reportable condition related to employee performance evaluations (Finding 1).

~ ~ ~ ~ ~

***Audit Objective:***

To assess the effectiveness of BOI's administrative controls over its investment function.

***Audit Conclusion:***

We concluded that BOI's administrative controls over its investment function were moderately effective. Our assessment disclosed reportable conditions related to securities litigation, personal trade controls,

Investment Protection Principles, real estate investments, and investment activities procedures (Findings 2 through 6).

***Noteworthy Accomplishments:***

BOI informed us that, in July 2004, it completed its transition to a mutual fund type management of its asset class portfolios for SMRS, resulting in increased flexibility and diversification of investment strategies as well as less time-intensive reconciliations with the custodial bank.

~ ~ ~ ~ ~

***Audit Objective:***

To assess the effectiveness of BOI's efforts in ensuring the cost-effectiveness of its investment function.

***Audit Conclusion:***

We concluded that BOI's efforts were moderately effective in ensuring the cost-effectiveness of its investment function. Our assessment disclosed reportable

conditions related to evaluation of investment costs and soft dollar arrangements (Findings 7 and 8).

~ ~ ~ ~ ~

**Agency Response:**

Our audit report includes 8 findings and 8 corresponding recommendations. BOI's preliminary response indicates that it agrees with all the recommendations.

~ ~ ~ ~ ~

A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: <http://audgen.michigan.gov>



Michigan Office of the Auditor General  
201 N. Washington Square  
Lansing, Michigan 48913

**Thomas H. McTavish, C.P.A.**  
Auditor General

**Scott M. Strong, C.P.A., C.I.A.**  
Deputy Auditor General