

**Report 15-6
June 2015**

Retirement Funds Investment Activity

State of Wisconsin Investment Board

STATE OF WISCONSIN



Legislative Audit Bureau ■

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

OPINIONS PUBLISHED SEPARATELY

The financial statements and our opinions on them are included in the
State of Wisconsin Investment Board's *2014 Retirement Funds Annual Report*



STATE OF WISCONSIN
Legislative Audit Bureau

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Joe Chrisman
State Auditor

June 19, 2015

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 Core Retirement Investment Trust Fund (Core Fund) and the Variable Retirement Investment Trust Fund (Variable Fund) managed by the State of Wisconsin Investment Board (SWIB) as of and for the year ended December 31, 2014, and as of and for the six-month period ended December 31, 2013. The Core Fund and Variable Fund invest assets of the Wisconsin Retirement System and together are known as the Retirement Funds. SWIB's financial statements report the investment activity for the Retirement Funds.

The financial statements and our unmodified opinions on them are included in SWIB's 2014 *Retirement Funds Annual Report*, which may be found on SWIB's website. SWIB changed the end of fiscal year for the Retirement Funds from June 30 to December 31. As a result, the financial statements we audited include both the six-month period from July 1, 2013, to December 31, 2013, and calendar year 2014.

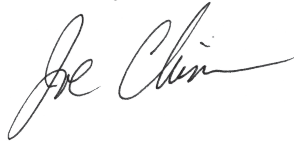
The net investment position of the Core Fund increased from \$86.5 billion as of December 31, 2013, to \$88.8 billion as of December 31, 2014. The net investment position of the Variable Fund increased from \$7.2 billion as of December 31, 2013, to \$7.3 billion as of December 31, 2014.

Net investment income for the six-month period ending December 31, 2013, totaled \$7.6 billion for the Core Fund and \$1.0 billion for the Variable Fund. For the period ending December 31, 2014, net investment income totaled \$4.6 billion for the Core Fund and \$0.5 billion for the Variable Fund. The decrease in net investment income reflects the decline in investment returns realized by each fund. The investment return of the Core Fund declined from 13.6 percent in 2013 to 5.7 percent in 2014. The investment return of the Variable Fund declined from 29.0 percent in 2013 to 7.3 percent in 2014.

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 3. We did not identify any control or compliance concerns that were required to be reported

under these standards. As noted, the financial statements and our opinions are published separately by SWIB in its annual report.

Sincerely,

A handwritten signature in black ink, appearing to read "Joe Chrisman". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Joe Chrisman
State Auditor

JC/SH/ss



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 Audit Committee of the Board of Trustees
State of Wisconsin Investment Board

We have audited the financial statements and the related notes of the Core Retirement Investment Trust Fund and the Variable Retirement Investment Trust Fund (Retirement Funds) managed by the State of Wisconsin Investment Board (SWIB) as of and for the year ended December 31, 2014, and as of and for the six-month period ended December 31, 2013, and have issued our report thereon dated May 27, 2015. 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 opinions have been included in SWIB's 2014 Retirement Funds Annual Report.

Internal Control over Financial Reporting

Management of 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 opinions 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 SWIB's financial statements will not be prevented, or that a material misstatement will not be detected and corrected on a timely basis.

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. 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 SWIB'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

May 27, 2015