REPORT NO. 2009-124R
REISSUED, DECEMBER 2009

STATE OF FLORIDA

STATE BOARD OF ADMINISTRATION

LOCAL GOVERNMENT SURPLUS FUNDS TRUST FUND

Financial Audit

For the Fiscal Year Ended
June 30, 2008

STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

State Board of Administration

The State Board of Administration, Board of Trustees, is composed of the Governor, as Chairman, the Chief Financial Officer, as Treasurer, and the Attorney General, as Secretary. The Trustees delegate administrative and investment authority to an appointed Executive Director. The Executive Directors who served during the 2007-2008 fiscal year, as well as the current Executive Director, are listed below:

Coleman Stipanovich - From July 1, 2007, through December 11, 2007

Robert Milligan – Interim, from December 12, 2007, through October 19, 2008

Ashbel Williams – From October 20, 2008

The Auditor General conducts audits of governmental entities to provide the Legislature, Florida's citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations.

The audit team leader was Matthew Tracy, CPA, and the audit was supervised by Allen Weiner, CPA. Please address inquiries regarding this report to Kathryn D. Walker, CPA, Audit Manager, by e-mail at kathrynwalker@aud.state.fl.us or by telephone at (850) 487-9085.

This report and other audit reports prepared by the Auditor General can be obtained on our Web site at www.myflorida.com/audgen; by telephone at (850) 487-9024; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

STATE BOARD OF ADMINISTRATION
LOCAL GOVERNMENT SURPLUS FUNDS TRUST FUND
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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

Our audit disclosed that the financial statements prepared by the State Board of Administration (SBA) present fairly, in all material respects, the net assets of the Local Government Surplus Funds Trust Fund (LGIP) and the changes in net assets thereof in accordance with prescribed financial reporting standards.

Summary of Report on Internal Control and Compliance

We noted matters involving SBA's internal control over the LGIP's operations that we consider to be significant deficiencies. These matters are summarized below in finding Nos. 1 and 4. However, these significant deficiencies were not considered to be material weaknesses.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*; however, we noted certain additional matters as summarized below in finding Nos. 2 and 3.

Finding No. 1: In connection with our audit of the State of Florida's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2007, including related subsequent event disclosures, we tested controls relevant to monitoring Rule 2a-7 compliance and disclosed in finding No. 07-005 of report No. 2008-141, control deficiencies which collectively represented a significant deficiency. While SBA management subsequently resolved applicable deficiencies, they were of potential impact during a portion of the 2007-08 fiscal year.

Finding No. 2: LGIP Investment Policy Guidelines, effective prior to December 21, 2007, provided that the LGIP was not to purchase Rule 144A securities and did not specifically address whether the purchase of unregistered securities was allowable under exemptions available in other securities laws. On December 21, 2007, the SBA revised the LGIP Investment Guidelines, and in those revisions addressed these matters.

Finding No. 3: The SBA had not established for the LGIP a risk-based investment compliance monitoring program.

Finding No. 4: The SBA has received an *Order Directing Private Investigation and Designating Officers to Take Testimony* (Order) from the United States Securities and Exchange Commission, a matter that was not disclosed to us during our conduct of the audit of the previously-issued financial statements. Following our request, SBA timely revised the previously-issued LGIP financial statements for the fiscal year ended June 30, 2008, by adding note 4., which addresses the status of pending matters. SBA management has affirmed its responsibility to provide full disclosure to us of all matters impacting the scope and objectives of our audits, including matters that may not be subject to public disclosure.

Audit Objectives and Scope

Our audit objectives were to determine whether SBA had:

- Presented the LGIP's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements;
- Complied with the various provisions of laws, rules, regulations, and contracts that are material to the financial statements.

The scope of this audit included an examination of the LGIP's basic financial statements as of and for the fiscal year ended June 30, 2008. We obtained an understanding of the applicable environments, including SBA's internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements. We also examined various transactions to determine whether they were executed, both in manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and the LGIP investment policy.

Audit Methodology

The methodology used to develop the findings in this report included the examination of pertinent SBA records in connection with the application of procedures required by auditing standards generally accepted in the United States of America and applicable standards contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

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The President of the Senate, the Speaker of the
House of Representatives, and the
Legislative Auditing Committee

INDEPENDENT AUDITOR'S
REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the State Board of Administration's (SBA) Local Government Surplus Funds Trust Fund (LGIP), as of and for the fiscal year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of SBA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the net assets and changes in net assets of the LGIP and do not purport to, and do not, present fairly the operations of the State of Florida as of June 30, 2008, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The SBA received an *Order Directing Private Investigation and Designating Officers to Take Testimony* (Order) from the United States Securities and Exchange Commission, a matter that was not addressed in the notes to the previously-issued financial statements. Upon becoming aware of the Order and discussing it with SBA management and counsel, we advised the SBA to make an appropriate disclosure in its financial statements. In response, the SBA timely revised the disclosures included in the previously-issued LGIP financial statements for the fiscal year ended June 30, 2008, by adding note 4., which addresses the status of pending matters. Our auditor's report on the previously-issued financial statements (included in Report No. 2009-124, dated February 2009) is not to be relied on because those statements omitted this material disclosure, and our report on the previously-issued financial statements is replaced by this report. Finding No. 4 in the **SCHEDULE OF FINDINGS** provides additional information with respect to a related internal control issue.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the LGIP as of June 30, 2008, and the changes in its net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report on our consideration of SBA's internal control over financial reporting relating to the LGIP and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, and other matters included under the heading **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting. With respect to compliance, the purpose of that report is not to provide an opinion on compliance, but rather to describe the scope of our testing of compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The **MANAGEMENT'S DISCUSSION AND ANALYSIS** (pages 3 through 5) is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Respectfully submitted,

David W. Martin, CPA
February 18, 2009, except for
Note 4., as to which the date is
November 24, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

The State Board of Administration (SBA) is responsible for the management of the Local Government Surplus Funds Trust Fund (LGIP). The SBA was established on June 21, 1929, pursuant to Chapter 14486, Laws of Florida (1929). The SBA was subsequently created as a constitutional body corporate on January 1, 1943, by Article IX, Section 16 of the State Constitution of 1885, as amended. The SBA was subsequently continued as a body corporate by Article IV, Section 4(e) of the State Constitution (1968), as amended. The SBA is composed of the Governor, as Chairman, the Chief Financial Officer, as Treasurer, and the Attorney General, as Secretary.

This discussion and analysis of the financial performance of the LGIP, including the Local Government Surplus Funds Restricted Investment Account (LGIP Restricted Account), provides an overview of the LGIP's financial activities for the fiscal year ended June 30, 2008.

Overview of the Financial Statements

The financial statements provide financial information about the LGIP as an investment trust fund, a fiduciary fund type. Investment trust funds are accounted for using an economic resources measurement focus and the accrual basis of accounting. Earnings on investments are recognized as revenue when earned, and expenses are recorded when a liability is incurred.

The LGIP presents the following basic financial statements: a Statement of Net Assets and a Statement of Changes in Net Assets. The Statement of Net Assets presents all LGIP assets and liabilities with the difference reported as net assets. The Statement of Changes in Net Assets shows the increase or decrease in net assets during the year as a result of investment activities and participant contributions and withdrawals.

Financial Summary

A summary comparison of the LGIP's Statement of Net Assets at June 30, 2008, and 2007, is presented below (in thousands):

	Year Ended June 30	
	2008	2007
Total assets	$ 7,064,678	$ 31,046,781
Total liabilities	867	106,580
Net assets held in trust for pool participants	$ 7,063,811	$ 30,940,201

A summary comparison of the LGIP's Statement of Changes in Net Assets for the years ended June 30, 2008, and 2007, is presented below (in thousands):

	Year Ended June 30	
	2008	2007
Increase (decrease) in net assets		
Net income from investing activity	$ 844,594	$ 1,457,025
Net decrease in fair value of investments	(191,590)	-
Net income from securities lending	269	2,946
Redemption fees	7,233	-
Distributions paid and payable	(709,807)	(1,462,990)
Participant contributions	21,422,499	69,225,326
Participant withdrawals	(44,596,247)	(60,417,024)
Investment transfer to Fund B	(653,341)	-
Total increase (decrease) in net assets	(23,876,390)	8,805,283
Net assets, July 1	30,940,201	22,134,918
Net assets, June 30	$ 7,063,811	$ 30,940,201

Financial Highlights

The LGIP experienced turbulence in the fall of 2007 when participants withdrew an unprecedented $12.2 billion in net funds from the LGIP in November 2007. The withdrawals were triggered by fears that some LGIP assets included mortgage-backed investments that were downgraded by rating agencies or the issuers of which had elected to extend maturities. Investor fears about the quality and security of the investments led to significant withdrawals. Faced with a liquidity crisis, SBA Trustees implemented a temporary freeze on withdrawals and deposits and retained BlackRock Financial Management, Inc., to manage the LGIP on an interim basis.

Working at the direction of SBA Trustees and the Florida Legislature, SBA management has implemented a series of major changes that will enhance and strengthen the security and performance of the LGIP going forward.

- In early December 2007, SBA separated certain credit impaired mortgage-backed investments with limited liquidity into a temporary LGIP Restricted Account and revised the LGIP investment policy guidelines to meet Standard & Poor's (S&P's) AAAm rating criteria. The newly restructured LGIP was awarded S&P's AAAm rating in December 2007. On June 27, 2008, SBA moved all remaining assets held in the LGIP Restricted Account totaling $653 million to the newly formed, legally separate Fund B Surplus Funds Trust Fund, which was created by Section 218.417(1), Florida Statutes.
- Clifton Gunderson, LLP, was retained to conduct an independent investment compliance audit of the LGIP and other funds managed by SBA. The audit produced recommendations to enhance compliance, risk management, and investment policies.
- In March 2008, Federated Investors, Inc., an organization whose core competency is managing money market funds, became the manager of the LGIP on an on-going basis.
- The Legislature enacted legislation that provides LGIP participants with greater protection of their assets while establishing higher standards for governance, administration controls, investment policies and improved reporting of the LGIP's investment activities.

- SBA began an intensive reexamination and reengineering of its compliance and enterprise risk management policies and processes, with assistance from an independent consultant, Deloitte and Touche, LLP.
- The SBA engaged counsel to assess whether it should pursue legal action against the broker-dealers who sold certain investment grade securities to SBA that were subsequently rated to below-investment grade.

Reflecting these actions and others, the liquidity of the LGIP improved during the course of the fiscal year from its lowest point in December 2007. On June 30, 2008, participants could withdraw up to $12 million or 50 percent of their December 5, 2007, participant balance, whichever was greater, without redemption fees. On December 23, 2008, full liquidity for participants was restored.

These financial statements reflect only the transactions and balances for the LGIP. For additional information on this fund, please contact Robert Copeland, Senior Operating Officer, Finance and Accounting, at the State Board of Administration or visit SBA's website at https://www.sbafla.com/pool/.

EXHIBIT - A
STATE BOARD OF ADMINISTRATION
LOCAL GOVERNMENT SURPLUS FUNDS TRUST FUND

STATEMENT OF NET ASSETS

As of June 30, 2008
(In Thousands)

Assets	
Cash and cash equivalents	$ 255
Investments:	
Commercial paper	325,000
Money market funds	305,733
Domestic corporate bonds and notes	3,724,463
Domestic municipal term notes	452,479
Repurchase agreements	2,250,000
Total investments	7,057,675
Interest receivable	6,746
Undistributed expenses to participants	2
Total Assets	7,064,678
Liabilities	
Accounts payable and accrued liabilities	188
Distributions payable	425
Due to local governments	254
Total Liabilities	867
Net Assets	
Held in trust for pool participants	$7,063,811

See accompanying notes to financial statements.

EXHIBIT – B
STATE BOARD OF ADMINISTRATION
LOCAL GOVERNMENT SURPLUS FUNDS TRUST FUND

STATEMENT OF CHANGES IN NET ASSETS

Fiscal year ended June 30, 2008
(In Thousands)

Additions	
Investment operations:	
Income from investing activity:	
Interest income	$ 850,562
Bank fees	(192)
Investment management fees	(4,176)
Administrative service charges	(1,600)
Net income from investing activity	844,594
Net increase (decrease) in fair value of investments	(191,590)
Securities lending activities:	
Securities lending income	7,685
Securities lending expense	(7,416)
Net income from securities lending	269
Net increase (decrease) resulting from investment operations	653,273
Redemption fees	7,233
Total Additions	660,506
Deductions	
Distributions paid and payable	(709,807)
Total Deductions	(709,807)
Share Transactions	
Participant contributions	21,422,499
Participant withdrawals	(44,596,247)
Investment transfer to Fund B	(653,341)
Net increase (decrease) resulting from share transactions	(23,827,089)
Total decrease in net assets	(23,876,390)
Net assets, beginning of year	30,940,201
Net assets, end of year	$ 7,063,811

See accompanying notes to financial statements.

EXHIBIT - C
STATE BOARD OF ADMINISTRATION
LOCAL GOVERNMENT SURPLUS FUNDS TRUST FUND

NOTES TO FINANCIAL STATEMENTS

Fiscal year ended June 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following summary of the Local Government Surplus Funds Trust Fund's (LGIP) significant accounting policies is presented to assist the reader in interpreting the financial statements. These policies should be viewed as an integral part of the accompanying financial statements.

a. Reporting Entity

The State Board of Administration (SBA) is responsible for the management of the LGIP. The SBA was established on June 21, 1929, pursuant to Chapter 14486, Laws of Florida (1929). The SBA was subsequently created as a constitutional body corporate on January 1, 1943, by Article IX, Section 16 of the State Constitution of 1885, as amended. The SBA was subsequently continued as a body corporate by Article IV, Section 4(e) of the State Constitution (1968), as amended. The SBA is composed of the Governor, as Chairman, the Chief Financial Officer, as Treasurer, and the Attorney General, as Secretary.

The LGIP was created by act of the Florida Legislature effective October 1, 1977, (Chapter 218, Part IV, Florida Statutes). The law allowed SBA to manage investments on an individual basis or to establish a pooled account. The funds were managed on an individual basis until January 1, 1982.

Sections 218.40 through 218.415, Florida Statutes, and State Board of Administration Rules 19-7.001 through 19-7.017, Florida Administrative Code, promulgated pursuant to Section 218.405(4), Florida Statutes, govern the operation of the LGIP.

The assets and liabilities of the LGIP are included in the Comprehensive Annual Financial Report (CAFR) of the State of Florida. However, the accompanying financial statements present only the LGIP and are not intended to present fairly the financial position of the State of Florida and the results of its operations in conformity with generally accepted accounting principles.

b. Regulatory Oversight

The LGIP is not a registrant with the Securities and Exchange Commission (SEC); however, SBA has adopted operating procedures consistent with those required of an SEC 2a-7-like fund. A 2a-7-like external investment pool is one that is not registered with the SEC as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with SEC Rule 2a-7, which governs the operation of SEC regulated money market funds.

c. Basis of Presentation

These financial statements have been prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and reporting principles.

The LGIP is reported as an investment trust fund, a fiduciary fund type.

d. Measurement Focus and Basis of Accounting

The accompanying financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Basis of accounting refers to when revenues and expenses and the related assets and liabilities are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. Investment trust funds are accounted for using the accrual basis of accounting. Earnings on investments, including interest income, are recognized as revenue when earned, and expenses are recorded when a liability is incurred.

e. Deposits and Investments

Consistent with GAAP, the LGIP reports as "Cash and cash equivalents" all cash on hand and on deposit in banks, including demand deposits, time deposits, and nonnegotiable certificates of deposit.

The LGIP's investments are recorded at amortized cost, consistent with GASB Statement Number 31. Fair values, for note disclosures, are calculated using quoted market prices. If quoted market prices are not available, the discounted cash flow model and broker quotes are used to price securities.

f. Method Used to Determine Participants' Shares Sold and Redeemed

In a manner similar to that used for SEC Rule 2a-7 money market funds, participants' shares are sold and redeemed in the LGIP using the amortized cost method, which is consistent with the method used to report the LGIP's investments. The amortized cost method calculates an investment's value by adjusting its acquisition cost for the accretion of discount or amortization of premium over the period from purchase to maturity.

As further discussed in Note 3, on December 6, 2007, total assets of approximately $2 billion, including several credit impaired securities, were transferred from the LGIP to a temporary LGIP Restricted Account. Approximately 14 percent of participant balances were also transferred. Subsequent to this transfer, participant balances in the LGIP Restricted Account remained unchanged, except for reductions posted when assets were liquidated and transferred back to the participant balances in the LGIP.

g. Legally Binding Guarantees

The SBA has not provided or obtained any legally binding guarantees during the fiscal year ended June 30, 2008, for the LGIP.

h. Involuntary Participation

There is no requirement under Florida Statutes for any local government or state agency to participate in the LGIP.

In November 2007, the LGIP experienced significant net withdrawals of $12.2 billion as participants became aware that some LGIP assets were mortgage-backed investments that were downgraded by rating agencies or whose issuer had elected to extend maturities. On November 29, 2007, the SBA's Trustees temporarily closed the LGIP to protect remaining investors and restore order. On December 6, 2007, the LGIP was re-opened and restructured, after approximately $2 billion (or 14 percent) of outstanding participant balances were moved to a separate LGIP Restricted Account. Participants' available liquid balances (ALB) were limited to 15 percent of their current balance, or $2 million, whichever was greater. Withdrawals over this amount were available, but a redemption fee of 2 percent was charged against excess withdrawals.

Balances in the LGIP Restricted Account were not available for withdrawal until investment cash flow was available. As investment cash was available, it was transferred from the LGIP Restricted Account back to the LGIP periodically and made 100 percent available for withdrawal. The LGIP's liquidity ratios gradually loosened, and at June 30, 2008, the LGIP allowed a maximum of 50 percent liquidity available to participants, or $12 million, whichever was greater. Amounts withdrawn above the ALB still required payment of the 2 percent redemption fee. Note 3 provides additional information concerning the restructuring of the LGIP.

i. Frequency of Determining Fair Value of Shares

The fair value of the investments of the LGIP is determined on a daily basis. SEC Rule 2a-7 requires that a periodic comparison be made between amortized cost and market value and that specific actions be taken if the two values differ by more than one-half of one percent. As of June 30, 2008, the ratio of fair value to amortized cost was 99.79 percent.

j. Fees and Administrative Service Charges

Historically, the LGIP was managed in-house by SBA. However, on December 4, 2007, BlackRock Financial Management, Inc., (BlackRock) was retained as the interim investment manager for 90 days to handle all of the day-to-day investment decisions for the LGIP. On March 3, 2008, Federated Investors, Inc., (Federated) replaced BlackRock as the investment manager for the LGIP. Federated charges an annual investment management fee based on the average daily net assets (i.e., average daily amortized cost) of the LGIP (including the LGIP Restricted Account), as follows:

First $1 billion in Account Assets	3.5 basis points
Next $1.5 billion in Account Assets	3.0 basis points
Next $2.5 billion in Account Assets	2.5 basis points
Balance of Account Assets over $5 billion	2.0 basis points

This fee is taken out of monthly earnings prior to the allocation of net earnings to participant balances. Total investment management fees incurred by the LGIP (including the LGIP Restricted Account) in the fiscal year ended June 30, 2008, were $4,176,290.

In addition, SBA charges a .6 basis point charge (.00006) on total LGIP assets to cover the SBA's administrative costs of the fund. SBA charged 1.5 basis points (.00015) for in-house investment management of the fund through October 2007, and no fee was charged from November 2007 through February 2008. These charges are generally shown as "administrative charges" on the monthly participant statements. Total administrative service charges incurred by the LGIP for the fiscal year ended June 30, 2008, were $1,600,363.

Various bank fees, including transaction charges, custody fees, and performance analytics fees are incurred by the LGIP. These fees are taken out of the monthly earnings prior to the distribution of net earnings to participant balances each month. The total bank fees incurred by the LGIP (including the LGIP Restricted Account) in the fiscal year ended June 30, 2008, were $191,252.

2. DEPOSITS AND INVESTMENTS

a. Deposits

At June 30, 2008, LGIP deposits totaled $255,172. All deposits in the LGIP were covered by Federal insurance or the State's collateral pool pursuant to Chapter 280, Florida Statutes. Chapter 280, Florida Statutes, generally requires public funds to be deposited in a bank or savings association designated by the Chief Financial Officer (CFO) as authorized to receive deposits in the State and that meets the collateral requirements as set forth in Chapter 280, Florida Statutes.

The CFO determines the collateral requirements and collateral pledging level for each Qualified Public Depository following guidelines outlined in Department of Financial Services Rules, Chapter 69C-2, Florida Administrative Code, and Section 280.04, Florida Statutes. Eligible collateral includes Federal, federally-guaranteed, state and local government obligations, corporate bonds, and letters of credit issued by a Federal Home Loan Bank. Other collateral may be eligible, with the CFO's permission.

b. Investment Authority and Compliance

The SBA has the authority to administer and invest the funds of the LGIP in accordance with Chapter 218, Part IV, Florida Statutes. The statute states SBA shall invest the moneys in the LGIP in the same manner and subject to the same restrictions as are set forth in Section 215.47, Florida Statutes, which identifies all authorized securities.

Section 215.47, Florida Statutes, includes a broad range of instruments to enable SBA to administer its varied investment responsibilities. The Investment Policy Guidelines (Guidelines) for the LGIP allowed only the following eligible investments:

1. United States (U.S.) Treasury obligations.
2. U.S. Government Agency obligations.
3. Corporate obligations such as loan participations, commercial paper (including asset backed commercial paper), corporate notes, and variable rate demand notes.
4. Municipal securities including taxable and tax-free commercial paper, variable rate demand notes, synthetic floaters, bonds and notes.
5. Certificates of deposit, bankers' acceptances, time deposits, bank notes, commercial paper and other obligations issued or guaranteed by any commercial bank.

6. Repurchase agreements collateralized 102 percent with U.S. Treasury obligations or U.S. Government Agency obligations.
7. Money market mutual funds.

The objective of the LGIP is to pool investment funds of local government participants in an investment portfolio of money market instruments that provides liquidity while preserving capital. This is accomplished by structuring the portfolio consistent with Part 270 of the Investment Company Act of 1940 (17 CFR 270.2a-7, Money Market Funds).

Procedures have been established to review the compliance of the LGIP investments with each of the investment constraints. In the event that an investment fails to meet the compliance standards, or if the market value deviation from amortized cost exceeds one-half of one percent of total amortized cost of LGIP investments, the Guidelines state that the Investment Oversight Group will promptly consider what action, if any, shall be initiated by the Portfolio Manager to bring the investment(s) back into compliance. The Investment Oversight Group consists of the following:

1. Senior Investment Officer-Fixed Income
2. Manager of Enterprise Risk Management and Compliance
3. Deputy Executive Director

c. Investment Credit Risk and Concentration of Credit Risk of Debt Securities

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Concentration of credit risk is the risk of loss attributed to the magnitude of the investment in a single issuer.

Pursuant to the LGIP guidelines, the LGIP may only purchase assets that are eligible United States dollar-denominated securities in accordance with the definitions/requirements below:

1. A security that either carries S&P's short-term rating of "A-1+" or "A-1" or be deemed to be of equivalent credit quality under S&P's methodology applicable to short-term ratings from other nationally recognized statistical rating organizations (NRSROs).
2. A security that either carries S&P's long-term rating of A or better or be deemed to be of equivalent credit quality under S&P's methodology applicable to long-term ratings from other NRSROs.
3. A security that is a government security, defined as any security issued or guaranteed as to principal or interest by the United States, or by a person controlled or supervised by and acting as an instrumentality of the government of the United States pursuant to authority granted by the Congress of the United States; or any certificate of deposit for any of the foregoing.
4. Shares issued by a registered investment company that is a money market fund rated AAAm by S&P.
5. A minimum of 50 percent of the portfolio should be composed of "A-1+" rated instruments (or those deemed equivalent in credit quality) with the balance in "A-1" rated instruments (or those deemed equivalent in credit quality).

6. In the event that a security no longer meets the criteria specified above due to a credit rating downgrade, the investment manager must either dispose of the security within five business days or present a justification for the retention of the security to the Investment Oversight Group within three business days.
7. Exposure to a single issuer is limited to a maximum of 5 percent of the total portfolio amortized cost. Exposure to any single government agency shall not exceed 33.33 percent of the total portfolio amortized cost, but U.S. Treasuries are excluded from single issuer limits. Under Rule 2a-7, a fund is not required to liquidate positions if the exposure to an issuer exceeds 5 percent and is caused by market and/or account movements.
8. When the LGIP invests in money market funds rated AAAm by S&P, the maximum exposure to any one fund is 10 percent.
9. Repurchase agreement (Repos) counterparties shall carry a rating of "A-1" or "A-1+". Repos with maturities beyond overnight and less than or equal to seven days with any single dealer (A-1+) are limited to no more than 25 percent of the LGIP's total assets. Repos with maturities beyond overnight and less than or equal to seven days with any single dealer (A-1) are limited to no more than 10 percent of the LGIP's total assets. The aggregate amount of all repos with any single dealer (A-1) is limited to no more than 25 percent of the LGIP's total assets.

The LGIP's credit quality ratings were as follows at June 30, 2008 (expressed in thousands):

Fair Value of LGIP Investments						Ratings [1]	
Commercial Paper	Money Market Funds	Domestic Corporate Bonds & Notes	Domestic Municipal Term Notes		Total	S&P	Moody's
$ ……	$ 305,733	$ ……	$ ……		$ 305,733	AAAm	
……	……	1,026,367	452,500		1,478,867	AA	
……	……	1,753,760	……		1,753,760	A	
……	……	469,828	……		469,828		Aa
……	……	459,474	……		459,474		A
324,901	……	……	……		324,901	A-1	
$ 324,901	$ 305,733	$ 3,709,429	$ 452,500		$ 4,792,563		
		Repurchase agreements			2,250,000	Not rated [2]	Not rated [2]
		Total			$ 7,042,563		

[1] Ratings for investments are presented using S&P credit ratings. If S&P did not rate a security, then Moody's ratings are presented.

[2] Repurchase agreements are not negotiable instruments and do not carry individual security ratings.

With respect to the concentration of credit risk, all exposure above 5 percent at June 30, 2008, was due to share withdrawals and/or market movements. At June 30, 2008, the LGIP had exposure of 5 percent or more to each of the following issuers (expressed in thousands):

Issuer Name	Carrying Value	Percent of Portfolio Carrying Value	Fair Value	Percent of Portfolio Fair Value
Bank of America [1]	$ 1,250,000	17 71%	$ 1,250,000	17 75%
Lehman Brothers [1]	1,000,000	14 17%	1,000,000	14 20%
National Rural Utilities Cooperative Finance Corporation	621,000	8 80%	620,280	8 81%
Morgan Stanley	585,482	8 30%	582,240	8 27%
Merrill Lynch & Company	540,000	7 65%	533,930	7 58%
Bear Stearns	527,978	7 48%	525,598	7 46%
Florida Hurricane Catastrophe Finance Corporation	452,479	6 41%	452,500	6 43%
HSBC Finance Corporation	430,003	6 09%	429,765	6 10%

[1] These issuers were overnight repo counterparties and were not subject to SEC Rule 2a-7 exposure restrictions

d. Investments, Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, SBA will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

The SBA does not have an overall policy addressing custodial credit risk. However negotiated trust and custody contracts required that all investments be held in SBA's name by SBA's custodial financial institution at June 30, 2008.

In December 2007, SBA transferred the custody of LGIP investments from Bank of America to Bank of New York Mellon (BNY Mellon).

e. Investments, Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of investments. The LGIP is run similar to an SEC 2a-7 money market fund. Historically, the LGIP's weighted average maturity was not allowed to exceed 90 days. In December 2007, the investment guidelines were modified to meet S&P's AAAm rating criteria. Effective December 21, 2007, the LGIP's dollar-weighted average maturity (WAM) limit was modified from 90 days down to 60 days. Next reset dates are used for investments with floating and variable interest rates to calculate WAM. The remaining final maturity for all floating-rate notes/variable-rate notes is not allowed to exceed 397 days, and maturities of government securities are not allowed to exceed 762 days.

Presented below are the investments held in the LGIP at June 30, 2008, at fair value (expressed in thousands), with the WAM for each security type:

Investment Type	Fair Value	Weighted Average Days to Maturity [1]
Commercial paper [2]	$ 324,901	16
Domestic corporate bonds & notes	3,709,429	20
Domestic municipal term notes	452,500	15
Money market funds [3]	305,733	1
Repurchase agreements	2,250,000	1
Total	$ 7,042,563	
Portfolio weighted average maturity		**13**

[1] Interest rate reset dates were used in the calculation of the weighted average days to maturity.

[2] Commercial paper includes domestic and U.S. dollar-denominated foreign issues.

[3] The weighted average days to maturity of the underlying securities in the money market funds at June 30, 2008, was 55 days. However, the LGIP had daily liquidity.

f. Investments, Foreign Currency Risk

The LGIP may purchase only U.S. dollar-denominated securities. The LGIP did not have any foreign currency risk as of June 30, 2008. All investments were denominated in U.S. dollars.

g. Securities Lending

The SBA, on behalf of the LGIP, under authorization of Section 215.47, Florida Statutes, participated in several securities lending programs through November 2007. There have been no security loans outstanding since the LGIP re-opened in December 2007. The SBA held no cash as collateral for the lending programs as of June 30, 2008, and the latest LGIP investment policy guidelines do not authorize security lending.

In the securities lending programs, a lender (SBA) loaned various securities to a borrower for collateral with a simultaneous agreement to return collateral for the same securities in the future. The SBA was contractually limited from pledging or selling collateral except in the event of borrower default. All securities lending programs had indemnity clauses requiring the lender to consume any losses from insufficient collateral. No significant violations of legal or contractual provisions occurred and no losses were incurred due to borrower or lending agent defaults.

h. Summary of Investment Holdings

The following table provides as of June 30, 2008, a summary of the fair value, carrying amount, the number of shares or the principal amount, ranges of interest rates, and maturity dates of each major investment classification (expressed in thousands):

	Par	Carrying Value	Fair Value	Range of Interest Rates[1]	Range of Next Reset Dates[2]	Range of Maturity Dates[3]
Commercial paper	$ 325,000	$ 325,000	$ 324,901	2.75 - 2.76	8/8/08	7/1/08 - 8/8/08
Money market funds	305,733	305,733	305,733	2.22	N/A	N/A
Domestic corporate bonds & notes	3,724,500	3,724,463	3,709,429	2.45 - 3.06	7/1/08 - 9/19/08	9/1/08 - 1/16/09
Domestic municipal term notes	452,500	452,479	452,500	2.68	7/15/08	12/12/08
Repurchase agreements	2,250,000	2,250,000	2,250,000	2.65 - 2.75	N/A	7/1/08
Totals	$ 7,057,733	$ 7,057,675	$ 7,042,563			

[1] The coupon rate in effect at June 30, 2008, is reported. If a security is discounted, the purchase yield is reported.
[2] Not all securities within a security type have reset dates. Some are discounted or may have a fixed interest rate.
[3] Money market mutual funds do not have a specified maturity date. The rate of return fluctuates daily.

3. RESTRUCTURING OF THE LGIP

The LGIP was restructured during the 2007-08 fiscal year. As part of the restructuring, certain securities with limited liquidity totaling approximately $2 billion were transferred to a temporary LGIP Restricted Account on December 6, 2007. As those investments matured, cash was transferred back to participants' LGIP accounts and made available for withdrawal. On May 28, 2008, the Governor signed legislation codified in Section 218.417(1), Florida Statutes, which formally created a separate Fund B Surplus Funds Trust Fund (Fund B), and which provided 30 days to move the remaining restricted assets into this new fund. The remaining investments in the LGIP Restricted Account totaling $653 million were transferred from the LGIP to Fund B on June 27, 2008.

In December 2007, the LGIP (excluding investments held in the LGIP Restricted Account) received Standard & Poor's (S&P's) highest rating of AAAm, which required additional investment operating policy restrictions.

The financial statements of the LGIP relate solely to the net assets and changes in net assets of the LGIP (including the temporary LGIP Restricted Account). These financial statements include activity in the LGIP Restricted Account from its creation on December 6, 2007, through June 27, 2008, when all remaining net assets of the LGIP Restricted Account were transferred to Fund B as required by Section 218.417(1), Florida Statutes. For additional information on this fund, please contact Robert Copeland, Senior Operating Officer, Finance and Accounting, at the State Board of Administration or visit SBA's website at https://www.sbafla.com/pool/.

The following summarizes and combines LGIP and LGIP Restricted Account transactions:

Fiscal year ended June 30, 2008
(In Thousands)

Additions	LGIP	LGIP Restricted Account	Total
Investment operations:			
Income from investing activity:			
Interest income	$ 817,927	$ 32,635	$ 850,562
Bank fees	(191)	(1)	(192)
Investment management fees	(2,322)	(1,854)	(4,176)
Administrative service charges	(1,600)	……	(1,600)
Net income from investing activity	813,814	30,780	844,594
Net increase (decrease) in fair value of investments	(99,354)	(92,236)	(191,590)
From securities lending activities:			
Securities lending income	7,685	……	7,685
Securities lending expense	(7,416)	……	(7,416)
Net income from securities lending	269	……	269
Net increase (decrease) resulting from investment operations	714,729	(61,456)	653,273
Redemption fees	7,233	……	7,233
Total Additions	721,962	(61,456)	660,506
Deductions			
Distributions paid and payable	(709,807)	……	(709,807)
Total Deductions	(709,807)	……	(709,807)
Share transactions			
Participant contributions	21,422,499	……	21,422,499
Participant withdrawals	(44,596,247)	……	(44,596,247)
Investment transfer to Fund B	……	(653,341)	(653,341)
Transfers in	1,616,749	2,331,546	3,948,295
Transfers out	(2,331,546)	(1,616,749)	(3,948,295)
Net increase (decrease) resulting from share transactions	(23,888,545)	61,456	(23,827,089)
Total decrease in net assets	(23,876,390)	……	(23,876,390)
Net assets held in trust for pool participants:			
Net assets, July 1	30,940,201	……	30,940,201
Net assets, June 30	$ 7,063,811	$	$ 7,063,811

4. PENDING MATTERS - REVISED

The SBA provided disclosure to LGIP participants on the www.sbafla.com/pool website and at a publicly noticed meeting in March 2008, that the Florida Department of Financial Services - Office of Financial Regulation (OFR), the Securities and Exchange Commission (SEC), the Financial Industry Regulation Authority (FINRA), and other persons were requesting documents and information from the SBA and investigating the events and occurrences relating to the purchase and sale of secured notes issued by KKR Atlantic, KKR Pacific, Ottimo, and Axon (among others) to the SBA on behalf of the LGIP and other funds by various broker-dealers. The investigations were acknowledged at various subsequent discussions of the LGIP in publicly noticed meetings and in press reports available to LGIP participants.

At the request of the SBA's General Counsel, on October 17, 2008, the SEC communicated an Order Directing Private Investigation and Designating Officers to Take Testimony (Order) that was dated July 31, 2008. In the furtherance of its investigation, the SEC took sworn testimony of several SBA employees in late October 2008, and on April 2, 2009, subpoenaed certain documents from the SBA.

In the opinion of SBA management, based upon advice of legal counsel, the receipt of the Order does not require inclusion of a separate discussion in the notes to the financial statements for the year ended June 30, 2008, because the ultimate disposition of these inquiries and investigations will not have a material adverse effect on the LGIP's net assets and the changes therein.

Notwithstanding the opinion of the SBA management and its legal counsel, the LGIP financial statements for the year ended June 30, 2008, are being reissued to further the ability of LGIP participants to form their own opinions of these matters. The Order and subsequent subpoena have been published on the www.sbafla.com/pool website.

5. SUBSEQUENT EVENTS

Full Liquidity Restored

The LGIP continued to increase participant liquidity after June 30, 2008. Full liquidity was restored, free from redemption fees, to participants on December 23, 2008.

AUDITOR GENERAL
STATE OF FLORIDA

David W. Martin, CPA
AUDITOR GENERAL

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The President of the Senate, the Speaker of the
House of Representatives, and the
Legislative Auditing Committee

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

We have audited the financial statements of the State Board of Administration's (SBA) Local Government Surplus Funds Trust Fund (LGIP), as of and for the fiscal year ended June 30, 2008, and have issued our report thereon included under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS.** 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* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered SBA's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SBA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of SBA's internal control over financial reporting.

A *control deficiency* 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 or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects SBA's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the LGIP's financial statements that is more than inconsequential will not be prevented or detected by SBA's internal control. We consider finding Nos. 1 and 4, which are described in the **SCHEDULE OF FINDINGS** section of this report, to be significant deficiencies.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by SBA's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiencies in the **SCHEDULE OF FINDINGS** section of this report (finding Nos. 1 and 4) are not material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the LGIP's financial statements are free of material misstatement, we performed tests of SBA's compliance with certain provisions of laws, rules, regulations, contracts, and policies, noncompliance with which could have a direct and material effect on the determination of LGIP 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*.

We noted certain additional matters which are described in finding Nos. 2 and 3 of the **SCHEDULE OF FINDINGS** section of this report.

Management's response to the findings described in the **SCHEDULE OF FINDINGS** section of this report is included as Exhibit – D. We did not audit management's response and, accordingly, we express no opinion on it.

Pursuant to Section 11.45(4), Florida Statutes, this report is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this report is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, and applicable parties.

Respectfully submitted,

David W. Martin

David W. Martin, CPA
February 18, 2009, except for
Note 4., as to which the date is
November 24, 2009

STATE BOARD OF ADMINISTRATION
LOCAL GOVERNMENT SURPLUS FUNDS TRUST FUND
SCHEDULE OF FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

BACKGROUND

The State Board of Administration (SBA), pursuant to Florida law,[1] is responsible for administering the Local Government Surplus Funds Trust Fund (LGIP). The LGIP is comprised of local government surplus funds deposited by participating local governments and, historically, has been managed in-house by SBA. On December 4, 2007, SBA retained BlackRock Financial Management, Inc., (BlackRock) as interim investment manager for the LGIP. On March 3, 2008, Federated Investors, Inc., succeeded BlackRock as the investment manager for the LGIP.

The LGIP is described as a "2a-7-like" pool, meaning that it is operated so as to reasonably comply with Securities and Exchange Commission (SEC) Rule 2a-7,[2] which establishes requirements relating to money market funds operated by SEC registered investment companies. Consequently, SBA management is responsible for the design and operation of internal controls which reasonably ensure compliance with Rule 2a-7 and related LGIP investment policy provisions.

Finding No. 1: Investment Monitoring

In connection with our audit of the State of Florida's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2007, we tested controls relevant to Rule 2a-7 compliance for the 2006-07 fiscal year and for the 2007-08 fiscal year through November 30, 2007, and in finding No. 07-005 of report No. 2008-141 noted significant control deficiencies relevant to LGIP operations. Those previously reported deficiencies were as follows:

- Duties relating to the pricing of some securities and the preparation of daily and monthly compliance reports were assigned to employees of the organizational unit responsible for buying and selling securities for the LGIP.
- Minutes of Investment Oversight Group (IOG) meetings were not recorded.
- The LGIP's Investment Policy Guidelines (Guidelines) did not require IOG notification upon the withdrawal of ratings by a rating agency.
- The automated compliance reports used by SBA did not always identify securities that failed to meet the criteria for first tier securities, did not provide for a calculation of the percentage of second tier securities held in relation to portfolio amortized cost, and did not provide for the use of only short-term ratings to evaluate short-term securities and only long-term ratings to evaluate long-term securities.
- Five of the 13 internal monthly compliance checklists tested were not completed timely. One of these five checklists pertained to 2007-08 fiscal year operations.

Our current audit disclosed that either SBA had taken adequate corrective actions to address the findings or changes in the operation of the LGIP made recommended corrective actions no longer applicable.

[1] Part IV, Chapter 218, Florida Statutes.
[2] Title 17, Section 270, Code of Federal Regulations.

Finding No. 2: Purchase of Exempt Securities

The Securities Act of 1933 (Securities Act) generally requires that any offer or sale of securities through the means and instrumentalities of interstate commerce be registered, unless an exemption from registration exists under the law. Once registered, certain disclosures are required on the part of the seller to ensure that all pertinent information is available to the purchaser and that the purchaser can make an informed decision. The Securities Act also provides exemptions to registration requirements and these exemptions are intended to facilitate the sale of certain unregistered securities to sophisticated purchasers. One such exemption, under Section 4(2) of the Securities Act, allows for private placements to be made to institutions or other "accredited investors." Another exemption exists under Section 3(c)(7) of the Investment Company Act of 1940 (Act), which provides for the sale of private offerings to "qualified purchasers." Rule 144A, adopted pursuant to the Securities Act, also provides a safe harbor from the registration requirements of the Securities Act for certain private resales of unregistered securities to "qualified institutional buyers."

LGIP Guidelines, effective prior to December 21, 2007, provided that the LGIP was not to purchase Rule 144A securities and did not specifically address whether the purchase of unregistered securities was allowable or unallowable under the Section 4(2) or Section 3(c)(7) exemptions. However, our tests disclosed instances prior to December 21, 2007, where commercial paper investments identified as 4(2)/144A investments were purchased. The appropriateness of similar purchases was also questioned in an investment compliance performance audit covering the period December 1, 2006, through December 31, 2007, conducted by another independent auditor.

As indicated above, in report No. 2008-141, finding No. 07-005, we disclosed deficiencies in compliance monitoring. Had more effective monitoring processes been in place, the issues relating to investment policy guideline clarity and compliance may have been more timely identified and resolved by SBA management.

On December 21, 2007, SBA revised the Guidelines to clarify that the LGIP was restricted from purchasing securities under the Rule 144A exemption, but that purchasing commercial paper under the exemptions provided by Section 4(2) of the Securities Act and Section 3(c)(7) of the Act was allowable. SBA's current Guidelines, effective July 1, 2008, have been further clarified, stating that the LGIP may not purchase or acquire securities or investments that would require the LGIP to represent in connection with such purchase or acquisition, that it is a qualified institutional buyer under Rule 144A. Additionally, SBA has executed and delivered to its investment manager certifications regarding the LGIP's status as both an accredited investor and as a qualified purchaser.

Recommendation: We recommend that SBA continue to ensure that the LGIP's Investment Policy Guidelines clearly address the allowability of investments. Securities not clearly authorized by the Guidelines should not be purchased.

Finding No. 3: Risk-Based LGIP Monitoring Program

The establishment of an effective investment compliance monitoring program for the LGIP is necessary to ensure that the external investment manager (manager) administers the LGIP in accordance with Rule 2a-7, the Guidelines, and contract terms, thereby providing current and prospective participants of the LGIP with assurance that the LGIP operates in a manner consistent with the expectations of liquidity and returns of a money market fund. The LGIP's Guidelines, effective December 21, 2007,[3] required the manager to monitor compliance with the Guidelines.

[3] Prior to December 4, 2007, the LGIP was internally managed and compliance for that period was performed under previous investment policy guidelines. Issues related to the compliance monitoring for that period were reported in finding No. 1.

Compliance issues to be monitored by the manager included, among others: daily net asset deviations, credit quality of purchases, eligibility of purchases, changes in investment credit quality ratings, portfolio maturity requirements, and the concentration of credit risk.

The SBA is responsible for establishing an effective external manager monitoring program for the LGIP to ensure that the manager meets its responsibilities for compliance with Rule 2a-7, LGIP Guidelines, and contract terms. In recognition of this responsibility, the Guidelines require that SBA perform its own periodic compliance reviews of the LGIP. Our audit of the LGIP disclosed that SBA performed certain compliance procedures, consisting of daily calculations of net asset deviation, as well as following up on credit rating downgrades. However, SBA had not established, documented, and communicated a complete risk-based monitoring program. A key element of such a program would include determining the risks to the LGIP in order to identify the areas of operation, management, and control (at both the transaction and portfolio level) that need to be monitored, when and how often the monitoring shall occur, and how the monitoring shall be documented. The establishment of such a program would better ensure clear communication of management's expectations regarding the actions to be taken, how the work is to be documented and retained, and who is accountable for performing and maintaining documentation of compliance work conducted.

Recommendation: To provide additional assurance regarding the sound management of the LGIP and compliance with LGIP Guidelines, we recommend that SBA develop and execute a documented investment compliance monitoring program for the LGIP, including the incorporation of risk-based testing of the LGIP portfolio and investment purchases.

Finding No. 4: Financial Statement Disclosures

During the conduct of our field work in connection with our audit of the previously-issued financial statements of the LGIP for the fiscal year ended June 30, 2008, we inquired as to the status of information relative to regulatory investigations. We were advised that certain regulatory agencies, including the United States Securities and Exchange Commission, were continuing to request documents and information from the SBA. However, notwithstanding that the latest of our inquiries occurred in February 2009, subsequent to the SBA's receipt of an *Order Directing Private Investigation and Designating Officers to Take Testimony* (Order), but prior to the issuance of our auditor's report on the previously-issued financial statements, the existence of the Order was not disclosed to us. As a consequence, we were not afforded an opportunity to evaluate management's decision to not disclose in the previously-issued LGIP financial statements the receipt of the Order. In a meeting with SBA management and legal counsel, SBA management indicated that they had believed that the disclosures provided to us describing the continuation of investigations were sufficient.

Following further discussions with SBA management, we advised the SBA to make an appropriate disclosure in its financial statements. In response, the SBA timely revised the disclosures included in the previously-issued LGIP financial statements for the fiscal year ended June 30, 2008, by adding note 4., which addresses the status of pending matters and which provides a Web site address at which the users of the financial statements may view the Order and a subsequent subpoena.

As communicated by us to SBA management in an engagement letter dated September 9, 2008, management is responsible for making all financial records and related information available for audit. SBA management has affirmed its responsibility to provide full disclosure to us of all matters impacting the scope and objectives of our audits, including matters that may not be subject to public disclosure.

EXHIBIT – D
MANAGEMENT'S RESPONSE

STATE BOARD OF ADMINISTRATION OF FLORIDA

1801 HERMITAGE BOULEVARD
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(850) 488-4406

POST OFFICE BOX 13300
32317-3300

February 16, 2009

Mr. David W. Martin
Auditor General
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, FL 32399-1450

Dear Mr. Martin:

We reviewed the preliminary and tentative findings and recommendations related to your audit of the Local Government Surplus Funds Trust Fund Financial Statements for the fiscal year ended June 30, 2008. We offer the following responses in regard to the information presented in the report.

Finding No. 1: As the report noted, this item is closed.

Finding No. 2: We agree to continue to ensure that the LGIP's Investment Policy Guidelines clearly address the allowability of investments and that securities not clearly authorized by the Guidelines should not be purchased.

Finding No. 3: We agree to finalize implementation of a fully documented investment compliance monitoring program for the LGIP, including the incorporation of risk-based testing of the LGIP portfolio and investment purchases. Deloitte & Touché is under contract to assist in this endeavor for the LGIP and other SBA funds and is expected to complete their project in May 2009. Additional implementation activities will occur in FY2009-2010.

We welcome the Auditor General's efforts and, as always, we appreciate your diligence and professionalism.

Sincerely,

Ashbel C. Williams
Executive Director & CIO

EXHIBIT – E
MANAGEMENT'S RESPONSE

STATE BOARD OF ADMINISTRATION OF FLORIDA

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32317-3300

December 3, 2009

Mr. David W. Martin, CPA
Auditor General
111 W. Madison Street
Tallahassee, Florida 32399-1450

Dear Mr. Martin:

The SBA management will continue to make full disclosure of material subsequent events, pending or threatened litigation, claims and assessments to the Auditor General through management representation letters and attorney representation letters (as it did for the matter at hand on December 5, 2008 and February 9, 2009, respectively). Additionally, the SBA management will proactively provide all regulatory-related communications to the Auditor General, including those not subject to public disclosure, so that the Auditor General can independently determine the relevance and materiality of such communications to the scope and objectives of its audits.

We welcome the Auditor General's efforts and, as always, we appreciate your diligence and professionalism.

Sincerely,

Ashbel C. Williams
Executive Director & CIO