



STATE OF ILLINOIS  
**OFFICE OF THE  
 AUDITOR GENERAL**

Frank J. Mautino, Auditor General

**SUMMARY REPORT DIGEST**

**ILLINOIS STATE BOARD OF INVESTMENT**

Financial Audit  
 For the Year Ended June 30, 2017

Release Date: January 31, 2018

FINDINGS THIS AUDIT: 1	AGING SCHEDULE OF REPEATED FINDINGS						
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
Category 1:	1	0	1	No Repeat Findings			
Category 2:	0	0	0				
Category 3:	0	0	0				
TOTAL	1	0	1				
FINDINGS LAST AUDIT: 0							

**INTRODUCTION**

This digest covers the Illinois State Board of Investment’s (Board or ISBI) financial audit as of and for the year ended June 30, 2017. The Board’s compliance examination covering the year ended June 30, 2017 will be issued at a later date.

**SYNOPSIS**

- (17-01) The Board has not established adequate internal controls over the financial reporting process.

**Category 1:** Findings that are **material weaknesses** in internal control and/or a **qualification** on compliance with State laws and regulations (material noncompliance).  
**Category 2:** Findings that are **significant deficiencies** in internal control and **noncompliance** with State laws and regulations.  
**Category 3:** Findings that have **no internal control issues but are in noncompliance** with State laws and regulations.

{Financial information is summarized on next page.}

**ILLINOIS STATE BOARD OF INVESTMENT**

**FINANCIAL AUDIT**

**For the Year Ended June 30, 2017**

<b>STATEMENT OF CHANGES IN NET POSITION</b>	<b>FY 2017</b>	<b>FY 2016</b>
<b>Additions:</b>		
Investment Income -Increase/(Decrease) in Fair Value.....	\$ 1,524,144,946	\$ (567,302,770)
Investment Income - Interest and Dividends.....	419,538,572	471,473,083
Investment Income - Securities Lending.....	952,148	3,005,864
Total Investment Income.....	1,944,635,666	(92,823,823)
Member Systems' Contributions.....	19,000,000	6,500,000
Total Additions.....	1,963,635,666	(86,323,823)
<b>Deductions:</b>		
Salaries and Benefits.....	2,022,018	2,090,833
Operating Expenses.....	1,025,877	585,763
External Support (consulting and investment fees).....	27,467,447	37,880,906
Member Systems' Withdrawals.....	232,550,000	116,000,000
Total Deductions.....	263,065,342	156,557,502
Increase/(Decrease) in Net Position.....	1,700,570,324	(242,881,325)
Net Position Beginning of the Year.....	15,568,835,235	15,811,716,560
Net Position End of the Year.....	\$ 17,269,405,559	\$ 15,568,835,235
<b>EXTERNAL SUPPORT EXPENSES</b>		
Custody.....	\$ 523,242	\$ 245,833
Consulting and Professional.....	2,071,678	1,549,089
Investment Advisors / Managers.....	24,612,570	35,841,596
Investment Services and Research.....	259,957	244,388
Total External Support Expenses.....	\$ 27,467,447	\$ 37,880,906
<b>MEMBER SYSTEMS' NET CONTRIBUTIONS (WITHDRAWALS)</b>		
State Employees' Retirement System.....	\$ (230,000,000)	\$ (100,000,000)
Judges' Retirement System.....	(2,000,000)	(3,500,000)
General Assembly Retirement System.....	(550,000)	(6,000,000)
Total Member Systems' Withdrawals.....	\$ (232,550,000)	\$ (109,500,000)
<b>INVESTMENT PORTFOLIO ANALYSIS - Fair Value</b>		
Government and Agency Obligations.....	\$ 3,160,802,984	\$ 2,344,083,456
Foreign Obligations.....	259,374,853	79,996,581
Corporate Obligations and Municipal Bonds.....	789,541,066	744,965,954
Common Stock and Equity Funds.....	4,949,446,775	4,308,822,674
Commingled Funds.....	1,332,142,009	959,707,049
Foreign Preferred Stock .....	10,355,448	427,157
Foreign Equity Securities.....	2,501,452,516	2,238,874,109
Hedge Funds.....	829,980,630	1,178,717,448
Real Estate Funds.....	1,597,613,581	1,700,478,688
Private Equity.....	607,999,383	581,716,569
Money Market Instruments.....	294,095,179	355,867,229
Real Assets.....	586,458,914	591,488,982
Bank Loans.....	423,283,756	448,978,405
Foreign Currency Forward Contracts.....	(11,468,947)	(1,334,605)
Total Investment Portfolio.....	\$ 17,331,078,147	\$ 15,532,789,696
<b>SELECTED ACCOUNT BALANCES</b>		
Cash.....	\$ 8,518,092	\$ 5,983,276
Illinois Power Agency Trust Fund - Cash.....	\$ 18,197	\$ 12,618
Illinois Power Agency Trust Fund - Investments.....	\$ 37,024,396	\$ 32,757,274
Total Receivables .....	\$ 145,213,360	\$ 1,103,098,759
Prepaid Expenses.....	\$ 11,143	\$ 24,216
Capital Assets.....	\$ 52,629	\$ 51,986
Administrative Expenses Payable.....	\$ 10,921,566	\$ 6,080,652
Investments Purchased Payable.....	\$ 204,021,449	\$ 1,065,804,090
<b>BOARD CHIEF EXECUTIVES</b>		
During Engagement Period and Current: Executive Director: William R. Atwood Chairman: Marc Levine		

**FINDINGS, CONCLUSIONS, AND  
RECOMMENDATIONS**

**INACCURATE FINANCIAL REPORTING**

The Illinois State Board of Investment (ISBI) has not established adequate internal controls over the financial reporting process.

**Real estate investments sampled were understated by \$5,894,255**

During our audit of the financial statements we noted the value reported for one real estate investment sampled in our testing (\$13,837,421) was understated by \$5,894,255. Upon further review, we noted ISBI reported the cost basis of the investment instead of its fair value (\$19,731,676) at year end. The error (representing 42.6% of the recorded balance of the investment) was not identified during ISBI's preparation of investment reconciliations or related supervisory review procedures.

ISBI's real estate investments and total investments were \$1,601,026,564 and \$17,530,882,474, respectively, as of June 30, 2017. (Finding 1, pages 29-30)

We recommended ISBI review its internal control procedures and implement the changes necessary to ensure investment accounts are accurately reported in its accounting records and in the financial statements.

**ISBI concurs with the auditors**

ISBI officials stated future controls will be enhanced to include a more detailed review to ensure an error of this nature is not repeated.

**AUDITOR'S OPINION**

The auditors stated the financial statements of the Board as of and for the year ended June 30, 2017 are fairly stated in all material respects.

This financial audit was conducted by KPMG LLP.

**SIGNED ORIGINAL ON FILE**

Jane Clark  
Division Director

This report is transmitted in accordance with Section 3-14 of the Illinois State Auditing Act.

**SIGNED ORIGINAL ON FILE**

FRANK J. MAUTINO  
Auditor General

FJM:TLK