



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

ILLINOIS STATE BOARD OF INVESTMENT

State Compliance Examination
 For the Year Ended June 30, 2018

Release Date: March 28, 2019

FINDINGS THIS AUDIT: 2	AGING SCHEDULE OF REPEATED FINDINGS						
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
Category 1:	0	1	1	2017	18-1		
Category 2:	1	0	1				
Category 3:	0	0	0				
TOTAL	1	1	2				
FINDINGS LAST AUDIT: 2							

INTRODUCTION

This digest covers our Compliance Examination of the Illinois State Board of Investment (Board or ISBI) for the year ended June 30, 2018. A separate Financial Audit as of and for the year ending June 30, 2018 was previously released on December 27, 2018. In total, this report contains two findings, one of which was reported in the Financial Audit.

SYNOPSIS

- (18-02) The Board did not prepare its annual report within the timeframe required by the Illinois Pension Code.

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.

{Expenditure and Activity Measures are summarized on the next page.}

**ILLINOIS STATE BOARD OF INVESTMENT
COMPLIANCE EXAMINATION
For the Year Ended June 30, 2018**

SCHEDULE OF OPERATIONS	FY 2018	FY 2017
REVENUE:		
Investment Income - Interest.....	\$ 227,060,817	\$ 256,201,121
Investment Income - Dividends.....	172,658,524	164,227,154
Investment Income - Securities Lending.....	1,817,362	954,142
Realized Gain on Investments.....	930,314,393	459,724,734
Unrealized Gain on Investments.....	26,819,446	1,067,652,614
Total Investment Income.....	1,358,670,542	1,948,759,765
External Support (Investment Expense).....	(23,840,072)	(27,526,126)
Net Investment Income	1,334,830,470	1,921,233,639
EXPENSES:		
Operating Expenses.....	(3,369,003)	(3,053,959)
Revenue Over Expenses.....	<u>\$ 1,331,461,467</u>	<u>\$ 1,918,179,680</u>
INVESTMENT PORTFOLIO ANALYSIS - Fair Value		
	June 30, 2018	June 30, 2017
Total Government and Agency Obligations.....	\$ 3,772,996,557	\$ 3,167,555,410
Total Corporate Obligations.....	978,155,830	782,703,583
Foreign Government and Municipal Obligations.....	325,982,520	268,453,135
U.S. Common Stocks, Equities & Commingled Funds.....	6,949,057,380	6,295,008,147
Non - U.S. Equity Securities.....	2,310,044,822	2,517,173,942
Real Estate Funds.....	1,594,774,574	1,601,026,564
Private Equity.....	706,768,270	609,298,253
Real Assets.....	408,985,767	587,711,767
Hedge Funds and Opportunistic Debt.....	585,797,338	831,753,718
Money Market Instruments.....	231,743,812	294,723,455
Bank Loans.....	464,315,920	424,188,017
Foreign Currency Forward Contracts.....	(7,847,062)	(11,493,448)
Total Investment Portfolio.....	<u>\$ 18,320,775,728</u>	<u>\$ 17,368,102,543</u>
INVESTMENT ALLOCATION (unaudited)		
	June 30, 2018	June 30, 2017
U.S. Equity & Commingled Funds.....	37%	37%
U.S. Equity Hedge Funds and Opportunistic Debt.....	3%	5%
International Equity.....	13%	15%
Fixed Income.....	28%	24%
Real Estate.....	9%	9%
Private Equity.....	4%	4%
Real Assets/Infrastructure.....	2%	3%
Bank Loans.....	3%	2%
Cash.....	<u>1%</u>	<u>1%</u>
Total.....	<u>100%</u>	<u>100%</u>
SELECTED INVESTMENT RETURNS ACTUAL (bold) AND BENCHMARK (unaudited)		
	June 30, 2018	June 30, 2017
Total Fund.....	7.6%	12.3%
Composite benchmark.....	7.4%	12.0%
U.S. Equities.....	14.3%	18.7%
Russell 3000 Index.....	14.8%	18.5%
International Equities.....	7.6%	22.1%
MSCI-ACWI ex US Index IMI Gross.....	7.7%	20.5%
Fixed Income.....	0.9%	0.9%
Barclays Capital U.S. Universal Index.....	-0.3%	0.9%
Real Estate.....	7.3%	7.1%
NCREIF Real Estate Index.....	7.1%	6.9%
BOARD CHIEF EXECUTIVES		
During Engagement Period: Executive Director: William R. Atwood Chairman: Marc Levine		
Current: Executive Director: Johara Farhadieh Chairman: Marc Levine		

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

**UNTIMELY PREPARATION OF ANNUAL FINANCIAL
REPORT**

**Noncompliance with the Illinois
Pension Code**

The Illinois State Board of Investment (ISBI) did not prepare its annual report within the timeframe required by the Illinois Pension Code.

**Annual Financial Report was not
provided timely**

During our testing of State mandates applicable to ISBI, we noted the audit of ISBI's annual financial report was not completed until January 16, 2018 (date of auditors' report) and was publicly released by the Illinois Office of the Auditor General on January 31, 2018. Accordingly, ISBI did not provide its annual report to each pension fund, retirement system or education fund under its jurisdiction with 6 months after the close of the fiscal year as required by the Illinois Pension Code. (Finding 2, pages 13-14)

We recommended ISBI establish procedures to ensure annual financial reports are prepared and made available to the pension funds, retirement systems, and education funds under its jurisdiction within timeframes required by the Illinois Pension Code.

ISBI agrees with auditors

ISBI officials agreed with the finding and recommendation.

AUDITOR'S OPINION

The financial audit was previously released. The auditors stated the financial statements of the Board as of and for the year ended June 30, 2018 are fairly stated in all material respects.

ACCOUNTANT'S OPINION

The accountants conducted a compliance examination of the Board for the year ended June 30, 2018, as required by the Illinois State Auditing Act. The accountants stated the Board complied, in all material respects, with the requirements described in the report.

This compliance examination 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