



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, 2018

Release Date: December 27, 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	2017	18-01		
Category 2:	0	0	0				
Category 3:	0	0	0				
TOTAL	1	0	1				
FINDINGS LAST AUDIT: 1							

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, 2018. The Board's compliance examination covering the year ended June 30, 2018 will be issued at a later date.

SYNOPSIS

- **(18-01)** The Board has not established adequate internal controls over the financial reporting process related to investments.

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, 2018

STATEMENT OF CHANGES IN NET POSITION	FY 2018	FY 2017
Additions:		
Investment Income -Increase/(Decrease) in Fair Value.....	\$ 955,091,039	\$ 1,524,144,946
Investment Income - Interest and Dividends.....	398,862,807	419,538,572
Investment Income - Securities Lending.....	1,813,501	952,148
Total Investment Income.....	1,355,767,347	1,944,635,666
Member Systems' Contributions.....	12,300,000	19,000,000
Total Additions.....	1,368,067,347	1,963,635,666
Deductions:		
Salaries and Benefits.....	2,254,901	2,022,018
Operating Expenses.....	1,106,868	1,025,877
External Support (consulting and investment fees).....	23,788,885	27,467,447
Member Systems' Withdrawals.....	312,500,000	232,550,000
Total Deductions.....	339,650,654	263,065,342
Increase/(Decrease) in Net Position.....	1,028,416,693	1,700,570,324
Net Position Beginning of the Year.....	17,269,405,559	15,568,835,235
Net Position End of the Year.....	\$ 18,297,822,252	\$ 17,269,405,559
EXTERNAL SUPPORT EXPENSES		
	FY 2018	FY 2017
Custody.....	\$ 548,819	\$ 523,242
Consulting and Professional.....	1,344,519	2,071,678
Investment Advisors / Managers.....	21,569,739	24,612,570
Investment Services and Research.....	325,808	259,957
Total External Support Expenses.....	\$ 23,788,885	\$ 27,467,447
MEMBER SYSTEMS' NET CONTRIBUTIONS (WITHDRAWALS)		
	FY 2018	FY 2017
State Employees' Retirement System.....	\$ (310,000,000)	\$ (230,000,000)
Judges' Retirement System.....	9,100,000	(2,000,000)
General Assembly Retirement System.....	700,000	(550,000)
Total Member Systems' Withdrawals.....	\$ (300,200,000)	\$ (232,550,000)
INVESTMENT PORTFOLIO ANALYSIS - Fair Value		
	June 30, 2018	June 30, 2017
Government and Agency Obligations.....	\$ 3,765,051,555	\$ 3,160,802,984
Foreign Obligations.....	316,403,682	259,374,853
Corporate Obligations and Municipal Bonds.....	984,988,473	789,541,066
Common Stock and Equity Funds.....	5,216,211,086	4,949,446,775
Commingled Funds.....	1,718,213,289	1,332,142,009
Foreign Preferred Stock	8,745,516	10,355,448
Foreign Equity Securities.....	2,296,434,921	2,501,452,516
Hedge Funds.....	359,984,365	829,980,630
Opportunistic Debt.....	224,579,428	-
Real Estate Funds.....	1,591,416,371	1,597,613,581
Private Equity.....	705,279,991	607,999,383
Money Market Instruments.....	231,255,816	294,095,179
Infrastructure.....	408,124,365	586,458,914
Bank Loans.....	463,338,185	423,283,756
Foreign Currency Forward Contracts.....	(7,830,538)	(11,468,947)
Total Investment Portfolio.....	\$ 18,282,196,505	\$ 17,331,078,147
SELECTED ACCOUNT BALANCES		
	June 30, 2018	June 30, 2017
Cash.....	\$ 14,256,203	\$ 8,518,092
Illinois Power Agency Trust Fund - Cash.....	\$ 30,084	\$ 18,197
Illinois Power Agency Trust Fund - Investments.....	\$ 38,579,223	\$ 37,024,396
Total Receivables	\$ 96,731,705	\$ 145,213,360
Prepaid Expenses.....	\$ 76,552	\$ 11,143
Capital Assets.....	\$ 55,856	\$ 52,629
Administrative Expenses Payable.....	\$ 7,736,427	\$ 10,921,566
Investments Purchased Payable.....	\$ 87,758,142	\$ 204,021,449
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

INACCURATE FINANCIAL REPORTING

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

During our audit of the financial statements we noted the following:

Private equity funds sampled were understated by \$1,947,059

Nine other private equity funds were also understated by \$1,132,314

- For two private equity funds sampled in our testing, the fair value of the investments reported was understated by \$1,947,059. Upon further review, we noted ISBI reported preliminary estimated values for these investments and did not have procedures in place to evaluate and update the final fair value amounts reported by the manager. In response to the error, ISBI identified nine additional private equity funds resulting in an understatement of \$1,132,314. The errors were not identified during ISBI's preparation of investment reconciliations or related supervisory procedures. Correcting adjustments were made to the financial statements by ISBI to account for these errors.

- For one bank loan fund sampled in our testing, the fair value of the investment reported was overstated by \$160,342. Upon further review, we noted ISBI reported the value of the investment inclusive of the applicable management fees and accrued expenses instead of its fair value at year end. ISBI determined this error was not material to the financial statements and a correcting adjustment was not made to account for this error.

ISBI's private equity investments, bank loan investments and total investments were \$706,768,270, \$464,315,920, and \$18,320,775,728, respectively, as of June 30, 2018. (Finding 1, pages 32-33)

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. To the extent preliminary or estimated balances are initially reported, ISBI should establish procedures to evaluate, monitor, and update (if necessary) these items when final valuations are received.

ISBI concurs with the auditors

ISBI officials stated future controls will be enhanced to eliminate the use of estimated values and management will proactively communicate with investment managers to obtain final capital statements as early in the cycle as possible.

AUDITOR'S OPINION

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.

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

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