



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, 2019

Release Date: March 17, 2020

FINDINGS THIS AUDIT: 3	New	Repeat	Total	AGING SCHEDULE OF REPEATED FINDINGS			
				Repeated Since	Category 1	Category 2	Category 3
<b>Category 1:</b>	<b>0</b>	<b>0</b>	<b>0</b>				
Category 2:	3	0	3				
Category 3:	<u>0</u>	<u>0</u>	<u>0</u>				
<b>TOTAL</b>	<b>3</b>	<b>0</b>	<b>3</b>				
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, 2019. A separate Financial Audit as of and for the year ending June 30, 2019 was previously released on December 19, 2019. In total, this report contains three findings, none of which were reported in the Financial Audit.

**SYNOPSIS**

- (19-02) The Board did not properly complete the Employment Eligibility Verification Form I-9 for its employees during the fiscal year ended June 30, 2019.

**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.

**ILLINOIS STATE BOARD OF INVESTMENT  
COMPLIANCE EXAMINATION  
For the Year Ended June 30, 2019**

<b>SCHEDULE OF OPERATIONS</b>	<b>FY 2019</b>	<b>FY 2018</b>
<b>REVENUE:</b>		
Investment Income - Interest.....	\$ 188,699,335	\$ 227,060,817
Investment Income - Dividends.....	122,301,887	172,658,524
Investment Income - Securities Lending.....	102	1,817,362
Realized Gain on Investments.....	1,097,480,189	930,314,393
Unrealized Gain (loss) on Investments.....	<u>(198,234,113)</u>	<u>26,819,446</u>
Total Investment Income.....	1,210,247,400	1,358,670,542
External Support (Investment Expense).....	<u>(22,790,220)</u>	<u>(23,840,072)</u>
Net Investment Income .....	1,187,457,180	1,334,830,470
<b>EXPENSES:</b>		
Operating Expenses.....	<u>(3,421,889)</u>	<u>(3,369,003)</u>
Revenue Over Expenses.....	<u>\$ 1,184,035,291</u>	<u>\$ 1,331,461,467</u>
<b>INVESTMENT PORTFOLIO ANALYSIS - Fair Value</b>		
	<b>June 30, 2019</b>	<b>June 30, 2018</b>
Total Government and Agency Obligations.....	\$ 249,211,178	\$ 3,772,996,557
Total Corporate Obligations.....	687,426,898	978,155,830
Commingled Funds - Fixed Income.....	4,521,009,685	-
Foreign Government and Municipal Obligations.....	148,011,205	325,982,520
U.S. Common Stocks, Equities & Commingled Funds.....	3,194,933,714	6,949,057,380
Non - U.S. Equity Securities.....	6,270,630,122	2,310,044,822
Real Estate Funds.....	1,737,430,583	1,594,774,574
Private Equity.....	779,475,084	706,768,270
Real Assets.....	316,264,251	408,985,767
Hedge Funds and Opportunistic Debt.....	647,866,594	585,797,338
Money Market Instruments.....	156,715,534	231,743,812
Bank Loans.....	392,020,733	464,315,920
Foreign Currency Forward Contracts.....	-	(7,847,062)
Total Investment Portfolio.....	<u>\$ 19,100,995,581</u>	<u>\$ 18,320,775,728</u>
<b>INVESTMENT ALLOCATION (unaudited)</b>		
	<b>June 30, 2019</b>	<b>June 30, 2018</b>
U.S. Equity & Commingled Funds.....	28%	37%
U.S. Equity Hedge Funds and Opportunistic Debt.....	1%	3%
International Equity and Commingled International Equity.....	21%	13%
Fixed Income and Commingled Fixed Income.....	29%	28%
Real Estate.....	9%	9%
Private Equity.....	4%	4%
Opportunistic Debt/Infrastructure.....	5%	2%
Bank Loans.....	2%	3%
Cash.....	<u>1%</u>	<u>1%</u>
Total.....	<u>100%</u>	<u>100%</u>
<b>SELECTED INVESTMENT RETURNS ACTUAL (bold) AND BENCHMARK (unaudited)</b>		
	<b>June 30, 2019</b>	<b>June 30, 2018</b>
<b>Total Fund</b> .....	<b>7.1%</b>	<b>7.6%</b>
Composite benchmark.....	7.0%	7.4%
<b>U.S. Equities</b> .....	<b>10.3%</b>	<b>14.3%</b>
Russell 3000 Index.....	9.0%	14.8%
<b>International Equities</b> .....	<b>1.2%</b>	<b>7.6%</b>
MSCI-ACWI ex US Index.....	0.3%	7.7%
<b>Fixed Income</b> .....	<b>7.5%</b>	<b>0.9%</b>
Barclays Capital U.S. Universal Index.....	8.1%	-0.3%
<b>Real Estate</b> .....	<b>5.4%</b>	<b>7.3%</b>
Real Estate CB.....	6.6%	7.1%
<b>BOARD EXECUTIVE DIRECTOR</b>		
During Engagement Period: Johara Farhadieh		
Current: Johara Farhadieh		

**FINDINGS, CONCLUSIONS, AND  
RECOMMENDATIONS**

**INCOMPLETE PREPARATION OF EMPLOYMENT  
ELIGIBILITY VERIFICATION FORM I-9'S**

The Illinois State Board of Investment (ISBI) did not properly complete the Employment Eligibility Verification Form I-9 for its employees during the fiscal year ended June 30, 2019.

During our testwork over 13 employee files, we noted eight employees whose Form I-9 were not properly completed. Specifically, we identified the following:

**Form I-9 could not be provided by  
ISBI for 2 employees**

- For two ISBI employees, there was no documentation of a completed Form I-9.
- For two ISBI employees, Section 1 of Form I-9 was not completed by the employee on or before his/her first date of employment. Delays in completing the form were 1 to 2 days after the start of employment.
- For two ISBI employees, ISBI did not properly complete and sign Section 2 of Form I-9 to verify employment authorization. As of the date of our testing (October 17, 2019) these forms still have not been signed.
- For two ISBI employees, Section 1 of Form I-9 was not completed by the employee on or before his/her first date of employment and Section 2 of Form I-9 was not completed and signed by ISBI within 3 business days of the employee's hired date. Delays in completing Section 1 were 1 and 4 days. As of the date of our testing (October 17, 2019), Section 2 for one out of the two Form I-9's still has not been signed. Additionally, the delay in completing Section 2 of Form I-9 for one of the two forms was 4 days after the employee's hired date. (Finding 2, pages 12-13)

We recommended ISBI establish procedures to ensure Employment Eligibility Verification Form I-9's are complete for each employee in accordance with State regulations.

**ISBI agrees with auditors**

ISBI officials agreed with the finding and recommendation.

**OTHER FINDINGS**

The remaining findings pertain to untimely preparation of employee timesheets and inaccurate recording of vouchers. We will review ISBI's progress towards the implementation of our recommendations in our next compliance examination.

**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, 2019 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, 2019, 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**

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JANE CLARK  
Division Director

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

**SIGNED ORIGINAL ON FILE**

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FRANK J. MAUTINO  
Auditor General

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