



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, 2020

Release Date: February 17, 2021

FINDINGS THIS AUDIT: 2	AGING SCHEDULE OF REPEATED FINDINGS			
	Repeated Since	Category 1	Category 2	Category 3
	2019		20-2	

	New	Repeat	Total
Category 1:	0	0	0
Category 2:	1	1	2
Category 3:	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL	1	1	2

FINDINGS LAST AUDIT: 3

INTRODUCTION

This digest covers our Compliance Examination of the Illinois State Board of Investment (Board or ISBI) for the year ended June 30, 2020. A separate Financial Audit as of and for the year ending June 30, 2020 was previously released on December 22, 2020. In total, this report contains two findings, none of which were reported in the Financial Audit.

SYNOPSIS

- (20-1) ISBI did not identify financial reporting errors in the year-end financial statement.

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, 2020**

SCHEDULE OF OPERATIONS	FY 2020	FY 2019
REVENUE:		
Investment Income - Interest.....	\$ 156,121,730	\$ 188,699,335
Investment Income - Dividends.....	63,503,954	122,301,887
Investment Income - Securities Lending.....	-	102
Realized Gain on Investments.....	515,484,853	1,097,480,189
Unrealized Gain (loss) on Investments.....	169,998,698	(198,234,113)
Total Investment Income.....	<u>905,109,235</u>	<u>1,210,247,400</u>
External Support (Investment Expense).....	(23,187,560)	(22,790,220)
Net Investment Income	881,921,675	1,187,457,180
EXPENSES:		
Operating Expenses.....	(3,375,831)	(3,421,889)
Revenue Over Expenses.....	<u>\$ 878,545,844</u>	<u>\$ 1,184,035,291</u>
INVESTMENT PORTFOLIO ANALYSIS - Fair Value		
	June 30, 2020	June 30, 2019*
Total Government and Agency Obligations.....	\$ 236,027,091	\$ 249,211,178
Total Corporate Obligations.....	895,942,130	687,426,898
Commingled Funds - Fixed Income.....	4,629,437,148	4,521,009,685
International Government and Municipal Obligations.....	115,457,894	148,011,205
Domestic Equities.....	2,852,607,404	2,961,709,654
Commingled Funds - Equity.....	6,289,294,561	6,270,630,122
International Equities.....	235,312,041	233,224,060
Real Estate Funds.....	1,960,846,320	1,737,430,583
Private Equity.....	942,875,216	779,475,084
Infrastructure Funds.....	279,399,854	316,264,251
Hedge Funds and Opportunistic Debt.....	868,839,602	647,866,594
Money Market Instruments and Restricted Cash.....	252,665,371	156,715,534
Bank Loans.....	251,140,241	392,020,733
Total Investment Portfolio.....	<u>\$ 19,809,844,873</u>	<u>\$ 19,100,995,581</u>
* - Certain reclassifications have been made to the 2019 amounts to conform to the current year presentation		
SELECTED INVESTMENT RETURNS ACTUAL (bold) AND BENCHMARK (unaudited)		
	June 30, 2020	June 30, 2019
Total Fund	4.6%	7.1%
Composite benchmark.....	4.9%	7.0%
Domestic Equities	6.4%	10.3%
Russell 3000 Index.....	6.5%	9.0%
International Equities	-2.9%	1.2%
MSCI-ACWI ex US Index.....	-4.7%	0.3%
Fixed Income	7.8%	7.5%
Barclays Capital U.S. Universal Index.....	7.9%	8.1%
Real Estate	2.3%	5.4%
Real Estate CB.....	3.9%	6.6%
BOARD EXECUTIVE DIRECTOR		
During Engagement Period & Current: Johara Farhadieh		

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

FINANCIAL REPORTING ERRORS

The Illinois State Board of Investment (ISBI) did not identify financial reporting errors in the year-end financial statement.

During our financial statement audit, we identified two financial reporting errors which were corrected by ISBI in the year-end financial audit. Specifically, we noted the following:

Cash was erroneously reported as a commingled investment

- ISBI improperly reported \$40 million of cash transferred to a new investment fund near year end as a commingled fund investment; however, the agreement for this investment fund only permits funds to be invested at the beginning of the month. Accordingly, ISBI's cash was not invested in the commingled fund until July 1, 2020. ISBI reclassified this transaction to Restricted Cash (subscription advance) in the June 30, 2020 financial statements.

- ISBI understated unfunded commitments for its investment in opportunistic debt by \$71 million.

ISBI's financial statement review procedures were not operating at a level of precision to identify these errors. (Finding 1, pages 11-12)

We recommended ISBI review the level of precision of supervisory review procedures and implement any changes necessary to ensure errors similar to those identified in this finding are detected and corrected by management.

ISBI agrees with the auditors

ISBI officials agreed with the finding and recommendation.

OTHER FINDINGS

The remaining finding pertains to untimely preparation of employee timesheets. We will review ISBI's progress towards the implementation of our recommendation 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, 2020 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, 2020, 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