
REPORT DIGEST

ILLINOIS STATE BOARD OF INVESTMENT

COMPLIANCE AUDIT

For the Year Ended:
June 30, 1996

Summary of Findings:

Total this audit	1
Total last audit	0
Repeated from last audit	0

Release Date:



State of Illinois
Office of the Auditor General

WILLIAM G. HOLLAND
AUDITOR GENERAL

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SYNOPSIS

- ◆ The Board did not file all contracts with the Office of the State Comptroller as required by State law.

{Financial Information is summarized on the reverse page.}

ILLINOIS STATE BOARD OF INVESTMENT
INFORMATION FROM FINANCIAL AND COMPLIANCE AUDITS
Two Years Ended June 30, 1996

NET ASSETS	June 30, 1996	June 30, 1995
Investments, at Market Value		
U.S. Government and Agency Obligations...	\$ 912,121,439	\$ 793,452,197
Foreign Obligations.....	62,127,837	31,091,580
Corporate Obligations.....	672,504,912	857,768,340
Convertible Bonds.....	16,090,094	23,767,915
Common Stock & Equity Funds.....	2,022,045,628	1,810,530,849
Convertible Preferred Stock.....	12,642,234	15,508,029
Preferred Stock.....	16,685,727	13,326,398
Foreign Equity Securities.....	560,500,860	434,791,884
Real Estate Funds.....	243,308,942	249,380,026
Alternative Investments.....	274,289,456	223,541,441
Money Market Instruments.....	620,820,839	258,687,700
Forward Foreign Exchange Contracts.....	<u>1,154,317</u>	<u>720,404</u>
	5,414,292,285	4,712,566,763
Other Assets, Less Liabilities.....	<u>22,524,160</u>	<u>78,703,254</u>
Net Assets, at Market Value.....	<u>\$5,436,816,445</u>	<u>\$4,791,270,017</u>
Net Assets, at Cost.....	<u>\$4,601,659,771</u>	<u>\$4,141,727,080</u>

FINANCIAL HIGHLIGHTS	YEAR ENDED JUNE 30, 1996	YEAR ENDED JUNE 30, 1995
Net Investment Income.....	\$205,805,085	\$211,686,709
Net Realized Gain on Investments.....	\$389,327,606	\$96,592,878
Net Unrealized Gain on Investments.....	\$185,613,737	\$289,435,658
Management Expenses.....	\$15,511,389	\$13,859,829
Annual Total Return.....	16.6%	14.0%

AGENCY DIRECTOR
During Audit Period: Jane R. Patterson Currently: Jane R. Patterson

INTRODUCTION

This digest covers our compliance audit of the Board for the year ended June 30, 1996. A financial audit covering the year ending June 30, 1996 was previously issued.

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

ALL CONTRACTS NOT FILED WITH STATE COMPTROLLER

All contracts not filed

The Board did not file all contracts with the Office of the State Comptroller as required by State law. In fiscal year 1996, the Board had agreements with 19 external investment managers to manage portions of the Board's investment portfolio which had a total market value of \$5.4 billion at June 30, 1996. Investment manager fees for fiscal year 1996 totaled approximately \$13 million. None of these agreements were filed with the State Comptroller. In addition, the Board did not file contracts for services which were paid by using soft dollar credits. These credits are issued to the Board by certain brokers based on the level of activity of investment managers using that particular broker.

State laws require contract filing

The Illinois Purchasing Act and the State Comptroller Act require that State agency contracts for professional or artistic services of more than \$5,000 must be reduced to writing and filed with the State Comptroller. In addition, administrative rules promulgated by the State Comptroller explain that the filing requirements are applicable to all State agencies whether or not the State agency participates in transactions involving funds held by the State Treasurer.

Public accountability and oversight would be enhanced if the Board adopted a practice of reducing to writing the services it receives using soft dollar credits and filing those agreements with the State Comptroller.
(Finding 1, page 8)

Board officials responded that their interpretation of the Illinois Purchasing Act is that the contract filing

requirements do not apply to investment manager contracts and other contracts not paid with funds held by the State Treasurer. However, because these contracts are already a matter of public record, they have no objection to filing the contracts with the Office of the State Comptroller, as recommended.

OTHER FINDINGS

There were no other findings presented in the audit report. We will review progress toward implementation of our recommendation during our next audit. The Board's response was provided by Ms. Jane Patterson, Director.

WILLIAM G. HOLLAND, Auditor General

WGH:KMA:pp

SPECIAL ASSISTANT AUDITORS

McGladrey & Pullen, LLP were our special assistant auditors for this audit.

