Illinois State Board of Investment
(An Internal Investment Pool of the State of Illinois)

State Compliance Examination

For the Two Years Ended June 30, 2025
Performed as Special Assistant Auditors for
the Auditor General, State of Illinois

Illinois State Board of Investment
(An Internal Investment Pool of the State of Illinois)
State Compliance Examination

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AGENCY OFFICIALS

Executive Director / Chief Investment Officer (10/3/2023 – Present)	Mr. Dipesh Mehta
General Counsel / Chief Compliance Officer (10/27/2024 – Present)	Mr. Patrick Hall
Chief Financial Officer / Chief Operating Officer (5/8/2023 – Present)	Mr. David Schneider
Portfolio Officer for Financial Reporting and Accounting (2/10/2014 – Present)	Ms. Genette Bacon-Cordova

BOARD OFFICERS

Chair of the Board (9/29/2021 – Present)	Terrence Healy
Vice Chair of the Board (1/12/2015 – Present)	Treasurer Michael W. Frerichs
Recording Secretary (4/29/2024 – Present)	Justice Debra Walker
Member at Large (12/5/2016 – Present)	Comptroller Susana A. Mendoza

BOARD MEMBERS

Trustee (5/1/2019 – Present)	Senator Robert Martwick
Trustee (9/9/2019 – Present)	Elizabeth Sanders
Trustee (9/17/2022 – Present)	Justice Debra Walker
Trustee (7/28/2023 – Present)	Matthew Brewer

Illinois State Board of Investment Office is located at:
180 North LaSalle Street
Suite 2015
Chicago, Illinois 60601

ILLINOIS STATE BOARD OF INVESTMENT

June 26, 2026

RSM US LLP
1450 American Lane, Suite 1400
Schaumburg, IL 60173

Ladies and Gentlemen:

We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grant agreements that could have a material effect on the operations of the Illinois State Board of Investment (ISBI). We are responsible for and we have established and maintained an effective system of internal controls over compliance requirements. We have performed an evaluation of the ISBI's compliance with the following specified requirements during the two-year period ended June 30, 2025. Based on this evaluation, we assert that during the years ended June 30, 2024 and June 30, 2025, ISBI has materially complied with the specified requirements listed below.

A. ISBI has obligated, expended, received, and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.

B. ISBI has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions, or mandatory directions imposed by law upon such obligation, expenditure, receipt, or use.

C. Other than what has been previously disclosed and reported in the Schedule of Findings, ISBI has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.

D. State revenues and receipts collected by ISBI are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate, and in accordance with law.

E. Money or negotiable securities or similar assets handled by ISBI on behalf of the State or held in trust by ISBI have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

Yours truly,

Illinois State Board of Investment

SIGNED ORIGINAL ON FILE

Dipesh Mehta
Executive Director and Chief Investment Officer
Officer

SIGNED ORIGINAL ON FILE

David Schneider
Chief Financial Officer and Chief Operating
Officer

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Patrick Hall
General Counsel and Chief Compliance Officer

State Compliance Report

Summary

The State compliance testing performed during this examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants; the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States; the Illinois State Auditing Act (Act); and the *Audit Guide.*

Accountant's Report

The Independent Accountant's Report on State Compliance and on Internal Control Over Compliance does not contain scope limitations or disclaimers, but does contain a modified opinion on compliance and identifies material weaknesses over internal control over compliance.

Summary of Findings

Number of	Current Report	Prior Report
Findings	1	4
Repeated findings	0	0
Prior recommendations implemented or not repeated	4	0

Schedule of Findings

Item No	Page	Last/First Reported	Description	Finding Type
			Current Findings	
2025-001	8	New	Unreconciled Differences Included in Pending Investment Activity	Material Weakness and Material Noncompliance
			Prior Findings Not Repeated	
A.	10	2023/2023	Failure to Implement Controls Related to Cybersecurity Programs and Practices	
B.	10	2023/2023	Lack of Adequate Controls over the Review of Internal Controls for Services Providers	
C.	10	2023/2023	Inadequate Computer Security Controls	
D.	10	2023/2023	Insufficient Controls over Monthly Reconciliations	

Exit Conferences

Financial Statement Exit Conference: Finding 2025-001 and the recommendation appearing in this report were discussed with ISBI personnel at an exit conference on February 24, 2026. Attending were:

- Illinois State Board of Investment: Dipesh Mehta, Executive Director and Chief Investment Officer, Patrick Hall, General Counsel and Chief Compliance Officer, David Schneider, Chief Operating Officer and Chief Financial Officer, Mary Cahill, Director of Business Operations and Legislative Affairs, and Genette Bacon-Cordova, Portfolio Officer for Financial Reporting and Accounting
- Illinois Office of the Auditor General: Dennis Gibbons, Senior Audit Manager
- RSM US LLP: William (Bill) Sarb, Partner, Heath Jackson, Senior Manager, and Tommy Kline, Senior Associate

The response to the recommendation was provided by David Schneider, Chief Operating Officer and Chief Financial Officer, in a correspondence dated March 10, 2026.

State Compliance Examination Exit Conference: ISBI waived an exit conference in a correspondence from David Schneider, Chief Financial Officer and Chief Operating Officer, on June 9, 2026.

RSM US LLP

**Independent Accountant's Report
on State Compliance and on Internal Control Over Compliance**

Honorable Christopher B. Meister
Auditor General
State of Illinois

And

Board of Trustees
Illinois State Board of Investment

Report on State Compliance

As Special Assistant Auditors for the Auditor General, we have examined the Illinois State Board of Investment's (ISBI) compliance with the specified requirements listed below, as more fully described in the *Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies* (*Audit Guide*) as adopted by the Auditor General, during the two years ended June 30, 2025. Management of ISBI is responsible for compliance with the specified requirements. Our responsibility is to express an opinion on ISBI's compliance with the specified requirements based on our examination.

The specified requirements are:

A. ISBI has obligated, expended, received, and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.

B. ISBI has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions, or mandatory directions imposed by law upon such obligation, expenditure, receipt, or use.

C. ISBI has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.

D. State revenues and receipts collected by ISBI are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate, and in accordance with law.

E. Money or negotiable securities or similar assets handled by ISBI on behalf of the State or held in trust by ISBI have been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

Our examination was conducted in accordance with attestation standards established by the AICPA; the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States; the Illinois State Auditing Act (Act); and the *Audit Guide*. Those standards, the Act, and the *Audit Guide* require that we plan and perform the examination to obtain reasonable assurance about whether ISBI complied, in all material respects, with the specified requirements. An examination involves performing procedures to obtain evidence about whether ISBI complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgement, including an assessment of the risks of material noncompliance with the specified requirements, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our modified opinion.

We are required to be independent and to meet our other ethical responsibilities in accordance with relevant ethical requirements relating to this engagement.

Our examination does not provide a legal determination on ISBI's compliance with the specified requirements.

Our examination disclosed material noncompliance with the following specified requirement applicable to ISBI during the two years ended June 30, 2025. As described in the accompanying Schedule of Findings as item 2025-001, ISBI had not complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.

In our opinion, except for the material noncompliance with the specified requirement described in the preceding paragraph, ISBI complied, in all material respects, with the aforementioned requirements for the two years ended June 30, 2025.

Government Auditing Standards require the auditor to perform limited procedures on ISBI's response to the noncompliance finding identified in our examination which is described in the accompanying Schedule of Findings. ISBI's response was not subjected to the procedures applied in the examination and, accordingly, we express no opinion on the response.

The purpose of this report is solely to describe the scope of our testing and the results of that testing in accordance with the requirements of the *Audit Guide*. Accordingly, this report is not suitable for any other purpose.

Report on Internal Control Over Compliance

Management of ISBI is responsible for establishing and maintaining effective internal control over compliance with the specified requirements (internal control). In planning and performing our examination, we considered ISBI's internal control as a basis for designing examination procedures that are appropriate in the circumstances for the purpose of expressing our opinion on ISBI's compliance with the specified requirements and to test and report on ISBI's internal control in accordance with the *Audit Guide*, but not for the purpose of expressing an opinion on the effectiveness of ISBI's internal control. Accordingly, we do not express an opinion on the effectiveness of ISBI's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with the specified requirements on a timely basis. A *material weakness in internal control* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material noncompliance with the specified requirements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying Schedule of Findings as item 2025-001, that we consider to be a material weakness.

As required by the *Audit Guide*, immaterial findings excluded from this report have been reported in a separate letter.

Government Auditing Standards requires the auditor to perform limited procedures on ISBI's response to the internal control finding identified in our examination and is described in the accompanying Schedule of Findings. ISBI's response was not subjected to the procedures applied in the examination and, accordingly, we express no opinion on the response.

The purpose of this report on internal control is solely to describe the scope of our testing of internal control and the results of that testing based on the requirements of the *Audit Guide*. Accordingly, this report is not suitable for any other purpose.

SIGNED ORIGINAL ON FILE

Schaumburg, Illinois
June 26, 2026

Current Finding

Finding 2025-001 Unreconciled Differences Included in Pending Investment Activity

The Illinois State Board of Investment (ISBI) did not have adequate controls in place to track and record receivables and payables related to investment activity during the period.

During the audit of the financial statements for the year ended June 30, 2025, we noted that ISBI's payables for investments purchased and receivables for investments sold, did not reconcile with the amounts reported by the asset custodian. ISBI's reported balances included other payables and other receivables which represented internal money movements between investment funds/managers, which are internal balances and should be eliminated for financial reporting purposes. The impact of the unreconciled differences resulted in an uncorrected misstatement in the financial statements of $99,072,159, including $98,910,967 impacting the ISBI Member System and $161,192 impacting the Illinois Power Agency Trust Fund as follows:

- Overstatement of payables for investments purchased
- Understatement of net increase in fair value of investments / net position

In addition to the uncorrected misstatement noted above, on the recommendation of its auditors, ISBI did reclassify a trial balance account for a balance that was classified as a receivable for investments sold to a payable for investments purchased. The reclassification reduced both amounts by $27,712,272. This reclassification had no impact on net position.

Governmental Accounting Standards Board (GASB) Codification 2200 *Annual Comprehensive Financial Report* includes paragraph 153 which states that eliminations should be made in the statement of net position to minimize "grossing-up" effect on assets and liabilities. All internal balances should be eliminated in the total primary government column.

In addition, Concepts Statement No. 1 of the GASB, *Objectives of Financial Reporting* (GASBCS1, paragraph 64) states, "Financial reporting should be reliable; that is, the information presented should be verifiable and free from bias and should faithfully represent what it purports to represent."

Finally, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires ISBI to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance that revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources. Effective internal controls should include procedures to accurately record the value of investment receivables, investment purchases payable, and other assets and liabilities to allow for the preparation of accurate financial statements.

ISBI management stated that the error was due to a change in the ledger system utilized by ISBI's asset custodian which impacted ISBI's reporting process. This change was missed due to oversight.

Failure to maintain adequate controls over the recording of investment related payables and receivables could result in a material misstatement of the financial statements as of fiscal year-end. (Finding Code No. 2025-001)

Current Finding (Continued)

Finding 2025-001 Unreconciled Differences Included in Pending Investment Activity (Continued)

Recommendation:

We recommend ISBI establish internal controls to ensure that all investment-related balances are properly reconciled to the records of the asset custodian and are properly recorded within the financial statements.

ISBI Response:

ISBI partially accepts the finding as detailed by the auditors. More specifically, ISBI agrees that the variance described above by the auditors is accurate but disagrees with the characterization that this variance was the result of improper controls.

Historically, ISBI has maintained the practice of balancing quarterly portfolio movements through the Investments Sold line on our Statement of Fiduciary Net Position, which has resulted in a known ongoing variance between ISBI's internal general ledger and the custodian's reported balances. This fluctuating difference has existed throughout the duration of ISBI's relationship with its asset custodian, which began in 2017. It has never been identified as an issue in any prior financial audit. ISBI continues to believe its practice with regard to this variance was prudent.

Despite this, ISBI will always seek to work with the OAG and our auditors in a professional and responsible manner and, as such, we have agreed to alter our processes for financial reporting of payables to align with our custodian, and we will supply our auditors with a reconciliation of this balance going forward.

Prior Findings Not Repeated

A. Failure to Implement Controls Related to Cybersecurity Programs and Practices

During the prior engagement, ISBI had not implemented adequate internal controls related to cybersecurity programs and practices.

During the current engagement, we noted ISBI performed vulnerability scanning, enhanced its risk management methodology, addressed identification of confidential and personal information in its risk assessment, maintained a project management framework, and enhanced details to its IT policies and procedures during the examination period. As a result, this finding is not repeated. (Finding Code No. 2023-001)

B. Lack of Adequate Controls over the Review of Internal Controls for Services Providers

During the prior engagement, ISBI had not implemented adequate internal controls over documenting the reviews of its service providers.

During the current engagement, we noted ISBI implemented control policies to track, monitor and analyze service providers and the control processes in place at their service providers. Current year testing procedures over ISBI's processes and controls to evaluate their service providers yielded no exceptions. As a result, this finding is not repeated. (Finding Code No. 2023-002)

C. Inadequate Computer Security Controls

During the prior engagement, ISBI had not established adequate computer security controls.

During the current engagement, we performed testing over computer security controls and sighted access security reports over Central Payroll System (CPS), the annual reviews of security software provided by the Department of Innovation and Technology (DoIT), and security user IDs. As a result, this finding is not repeated. (Finding Code No. 2023-003)

D. Insufficient Controls over Monthly Reconciliations

During the prior engagement, ISBI had insufficient controls over monthly reconciliations.

During the current engagement, we noted the reconciliations were completed of ISBI's internal records to the Office of Comptroller's (Comptroller) *Agency Contract Reports* (SC14), the Comptroller's *Obligation Activity Report* (SC15) and the Comptroller's *Cash Report* (SB05). As a result, this finding is not repeated. (Finding Code No. 2023-004)