



STATE OF ILLINOIS
**OFFICE OF THE
AUDITOR GENERAL**

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

OFFICE OF THE TREASURER
CHANGE OVER AUDIT

Financial Audits and Agreed-Upon Procedures

**For the Period: July 1, 2010 through opening
of business January 10, 2011**

Release Date: June 9, 2011

INTRODUCTION

The Illinois State Auditing Act (30 ILCS 5/3-2.1) requires the Office of the Auditor General to “conduct a change over audit of the State Treasurer’s accounts at the conclusion of each term of office of the State Treasurer or, in the case of successive terms by a State Treasurer, at the conclusion of that State Treasurer’s time in office.”

This digest presents our financial audits for the Office of the Treasurer Fiscal Officer Responsibilities, Illinois Funds, and College Savings Program for the period July 1, 2010 through opening of business January 10, 2011.

In addition, Agreed-Upon Procedures covering insurance, fixed assets, unclaimed property, locally held funds, and unexpended appropriations were performed for the period July 1, 2010 through opening of business January 10, 2011.

{Financial data is summarized on the following pages.}

OFFICE OF THE STATE TREASURER - STATE OF ILLINOIS
FISCAL OFFICER RESPONSIBILITIES
FINANCIAL AUDIT
For The Period Ended January 10, 2011

ASSETS, LIABILITIES AND ACCOUNTABILITIES	January 10, 2011
<u>ASSETS AND OTHER DEBITS:</u>	
Cash and Cash Equivalents.....	\$ 5,199,357,712
Commercial Paper	2,174,659,793
Time Deposits.....	103,128,137
U. S. Treasury Bills.....	839,357,350
U.S. Agency Obligations:	
- Federal Home Loan Mortgage Corporation.....	355,132,964
- Federal Home Loan Bank.....	385,224,446
- Federal Home Loan Mortgage Corporation Discount Notes.....	19,934,978
- Federal Home Loan Bank Discount Notes.....	149,663,194
- Federal National Mortgage Association.....	534,602,315
- Federal National Mortgage Association Discount Notes.....	259,175,983
- Federal Deposit Insurance Corporation Guarantee Notes.....	141,888,017
State of Illinois Secondary Investment Program.....	432,215
Illinois Technology Development.....	26,311,514
Foreign Investments.....	20,000,000
Securities Lending Collateral Invested in Repurchase Agreements.....	2,253,496,614
Other Assets.....	1,043,868
Amount of Future General Revenues Obligated for Debt Service.....	<u>40,600,036,032</u>
Total Assets and Other Debits.....	<u>\$ 53,063,445,132</u>
<u>LIABILITIES AND ACCOUNTABILITIES:</u>	
Liabilities for Balances on Deposit.....	\$ 9,432,064,267
Obligations Under Securities Lending.....	2,253,653,750
General Obligation Indebtedness.....	41,392,976,027
Accountabilities.....	<u>(15,248,912)</u>
Total Liabilities and Accountabilities.....	<u>\$ 53,063,445,132</u>
STATE TREASURER	
During Engagement Period: Honorable Alexi Giannoulis (July 1, 2010 - January 10, 2011), Honorable Dan Rutherford (effective January 10, 2011)	
Currently: Honorable Dan Rutherford	

OFFICE OF THE STATE TREASURER - STATE OF ILLINOIS
THE ILLINOIS FUNDS
FINANCIAL AUDIT
For The Period Ended January 10, 2011

STATEMENT OF FIDUCIARY NET ASSETS	January 10, 2011
ASSETS:	
Repurchase Agreements.....	\$ 2,860,035,100
Commercial Paper	1,439,654,183
Certificates of Deposit.....	25,232,438
Money Market Mutual Funds.....	169,955,695
U.S. Treasury Bills	149,998,875
U.S. Agency Obligations:	
- Federal Home Loan Bank Notes.....	250,000,000
- Federal Home Loan Mortgage Corporation Discount Notes.....	99,996,111
- Federal Home Loan Bank Discount Notes.....	89,435,692
- Federal Home Loan Mortgage Corporation Notes.....	25,000,000
- Federal National Mortgage Association Discount Notes.....	149,990,944
- Federal Agriculture Mortgage Corporation Discount Notes.....	63,997,873
Accrued Interest Receivable.....	174,822
Total Assets.....	<u>\$ 5,323,471,733</u>
LIABILITIES AND NET ASSETS:	
Bank Custodial Fees Payable.....	\$ 43,130
State Management Fees Payable.....	78,640
Dividends Payable.....	151,130
Total Liabilities	<u>\$ 272,900</u>
Net Assets Available to Participants.....	<u>\$ 5,323,198,833</u>
	July 1, 2010 through opening of business January 10, 2011
STATEMENT OF CHANGES IN FUDICIARY NET ASSETS	
REVENUE: Investment Earnings.....	\$ 7,297,296
EXPENSES: Bank Custodial Fees.....	\$ 938,260
State Management Fees.....	1,721,022
Total Expenses.....	<u>\$ 2,659,282</u>
Net Investment Earnings / Dividends to Shareholders.....	<u>\$ 4,638,014</u>
Share Transactions: Subscriptions.....	\$ 10,774,888,841
Reinvestments.....	4,486,709
Redemptions.....	<u>(10,822,250,249)</u>
Decrease in Net Assets Available to Participants.....	\$ (42,874,699)
Net Assets Available to Participants, Beginning of Period.....	<u>5,366,073,532</u>
Net Assets Available to Participants, End of Period.....	<u>\$ 5,323,198,833</u>
STATE TREASURER	
During Engagement Period: Honorable Alexi Giannoulis (July 1, 2010 - January 10, 2011), Honorable Dan Rutherford (effective January 10, 2011)	
Currently: Honorable Dan Rutherford	

OFFICE OF THE STATE TREASURER - STATE OF ILLINOIS
COLLEGE SAVINGS PROGRAM
FINANCIAL AUDIT
For The Period Ended January 10, 2011

STATEMENT OF FIDUCIARY NET ASSETS	January 10, 2011
ASSETS:	
Cash and Cash Equivalents.....	\$ 198,653,847
Capital Shares Receivable.....	8,023,777
Securities Sold Receivable.....	882,960
Dividends Receivable.....	382,608
Mutual Funds.....	<u>3,576,776,549</u>
Total Assets.....	<u>\$ 3,784,719,741</u>
LIABILITIES AND NET ASSETS:	
Payable for Capital Shares.....	\$ 5,645,054
Payable for Securities Purchased.....	3,019,525
Other Liabilities.....	<u>921,615</u>
Total Liabilities.....	<u>\$ 9,586,194</u>
Net Assets Available to Participants.....	<u>\$ 3,775,133,547</u>
	July 1, 2010 through opening of business January 10, 2011
STATEMENT OF CHANGES IN FUDICIARY NET ASSETS	
OPERATIONS - REVENUES (EXPENDITURES):	
Investment Earnings.....	\$ 21,607,653
Gain on Sale of Securities.....	46,430,939
Net Change in Fair Value of Investments.....	420,108,423
Distribution Fees.....	(1,422,159)
State Administrative Fees.....	(355,087)
Insurance Fees.....	(101,191)
12b-1 Fees.....	(1,040,938)
Management and Bank Custodial Fees.....	<u>(3,971,332)</u>
Net Investment Earnings.....	\$ 481,256,308
DISTRIBUTIONS TO SHAREHOLDERS:	
Net Investment Income.....	\$ (11,604)
PARTICIPANT TRANSACTIONS:	
Program Contributions.....	\$ 775,103,626
Program Distributions.....	(599,062,884)
Distributions Reinvested.....	<u>11,385</u>
Net Increase in Net Assets.....	\$ 657,296,831
Net Assets Beginning of the Period.....	<u>3,117,836,716</u>
Net Assets End of the Period.....	<u>\$ 3,775,133,547</u>
STATE TREASURER	
During Engagement Period: Honorable Alexi Giannoulis (July 1, 2010 - January 10, 2011), Honorable Dan Rutherford (effective January 10, 2011)	
Currently: Honorable Dan Rutherford	

OTHER DISCLOSURES

FISCAL OFFICER RESPONSIBILITIES

FINDINGS

During the financial audit testing of the Office of the Treasurer (Office) - Fiscal Officer Responsibilities the auditors were required to follow-up on previously reported findings that affected the financial operations. Two findings that had been reported in the June 30, 2010 Fiscal Officer Responsibilities report are being repeated in the Change Over Audit of the Fiscal Officer Responsibilities. A summary of the two findings are as follows:

- The Office did not document the reason for gaps in the sequential numbering of general ledger journal entries processed during the audit period. Strong management controls, due diligence and fiduciary responsibility require procedures to include proper checks and balances and adequate supervision to ensure safeguarding of assets and proper financial reporting. The Office's personnel attributed the gaps to the design of the application. (Finding #1, page 48)

Gaps in sequential numbering of general ledger journal entries identified

The auditors recommended the Office improve its internal control over general ledger journal entries and ensure documentation is maintained for the entire population of journal entries. The Treasurer's Office agreed with the recommendation and indicated the Office is working towards making changes in the system to resolve the problem.

- During testing of the Office's securities lending program, auditors noted the Office did not comply with the Deposit of State Moneys Act and the Illinois State Treasurer's Investment Policy. Failure to comply with mandated responsibilities in noncompliance with statutory requirements and does not fulfill the legislative intent of the statute. (Finding #2, pages 49-50)

Weaknesses identified in the Office's controls with the securities lending program

The auditors recommended the Office strengthen its internal controls over the securities lending program. The Treasurer's Office agreed with the recommendation and noted the Office has either implemented or will be implementing changes to address the issues identified.

ILLINOIS INSURED MORTGAGE PILOT PROGRAM TRUST

Illinois Insured Mortgage Pilot Program Trust mortgage agreements

The Illinois Insured Mortgage Pilot Program Trust (Trust) was created in October 1982 in order to stimulate construction activity in the State. The State purchased \$120,000,000 of investment certificates for which the underlying collateral was a pool of mortgage loans for the purpose of providing financing to approved construction projects. Two mortgage agreements in the pool were secured by hotel properties, the Collinsville Holiday Inn (Collinsville Hotel) and the Abraham Lincoln Hotel and Conference Center (formerly the Renaissance).

Collinsville Hotel property sale and collection on letters of credit

Through the result of defaulting on the loan and subsequent foreclosure, the Trust purchased the Collinsville Hotel and all associated property for \$25,375,654. The sale price was paid in full through the Trust's credit of the sale price against the unpaid principal and interest secured by the mortgage on the property. On November 1, 2007 the court issued a judicial deed, and the Trust took title to the property. At a sealed bid auction, the Trust sold the Collinsville Hotel property to a hotel developer for \$5.25 million. The sale closed on August 26, 2008. The Trust subsequently received approximately \$600,000 from an outstanding operating account of the Collinsville Hotel. In May 2010, the Trust settled litigation against a financial institution related to the collection on four letters of credit totaling \$1,637,375, that were additional loan collateral. After the financial institution transferred \$853,874 and the deeds and/or titles to several properties, the litigation was dismissed. It is anticipated the properties will be sold for an amount less than \$1 million.

President Lincoln Hotel property sale

Again, through the result of defaulting on the loan and subsequent foreclosure, the Trust, on March 4, 2008, purchased the President Lincoln Hotel and all associated property for \$100,000. The sale price was paid in full through the Trust's credit of the sale price against the unpaid principal and interest of the mortgage note. The court confirmed the sale on March 14, 2008. The President Lincoln Hotel was sold via public auction on December 14, 2009 to the high bidder for \$6.5 million. The transaction closed on February 2010, with the purchaser transferring the sale price to the Trust accounts.

\$16 million transferred from Trust to State Treasury

The Trust transferred \$16 million to the State Treasury on September 30, 2010.

THE ILLINOIS FUNDS

The Illinois Funds was established under the name Illinois Public Treasurers' Investment Pool (IPTIP) in 1976 to supplement and enhance the investment opportunities available to custodians of public agency funds throughout the State of Illinois. The management, custodianship and operation of The Illinois Funds are under the supervision of the Office of the Treasurer – State of Illinois.

To administer the Illinois Funds, the Treasurer has established a division entitled “The Illinois Funds Administrative Office”. The revenues and expenditures of the Division were recorded in a fund maintained by the Treasurer entitled “The Illinois Funds Administrative Trust Fund”.

An investment trust fund is used to account for assets held by The Illinois Funds in a trustee capacity for public treasurers throughout the State of Illinois. The custodian for this fund was U.S. Bank of Illinois.

COLLEGE SAVINGS PROGRAM

The College Savings Program (Program) was established in March 2000 pursuant to P.A. 91-0607 which authorizes the State Treasurer to establish and administer a “qualified state tuition program” under Section 529 of the Internal Revenue Code of 1986, as amended. Participants of the Program have a choice of two Section 529 investment programs, the Bright Start College Savings Program, which commenced operations on March 27, 2000, and the Bright Directions College Savings Program, which commenced operations on November 18, 2005.

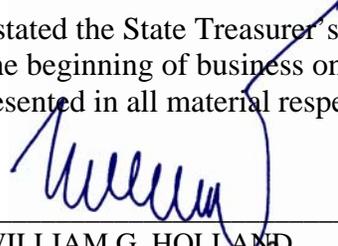
The State Treasurer selected an investment firm (Manager), one for Bright Start and one for Bright Directions, to advise the office on the investment of the Trust assets, to administer the Trust assets, and to provide other services relating to the Program. As such, the Managers act as agents of the Treasurer, and as trustees of the Trust. The Treasurer, however, retains ultimate authority to manage the investments of the Trust.

To administer the Program, the Treasurer has established a division entitled “The College Savings Program Division”. The revenues and expenditures of the Division are recorded in a fund maintained by the Treasurer entitled College Savings Program Administrative Trust Fund, which is classified as an enterprise fund.

An investment trust fund was used to account for assets held by the Program in a trustee capacity or as agent for individuals throughout the United States.

AUDITORS’ OPINIONS

The auditors stated the State Treasurer’s financial statements as of the beginning of business on January 10, 2011 are fairly presented in all material respect.



WILLIAM G. HOLLAND
Auditor General

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SPECIAL ASSISTANT AUDITORS

Crowe Horwath LLP were our Special Assistant Auditors for this engagement.