
REPORT DIGEST

OFFICE OF THE STATE TREASURER THE ILLINOIS FUNDS

FINANCIAL AUDIT

For the Year Ended:
June 30, 2009

Release Date:
April 15, 2010



State of Illinois
Office of the Auditor General
WILLIAM G. HOLLAND
AUDITOR GENERAL

To obtain a copy of the Report contact:
Office of the Auditor General
Iles Park Plaza
740 E. Ash Street
Springfield, IL 62703
(217) 782-6046 or TTY (888) 261-2887

This Report Digest and the Full Report
are also available on
the worldwide web at
<http://www.auditor.illinois.gov>

SYNOPSIS

- Weaknesses were identified in the Office of the Treasurer, The Illinois Funds internal control structure.

{Financial data and Activity Measures are summarized on the reverse page.}

OFFICE OF THE STATE TREASURER
THE ILLINOIS FUNDS
FINANCIAL AUDIT
For The Year Ending June 30, 2009

STATEMENTS OF FIDUCIARY NET ASSETS	June 30, 2009	June 30, 2008
ASSETS:		
Money Market Mutual Funds	\$ 545,495,021	\$ 294,208,792
Repurchase Agreements	2,320,002,128	3,090,569,250
Commercial Paper.....	199,995,722	468,750,563
Certificates of Deposit.....	132,133,869	135,008,653
U.S. Agency Obligations:		
- Federal Home Loan Bank Debentures.....	74,961,452	194,995,303
- Federal Home Loan Bank Discount Notes.....	2,382,634,923	1,618,771,000
- Federal Home Loan Mortgage Corporation Discount Notes....	294,189,301	573,340,280
- Federal Home Loan Mortgage Corporation Callable Notes....	35,000,000	30,000,000
- Federal National Mortgage Association Discount Notes.....	24,876,250	724,251,576
- Federal Deposit Insurance Corporation Guaranteed Floating Rate Notes	25,000,000	0
Accrued Interest Receivable	<u>449,414</u>	<u>1,512,253</u>
Total Assets	<u>\$6,034,738,080</u>	<u>\$7,131,407,670</u>
LIABILITIES AND NET ASSETS:		
Bank Custodial Fees Payable.....	\$ 162,209	\$ 184,866
State Management Fees Payable.....	<u>292,464</u>	<u>358,747</u>
Total Liabilities	<u>\$ 454,673</u>	<u>\$ 543,613</u>
Net Assets Available to Participants	<u>\$6,034,283,407</u>	<u>\$7,130,864,057</u>
STATEMENTS OF CHANGES IN FIDUCIARY NET ASSETS	FY 2009	FY 2008
REVENUE: Investment Earnings	<u>\$ 66,418,655</u>	<u>\$ 251,631,018</u>
EXPENSES: Bank Custodial Fees	2,050,236	2,296,631
State Management Fees.....	<u>3,793,530</u>	<u>4,105,710</u>
Total Expenses	<u>\$ 5,843,766</u>	<u>\$ 6,402,341</u>
Net Investment Earnings	<u>\$ 60,574,889</u>	<u>\$ 245,228,677</u>
Dividends to Shareholders From Net Investment Income	(60,574,889)	(245,228,677)
Share Transactions: Subscriptions.....	18,920,893,296	17,495,452,090
Reinvestments.....	61,206,843	245,038,960
Redemptions.....	<u>(20,078,680,789)</u>	<u>(17,683,827,397)</u>
Increase (Decrease) in Net Assets Available to Participants	<u>\$ (1,096,580,650)</u>	<u>\$ 56,663,653</u>
SELECTED ACTIVITY MEASURES	FY 2009	FY 2008
Total Number of Participants	2,291	2,249
Number of State of Illinois Participants	30	29
Balance of State of Illinois Investments.....	\$1,412,068,363	\$1,468,487,811
Number of Employees.....	27	26
STATE TREASURER		
During Audit Period: Honorable Alexi Giannoulas		
Currently: Honorable Alexi Giannoulas		

INTRODUCTION

This digest covers our financial audit of the Office of the Treasurer (Office), The Illinois Funds for the year ended June 30, 2009.

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 was 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.

FINDING, RECOMMENDATION AND RESPONSE

During testing of the Office's Illinois Funds program, weaknesses were identified in the Office's internal control structure for the Illinois Funds program, specifically:

- Bank custodial fees and State management fees were deducted twice from Investment Earnings to arrive at Net Investment Earnings on the financial statements. The materiality of the misstatements did not necessitate the auditors to propose a correcting adjustment. Office management upon being made aware of the misstatements adjusted both the June 2009 and 2008 financial statements for the errors.

Bank custodial and State management fees were deducted twice from Investment earnings

Reinvestments exceeded the amount of dividends to shareholders

- The amount reported in the June 30, 2009 financial statements for reinvestments exceeded the amount of dividends to shareholders from net investment income by approximately \$600 thousand. The difference was not considered a material misstatement to the financial statements and did not require the auditors to propose an adjustment.

Report on a service organizations controls not obtained and reviewed

- During testing of controls governing the Office's Illinois Funds program, it was noted the Office did not obtain and perform a review of the SAS 70 Report for the service organization used to administer the E-pay program which accounts for a significant amount of transactions within the Illinois Funds Program.

Office management attributed the above conditions to consistent application of procedures year to year.

Failure to maintain adequate controls over the financial reporting process may lead to errors not being identified in the financial statements. In addition, it is fundamental to obtain and review an independent assessment, SAS 70 Report, of a service organization's operations and functions.

We recommended the Office improve controls over the financial reporting process of the Illinois Funds program including documenting the assessment of the control environment of the service organizations associated with the Illinois Funds Program. This due diligence process should include obtaining and reviewing a service organization's SAS 70 Report. (Finding 09-1, pages 42-45)

Office officials responded that they did not agree that the weaknesses identified in the finding rise to the level of a significant deficiency. Office officials agreed that fees were deducted twice to arrive at Net Investment Earnings, information provided by the Custodial Bank contained errors and that they have now developed procedures to obtain and review the E-pay SAS 70 report annually.

Office disagrees with auditors

In an auditor's comment, we noted the officials in the Office of the State Treasurer do not disagree with the auditors' recommendation.

Auditor's comment

SUBSEQUENT EVENT

On July 1, 2009, the Office of the Treasurer within The Illinois Funds merged the Prime Fund into the Money Market Fund to create a fund which maintains the best features of both funds.

AUDITORS' OPINION

Our special assistant auditors stated that The Illinois Funds' financial statements, as of and for the year ended June 30, 2009, are fairly stated in all material respects.

WILLIAM G. HOLLAND, Auditor General

WGH:RPU:pp

SPECIAL ASSISTANT AUDITORS

Crowe Horwath LLP was our special assistant auditors on this engagement.