



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

Frank J. Mautino, Auditor General

**SUMMARY REPORT DIGEST**

**OFFICE OF THE STATE TREASURER –  
 THE ILLINOIS FUNDS**

**Financial Audit  
 For the Year Ended June 30, 2017**

**Release Date: March 15, 2018**

FINDINGS THIS AUDIT: 2				AGING SCHEDULE OF REPEATED FINDINGS			
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
<b>Category 1:</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>No Repeat Findings</b>			
<b>Category 2:</b>	2	0	2				
<b>Category 3:</b>	<u>0</u>	<u>0</u>	<u>0</u>				
<b>TOTAL</b>	<b>2</b>	<b>0</b>	<b>2</b>				
<b>FINDINGS LAST AUDIT: 0</b>							

**SYNOPSIS**

- (2017-001) The Office did not properly evaluate and report a section of the deposit and investment note disclosure.

**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.

{Financial data is summarized on next page.}

**OFFICE OF THE TREASURER - THE ILLINOIS FUNDS**  
**FINANCIAL AUDIT**  
**For the Year Ended June 30, 2017**

<b>STATEMENTS OF FIDUCIARY NET POSITION</b>	<b>2017</b>	<b>2016</b>
<b>Assets</b>		
Repurchase Agreements.....	\$ 1,225,036,347	\$ 1,600,014,917
Commercial Paper .....	1,112,791,541	1,320,921,052
Money Market Mutual Funds.....	218,383,241	519,365,194
U.S. Treasury Bills .....	94,845,686	-
U.S. Treasury Notes .....	174,991,527	189,912,753
<b>U.S. Agency Obligations</b>		
Federal Home Loan Bank Debentures.....	473,372,521	150,000,000
Federal Home Loan Mortgage Corporation Notes.....	148,832,512	65,991,576
Federal Home Loan Mortgage Corporation Discount Notes.....	110,745,924	11,975,350
Federal Home Loan Bank Discount Notes.....	397,847,764	232,237,552
Federal National Mortgage Association Discount Notes.....	-	74,931,416
Federal Farm Credit Banks Discount Notes.....	249,378,188	149,713,233
Federal Farm Credit Bureau Debentures.....	214,995,742	25,000,000
Supranational Notes.....	165,000,000	100,911,289
Corporate Bonds.....	70,380,002	-
Accrued Interest Receivable.....	1,836,293	705,334
<b>Total Assets.....</b>	<b>4,658,437,288</b>	<b>4,441,679,666</b>
<b>Liabilities</b>		
Bank Custodial Fees Payable.....	151,406	294,845
State Management Fees Payable.....	355,870	179,367
<b>Total Liabilities .....</b>	<b>507,276</b>	<b>474,212</b>
Net Position Held in Trust for Pool Participants.....	<b>\$ 4,657,930,012</b>	<b>\$ 4,441,205,454</b>
<b>STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION</b>	<b>2017</b>	<b>2016</b>
<b>Revenues</b>		
Investment Earnings.....	\$ 42,557,492	\$ 11,440,716
<b>Expenses</b>		
Bank Custodial Fees.....	2,044,056	1,734,169
State Management Fees.....	2,457,505	2,415,223
<b>Total Expenses.....</b>	<b>4,501,561</b>	<b>4,149,392</b>
Net Investment Earnings / Dividends to Participants.....	38,055,931	7,291,324
<b>Share Transactions</b>		
Subscriptions.....	18,657,299,634	17,802,821,508
Reinvestments.....	27,819,627	7,332,497
Redemptions.....	(18,468,394,703)	(18,569,776,879)
Change in Net Position.....	216,724,558	(759,622,874)
Net Position, Beginning of Year.....	4,441,205,454	5,200,828,328
Net Position, End of Year.....	<b>\$ 4,657,930,012</b>	<b>\$ 4,441,205,454</b>
<b>SELECTED ACTIVITY MEASURES</b>	<b>2017</b>	<b>2016</b>
Total Number of Participants.....	1,631	1,670
Number of State of Illinois Participants.....	23	21
Balance of State of Illinois Investments, end of year.....	\$ 1,682,854,024	\$ 1,604,650,530
Number of Employees, full time equivalents.....	19	16
<b>TREASURER</b>		
During Engagement Period: Honorable Michael Frerichs		
Currently: Honorable Michael Frerichs		

**FINDINGS, CONCLUSIONS, AND**  
**RECOMMENDATIONS**

**INADEQUATE INTERNAL CONTROLS OVER  
FINANCIAL STATEMENT REPORTING**

The Office of the Treasurer (Office) did not properly evaluate and report a section of the deposit and investment note disclosure.

**Office utilized information provided by its service organization to prepare financial statement note disclosures**

During our testing of the financial statements and notes, we noted the Office utilized information provided by its service organization, as the custodian of the Illinois Funds Program, to prepare the financial statement note disclosures, including the deposits and investments note (Note 2). Note 2 includes information related to a financial instrument's level within the fair value hierarchy in accordance with Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application* (GASB 72). The Office used the information provided by its service organization to prepare Note 2 without properly evaluating the information. At June 30, 2017 and 2016, investments in money market mutual funds, totaling \$218 million and \$519 million, respectively, were moved from level 2 to level 1. Level 1 investments are investments whose fair value is determined based on quoted prices for identical assets in active markets. Level 2 investments are investments whose fair value is determined based on observable inputs other than quoted prices in an active market.

**Money market mutual funds were moved from level 2 to level 1**

In the prior year, the first year of GASB 72 implementation, auditors accepted the Office's disclosure of money market mutual funds under the GASB 72 level hierarchy as Level 2. After the auditors in the current year noted the money market mutual fund investments were listed in an active market, a Level 1 pricing methodology under GASB 72, the Office changed its fair value disclosure for money market mutual funds to Level 1 for both fiscal years 2017 and 2016. (Finding 2017-001, pages 38-39).

We recommend the Office improve its internal control over the financial reporting process to ensure accurate preparation of financial statements and note disclosures. The Office should evaluate and determine the accuracy of information provided by the service organization and review all amounts included in the financial statements and note disclosures.

**Office personnel accept the auditor's recommendation**

The Office accepted the recommendation.

## **OTHER FINDING**

The remaining finding is reportedly being given attention by the Office. We will review the Office's progress towards implementation of our recommendation in our next engagement.

## **AUDITOR'S OPINION**

The auditors stated the Office of the Treasurer, The Illinois Funds financial statements as of and for the year ended June 30, 2017, are fairly stated in all material respects.

This financial audit was conducted by Crowe Horwath LLP.

**SIGNED ORIGINAL ON FILE**

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JANE CLARK  
Division Director

This report is transmitted in accordance with Section 3-14 of the Illinois State Auditing Act.

**SIGNED ORIGINAL ON FILE**

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FRANK J. MAUTINO  
Auditor General

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