



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY

Financial Audit
 For the Two Years Ended June 30, 2020

Release Date: March 17, 2021

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

INTRODUCTION

This digest covers the Railsplitter Tobacco Settlement Authority’s (Authority) Financial Audit as of and for the two years ended June 30, 2020. The Authority’s Compliance Examination covering the two years ended June 30, 2020 will be released under separate cover.

SYNOPSIS

- **(20-1)** The Railsplitter Tobacco Settlement Authority did not obtain or conduct an independent internal control review over its service provider.

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.

RAILSPLITTER TOBACCO SETTLEMENT AUTHORITY
FINANCIAL AUDIT
For the Two Years Ended June 30, 2020

Statement of Revenues, Expenditures and Changes in Fund Balances	FY 2020	FY 2019	FY 2018
PROGRAM REVENUES			
Tobacco settlement revenues (TSRs).....	\$ 264,698,291	\$ 274,908,334	\$ 306,472,413
Total Program Revenues.....	<u>264,698,291</u>	<u>274,908,334</u>	<u>306,472,413</u>
EXPENDITURES			
Excess residual payments to State.....	123,458,432	128,085,710	180,182,697
Amortization of deferred charges - TSRs.....	94,607,619	94,437,432	121,920,916
Professional fees.....	115,318	109,300	99,600
Attorney General.....	2,500,000	2,500,000	2,500,000
Debt service - principal retirement.....	98,565,000	93,620,000	89,040,000
Debt service - interest.....	44,209,588	48,924,706	54,239,796
Debt issuance costs.....	-	-	4,796,174
Total Expenditures.....	<u>363,455,957</u>	<u>367,677,148</u>	<u>452,779,183</u>
GENERAL REVENUES.....	<u>2,421,999</u>	<u>3,799,116</u>	<u>2,399,061</u>
Changes in Fund Balance.....	<u>\$ (96,335,667)</u>	<u>\$ (88,969,698)</u>	<u>\$ (143,907,709)</u>
Balance Sheet			
	FY 2020	FY 2019	FY 2018
ASSETS			
Cash and cash equivalents.....	\$ 163,608,156	\$ 167,543,563	\$ 169,399,821
Receivables (TSRs).....	132,349,145	137,454,167	153,236,207
Total Assets.....	<u>295,957,301</u>	<u>304,997,730</u>	<u>322,636,028</u>
DEFERRED OUTFLOW OF RESOURCES			
Payment to State.....	316,033,541	410,641,160	505,078,592
LIABILITIES			
Due to Attorney General.....	2,500,000	2,500,000	3,000,000
Due to State - residual TSRs.....	57,226,412	59,433,771	66,257,763
Total Liabilities.....	<u>59,726,412</u>	<u>61,933,771</u>	<u>69,257,763</u>
DEFERRED INFLOW OF RESOURCES			
Deferred TSRs.....	132,349,145	137,454,167	153,236,207
TOTAL FUND BALANCE	<u>\$ 419,915,285</u>	<u>\$ 516,250,952</u>	<u>\$ 605,220,650</u>

BOARD CHAIRPERSON

During Audit Period: Hans Zigmund (7/1/18 through 1/13/19); Alexis Sturm (1/14/19 to Present)

Currently: Alexis Sturm

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

LACK OF ADEQUATE CONTROLS OVER THE REVIEW OF INTERNAL CONTROLS OVER SERVICE PROVIDERS

The Railsplitter Tobacco Settlement Authority (Authority) did not obtain or conduct an independent internal control review over its service provider.

The Authority utilized a service provider to serve as the trustee of the Authority's funds. The service provider is responsible for making financial transactions on behalf of the Authority.

The Authority did not obtain a System and Organization Control (SOC) report or conduct an independent internal control review of its service provider

During our testing, we noted the Authority did not obtain a System and Organization Control (SOC) report or conduct an independent internal control review of the service provider.

The Authority is responsible for the design, implementation, and maintenance of internal controls related to information systems and transaction processing to assure its critical and confidential data are adequately safeguarded. This responsibility is not limited due to the processes being outsourced. (Finding 1, pages 37-39)

We recommended the Authority obtain a SOC report or perform independent reviews of internal controls of service providers at least annually.

In addition, upon receipt of a SOC report, the Authority should:

- Monitor and document the operation of the Complementary User Entity Controls (CUECs) relevant to operations.
- Either obtain and review SOC reports for subservice organizations or perform alternative procedures to satisfy itself the usage of the subservice organizations would not impact the internal control environment.
- Document its review of the SOC reports and review all significant issues with subservice organizations to ascertain if a corrective action plan exists and when it will be implemented, any impacts to the Authority, and any compensating controls.

The Authority accepts the finding and recommendation

The Authority accepted the Auditor's finding and recommendations. The Authority obtained the Trustee's SOC 1 report in fiscal year 2021 and will continue to comply with the Auditor's recommendation by obtaining SOC 1 reports from, or performing independent reviews of internal controls of, its service providers on an annual basis.

AUDITOR'S OPINION

The auditors stated the financial statements of the Authority as of and for the years ended June 30, 2019, and June 30, 2020, are fairly stated in all material respects.

This financial audit was conducted by the Office of the Auditor General's staff.

SIGNED ORIGINAL ON FILE

JANE CLARK
Division Director

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

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

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