



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

**OFFICE OF THE STATE TREASURER –
 COLLEGE SAVINGS PROGRAM**

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

Release Date: March 20, 2018

| FINDINGS THIS AUDIT: 2 | | | | 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: | 1 | 0 | 1 | | | | |
| Category 3: | 0 | 0 | 0 | | | | |
| TOTAL | 2 | 0 | 2 | | | | |
| FINDINGS LAST AUDIT: 0 | | | | | | | |

SYNOPSIS

- **(2017-001)** The Office did not have an adequate process to identify and eliminate intra-fund activity within its financial statements. As a result, the Statement of Changes in Fiduciary Net Position overstated Participant Program Contributions and Participant Program Distributions.

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 STATE TREASURER - COLLEGE SAVINGS PROGRAM
FINANCIAL AUDIT
For the Year Ended June 30, 2017

| STATEMENTS OF FIDUCIARY NET POSITION | 2017 | 2016 |
|---|-------------------------|-------------------------|
| Assets: | | |
| Cash and Cash Equivalents..... | \$ 771,561,227 | \$ 645,512,167 |
| Capital Shares, Securities Sold and Dividends Receivable..... | 19,684,044 | 15,006,773 |
| Mutual Funds..... | 8,743,953,557 | 7,467,030,546 |
| Total Assets..... | <u>\$ 9,535,198,828</u> | <u>\$ 8,127,549,486</u> |
| Liabilities and Net Position: | | |
| Payable for Capital Shares..... | \$ 8,838,600 | \$ 6,842,362 |
| Payable for Securities Purchased..... | 4,554,899 | 4,126,559 |
| Other Liabilities..... | 3,137,007 | 2,716,952 |
| Total Liabilities..... | <u>16,530,506</u> | <u>13,685,873</u> |
| Net Position Held in Trust for Participants..... | <u>9,518,668,322</u> | <u>8,113,863,613</u> |
| Total Liabilities and Net Position..... | <u>\$ 9,535,198,828</u> | <u>\$ 8,127,549,486</u> |
| STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION | 2017 | 2016 |
| Additions | | |
| Investment Income (Expense): | | |
| Investment Earnings..... | \$ 130,904,357 | \$ 129,137,239 |
| Net Change in Fair Value of Investments | 810,292,289 | (93,968,858) |
| State Administrative Fees..... | (2,242,188) | (1,991,891) |
| 12b-1 Fees..... | (11,933,514) | (10,534,972) |
| Other Operating Expenses..... | (3,214) | (3,851) |
| Management and Bank Custodial Fees..... | (13,506,144) | (12,732,536) |
| Net Investment Earnings..... | <u>913,511,586</u> | <u>9,905,131</u> |
| Distribution to Participants - Net Investment Income..... | <u>(146,291)</u> | <u>(84,756)</u> |
| Other participant transactions: | | |
| Program Contributions..... | 1,222,414,903 | 1,120,724,446 |
| Distributions Reinvested..... | 136,518 | 79,134 |
| Total Increase from Participant Transactions..... | <u>1,222,551,421</u> | <u>1,120,803,580</u> |
| Total Additions..... | 2,135,916,716 | 1,130,623,955 |
| Deductions | | |
| Program Distributions..... | 731,112,007 | 623,855,177 |
| Total Deductions..... | <u>731,112,007</u> | <u>623,855,177</u> |
| Change in Net Position..... | 1,404,804,709 | 506,768,778 |
| Net Position, Beginning of Fiscal Year..... | <u>8,113,863,613</u> | <u>7,607,094,835</u> |
| Net Position, End of Fiscal Year..... | <u>\$ 9,518,668,322</u> | <u>\$ 8,113,863,613</u> |
| SELECTED ACTIVITY MEASURES (unaudited) | 2017 | 2016 |
| Number of Illinois Participants (Bright Start)..... | 268,137 | 230,681 |
| Balance of Illinois Participants (Bright Start)..... | \$ 5,528,537,687 | \$ 4,229,650,454 |
| Number of Out of State Participants (Bright Start)..... | 66,675 | 86,476 |
| Balance of Out of State Participants (Bright Start)..... | \$ 1,483,842,344 | \$ 1,835,412,333 |
| Number of Illinois Participants (Bright Directions)..... | 103,941 | 95,671 |
| Balance of Illinois Participants (Bright Directions)..... | \$ 2,177,322,709 | \$ 1,796,900,828 |
| Number of Out of State Participants (Bright Directions)..... | 13,502 | 11,710 |
| Balance of Out of State Participants (Bright Directions)..... | \$ 328,649,460 | \$ 252,394,860 |
| STATE TREASURER | | |
| During Audit Period: Honorable Michael Frerichs | | |
| Currently: Honorable Michael Frerichs | | |

FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS

**OVERSTATEMENT OF PARTICIPANT
CONTRIBUTIONS AND DISTRIBUTIONS**

**Office overstated Participant
Program Contributions and
Participant Program Distributions**

The Office of the Treasurer, College Savings Program (Office) did not have an adequate process to identify and eliminate intra-fund activity within its financial statements. As a result, the Statement of Changes in Fiduciary Net Position overstated Participant Program Contributions and Participant Program Distributions.

**Participant Program Contributions
and Distributions were overstated by
\$3.59 billion in fiscal year 2017**

The Office did not eliminate intra-fund activity for exchanges and transfers of participant funds between investment portfolio options, resulting in an overstatement of Participant Program Contributions and Participant Program Distributions by \$3.59 billion and \$1.69 billion for the fiscal years ended June 30, 2017 and 2016, respectively. The overstatement was identified during analytical procedures when the auditors noted a significant increase in program contributions and program distributions from fiscal year 2016 to 2017. The significant change was due to a restructuring of portfolios and an increase in the number of age windows within target portfolios causing an increase in exchange activity. Net Position at June 30, 2017 and 2016 of \$9.5 billion and \$8.1 billion, respectively, was properly stated as the overstatement of Participant Program Contributions and Distributions, resulting from the intra-fund activity, offset in the Statement of Changes in Fiduciary Net Position. The Governmental Accounting Standards Board (GASB) was consulted for guidance related to the proper accounting treatment of fiduciary fund intra-fund activity prior to eliminating the exchange transactions in the financial statements. (Finding 2017-001, pages 107-108).

**GASB was consulted prior to
eliminating the exchange
transactions in the financial
statements**

We recommended the Office establish a process to identify intra-fund activity and eliminate the activity within the financial statements.

**Office personnel agree with the
auditor's recommendation**

The Office agreed with 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, College Savings Program 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

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

FJM:SJS