



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, 2018**

Release Date: March 7, 2019

| 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: 2 | | | | | | | |

SYNOPSIS

- **(18-01)** The Office’s internal controls over the preparation and review of the College Savings Program financial statements and related notes did not identify errors.

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, 2018

| STATEMENTS OF FIDUCIARY NET POSITION | 2018 | 2017 |
|---|--------------------------|-------------------------|
| Assets: | | |
| Cash and Cash Equivalents..... | \$ 799,331,172 | \$ 771,561,227 |
| Capital Shares, Securities Sold and Dividends Receivable..... | 9,309,571 | 19,684,044 |
| Mutual Funds..... | 9,981,628,569 | 8,743,953,557 |
| Total Assets..... | <u>\$ 10,790,269,312</u> | <u>\$ 9,535,198,828</u> |
| Liabilities and Net Position: | | |
| Payable for Capital Shares..... | \$ - | \$ 8,838,600 |
| Payable for Securities Purchased..... | - | 4,554,899 |
| Other Liabilities..... | 9,770,925 | 3,137,007 |
| Total Liabilities..... | <u>9,770,925</u> | <u>16,530,506</u> |
| Net Position Held in Trust for Participants..... | <u>10,780,498,387</u> | <u>9,518,668,322</u> |
| Total Liabilities and Net Position..... | <u>\$ 10,790,269,312</u> | <u>\$ 9,535,198,828</u> |

| STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION | 2018 | 2017 |
|---|--------------------------|-------------------------|
| Additions | | |
| Investment Income (Expense): | | |
| Investment Earnings..... | \$ 269,693,431 | \$ 130,904,357 |
| Net Change in Fair Value of Investments | 425,894,884 | 810,292,289 |
| State Administrative Fees..... | (2,085,954) | (2,242,188) |
| 12b-1 Fees..... | (13,808,464) | (11,933,514) |
| Other Operating Expenses..... | (4,172) | (3,214) |
| Management and Bank Custodial Fees..... | (11,772,364) | (13,506,144) |
| Net Investment Earnings..... | <u>667,917,361</u> | <u>913,511,586</u> |
| Distribution to Participants - Net Investment Income..... | - | (146,291) |
| Other participant transactions: | | |
| Program Contributions..... | 1,376,031,304 | 1,222,414,903 |
| Distributions Reinvested..... | - | 136,518 |
| Total Increase from Participant Transactions..... | <u>1,376,031,304</u> | <u>1,222,551,421</u> |
| Total Additions..... | 2,043,948,665 | 2,135,916,716 |
| Deductions | | |
| Program Distributions..... | 782,118,600 | 731,112,007 |
| Total Deductions..... | <u>782,118,600</u> | <u>731,112,007</u> |
| Change in Net Position..... | 1,261,830,065 | 1,404,804,709 |
| Net Position, Beginning of Fiscal Year..... | <u>9,518,668,322</u> | <u>8,113,863,613</u> |
| Net Position, End of Fiscal Year..... | <u>\$ 10,780,498,387</u> | <u>\$ 9,518,668,322</u> |

| SELECTED ACTIVITY MEASURES (unaudited) | 2018 | 2017 |
|---|------------------|------------------|
| Number of Illinois Participants (Bright Start)..... | 187,111 | 268,137 |
| Balance of Illinois Participants (Bright Start)..... | \$ 4,783,305,966 | \$ 5,528,537,687 |
| Number of Out of State Participants (Bright Start)..... | 29,732 | 66,675 |
| Balance of Out of State Participants (Bright Start)..... | \$ 838,229,335 | \$ 1,483,842,344 |
| Number of Illinois Participants (Bright Directions)..... | 150,299 | 103,941 |
| Balance of Illinois Participants (Bright Directions)..... | \$ 3,338,585,934 | \$ 2,177,322,709 |
| Number of Out of State Participants (Bright Directions)..... | 33,002 | 13,502 |
| Balance of Out of State Participants (Bright Directions)..... | \$ 1,820,023,914 | \$ 328,649,460 |

STATE TREASURER
During Audit Period: Honorable Michael Frerichs
Currently: Honorable Michael Frerichs

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

**INTERNAL CONTROL WEAKNESSES IDENTIFIED
IN THE FINANCIAL STATEMENT PROCESS**

The Office of the Treasurer's (Office) internal controls over the preparation and review of the College Savings Program financial statements and related notes did not identify errors.

Bright Direction's money market and fixed income funds within the Interest Rate and Credit Risk disclosure in Note 2 were understated by \$665.851 million.

Money market funds were understated by \$48.162 million.

A reclassification entry of \$48.162 million was required.

During testing of the financial statements and related notes for the College Savings Program, the auditors noted, the Office did not properly report its Bright Direction's money market and fixed income funds within the Interest Rate and Credit Risk disclosure of Note 2 due to an allocation error. The total amount disclosed within the note was understated by \$665.851 million. The money market funds were understated by \$48.162 million and the fixed income funds were understated by \$617.689 million. Total assets on the Statements of Fiduciary Net Position were properly reported as \$10.790 billion; however, due to the allocation error noted above, a reclassification entry of \$48.162 million was required to correct the overstatement of mutual funds reported as cash and cash equivalents, and the understatement of money market funds reported as mutual funds on the Statement of Fiduciary Net Position, the Note 2 Bright Direction's fair value disclosure, the Combining Statements of Fiduciary Net Position, and the Bright Direction's Statements of Net Position by Portfolio. (Finding 1, page 155)

We recommended the Office evaluate and improve its internal control over the financial reporting process to ensure accurate preparation of financial statements and the related notes.

The Office agreed with the auditors

The Office accepted the recommendation.

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, 2018, are fairly stated in all material respects.

This financial audit was conducted by Crowe 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

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