



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

OFFICE OF THE TREASURER
FISCAL OFFICER RESPONSIBILITIES

**Financial Audit and Compliance Examination
 For the Year Ended June 30, 2017**

Release Date: March 6, 2018

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

SYNOPSIS

- (17-1) The Illinois Office of the Treasurer’s notes to the financial statements required adjustments for Government Accounting Standard Board Statement No. 72 *Fair Value Measurement and Application*.

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 information is summarized on next page.}

OFFICE OF THE TREASURER - STATE OF ILLINOIS
FISCAL OFFICER RESPONSIBILITIES
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
For the Year Ended June 30, 2017

ASSETS, LIABILITIES AND ACCOUNTABILITIES	JUNE 30, 2017	JUNE 30, 2016
Assets and Other Debits		
Cash and Cash Equivalents.....	\$ 4,926,310,885	\$ 8,073,434,694
Deposits and Investments, short-term.....	6,134,785,710	4,703,695,289
Deposits and Investments, long -term.....	3,182,539,164	991,435,511
Securities Lending Collateral.....	3,522,922,500	2,603,015,000
Other Assets.....	28,755,296	16,102,042
Amount of Future General Revenue Obligated for Debt Service.....	35,620,354,797	38,220,779,191
TOTAL ASSETS AND OTHER DEBITS.....	\$ 53,415,668,352	\$ 54,608,461,727
Liabilities and Accountabilities		
Liabilities for Balances on Deposit.....	\$ 13,010,516,086	\$ 12,429,140,664
Obligations Under Securities Lending.....	3,522,922,500	2,603,015,000
General Obligation Indebtedness.....	36,840,047,134	39,541,848,753
Accountabilities.....	42,182,632	34,457,310
TOTAL LIABILITIES AND ACCOUNTABILITIES.....	\$ 53,415,668,352	\$ 54,608,461,727
FINANCIAL HIGHLIGHTS	2017	2016
Investment income earned.....	\$ 97,849,563	\$ 58,858,608
Average yield on investments (unaudited).....	0.79%	0.45%
Increase (decrease) in investment base from prior year (unaudited).....	\$ 1,545,174,129	\$ (1,288,829,913)
Total amount of estate tax collections (unaudited).....	\$ 268,012,085	\$ 323,719,717
Total amount of estate tax refunds (unaudited).....	\$ 6,617,706	\$ 14,367,733
Cost basis of Technology Development accounts (unaudited).....	\$ 61,998,071	\$ 44,122,810
Estimated fair value of Technology Development account (unaudited)...	\$ 78,836,077	\$ 56,627,232
Number of warrants issued, countersigned and recorded (unaudited).....	3,066,080	2,879,015
Number of warrants canceled, paid and recorded (unaudited).....	2,978,191	2,765,756
Amount of warrants issued, countersigned and recorded (unaudited).....	\$ 80,604,058,662	\$ 76,796,227,363
STATE TREASURER		
During Engagement Period: Honorable Michael W. Frerichs		
Currently: Honorable Michael W. Frerichs		

FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS

**INTERNAL CONTROLS OVER FINANCIAL
STATEMENT REPORTING NEEDS IMPROVEMENT**

**Financial statements required
adjustment**

The Illinois Office of the Treasurer's (Treasurer's Office) notes to the financial statements required adjustments for Government Accounting Standard Board Statement No. 72 *Fair Value Measurement and Application* (GASB 72).

**Pricing sources and methods not
fully analyzed**

The Treasurer's Office did not fully analyze the pricing sources and methods used to determine the fair value of investments and, as a result, reported certain investments in debt securities, totaling \$5.1 billion, as Level 1 investments. Following auditor inquiry, those investments were subsequently reported as Level 2. Level 1 investments are investments whose fair value is determined based on quoted prices in an active markets. Level 2 investments are investments whose fair value is determined based on observable inputs other than quoted prices in an active market.

**Debt security investments reported
as Level 1 subsequently reported as
Level 2**

In the prior year, which was when GASB 72 was first implemented, auditors accepted the Treasurer's Office's disclosure of debt securities under the GASB 72 level hierarchy as Level 1. After the auditors in the current year noted that the fair value of debt securities was determined by the Treasurer's Office's pricing service using matrix pricing models based on observable inputs, a Level 2 pricing methodology under GASB 72, the Treasurer's Office in consultation with the staff of the Government Accounting Standards Board changed its fair value disclosures for debt securities to Level 2 for both fiscal years 2017 and 2016. (Finding 1, pages 11-12)

**In the prior year, auditors accepted
the Treasurer's Office disclosure of
debt securities as Level 1**

**Auditors in the current year noted
the fair value of debt securities were
determined using Level 2 pricing
methods**

We recommended the Treasurer's Office more carefully research new GASB pronouncements when they are implemented to ensure the financial statements and note disclosures are properly prepared in accordance with those standards. In addition, we recommended the Treasurer's Office fully analyze the pricing sources and methods used to value investments to ensure the financial statement note disclosures properly categorize investments within the fair value hierarchy established by GASB 72.

**Treasurer's Office agree with
auditors**

Treasurer's Office officials accepted the auditor's recommendation.

AUDITOR’S OPINION

The auditors stated the financial statements of the Office of the Treasurer, Fiscal Officer Responsibilities as of and for the year ended June 30, 2017 are fairly stated in all material respects. The auditors noted the financial statements have been prepared by the Treasurer on the basis of the financial reporting provisions determined by the Office of the State Comptroller, which is a basis of accounting other than accounting principles general accepted in the United States of America, to meet the requirements of the State of Illinois. The auditor’s opinion was not modified with respect to this matter.

ACCOUNTANT’S OPINION

The accountants conducted a compliance examination of the Office of the Treasurer, Fiscal Officer Responsibilities for the year ended June 30, 2017, as required by the Illinois State Auditing Act. The accountants stated the Treasurer complied, in all material respects, with the requirements described in the report.

This financial audit and State compliance examination were conducted by Crowe Horwath LLP.

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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

FRANK J. MAUTINO
Auditor General

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