



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, 2018**

**Release Date: January 31, 2019**

FINDINGS THIS AUDIT: 1				AGING SCHEDULE OF REPEATED FINDINGS			
				Repeated Since	Category 1	Category 2	Category 3
	New	Repeat	Total	2017		18-01	
<b>Category 1:</b>	<b>0</b>	<b>0</b>	<b>0</b>				
<b>Category 2:</b>	<b>0</b>	<b>1</b>	<b>1</b>				
<b>Category 3:</b>	<b>0</b>	<b>0</b>	<b>0</b>				
<b>TOTAL</b>	<b>0</b>	<b>1</b>	<b>1</b>				
FINDINGS LAST AUDIT: 2							

**SYNOPSIS**

- (18-01) The Office did not maintain adequate controls to ensure all external service providers' internal controls were reviewed.

**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, 2018**

<b>STATEMENTS OF FIDUCIARY NET POSITION</b>	<b>2018</b>	<b>2017</b>
<b>Assets</b>		
Repurchase Agreements.....	\$ 1,300,216,778	\$ 1,225,036,347
Commercial Paper .....	1,678,704,860	1,112,791,541
Money Market Mutual Funds.....	438,401,299	218,383,241
U.S. Treasury Bills .....	24,972,396	94,845,686
U.S. Treasury Notes .....	79,785,918	174,991,527
<b>U.S. Agency Obligations</b>		
Federal Home Loan Bank Debentures.....	294,888,644	473,372,521
Federal Home Loan Mortgage Corporation Notes.....	94,236,106	148,832,512
Federal Home Loan Mortgage Corporation Discount Notes.....	34,992,888	110,745,924
Federal Home Loan Bank Discount Notes.....	300,865,187	397,847,764
Federal National Mortgage Association Debentures.....	14,992,556	-
Federal Farm Credit Banks Discount Notes.....	292,086,165	249,378,188
Federal Farm Credit Bureau Debentures.....	500,000,777	214,995,742
Supranational Notes.....	235,463,323	165,000,000
Corporate Bonds.....	277,083,340	70,380,002
Accrued Interest Receivable.....	4,397,518	1,836,293
Total Assets.....	<u>5,571,087,755</u>	<u>4,658,437,288</u>
<b>Liabilities</b>		
Bank Custodial Fees Payable.....	344,799	151,406
State Management Fees Payable.....	235,239	355,870
Total Liabilities .....	<u>580,038</u>	<u>507,276</u>
Net Position Held in Trust for Pool Participants.....	<u>\$ 5,570,507,717</u>	<u>\$ 4,657,930,012</u>
<b>STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION</b>	<b>2018</b>	<b>2017</b>
<b>Revenues</b>		
Investment Earnings.....	\$ 80,643,381	\$ 42,557,492
<b>Expenses</b>		
Bank Custodial Fees.....	2,035,166	2,044,056
State Management Fees.....	2,735,228	2,457,505
Total Expenses.....	<u>4,770,394</u>	<u>4,501,561</u>
Net Investment Earnings / Dividends to Participants.....	75,872,987	38,055,931
<b>Share Transactions</b>		
Subscriptions.....	25,695,071,237	18,657,299,634
Reinvestments.....	69,838,825	27,819,627
Redemptions.....	<u>(24,852,332,357)</u>	<u>(18,468,394,703)</u>
Change in Net Position.....	912,577,705	216,724,558
Net Position, Beginning of Year.....	4,657,930,012	4,441,205,454
Net Position, End of Year.....	<u>\$ 5,570,507,717</u>	<u>\$ 4,657,930,012</u>
<b>SELECTED ACTIVITY MEASURES</b>	<b>2018</b>	<b>2017</b>
Total Number of Participants.....	1,622	1,631
Number of State of Illinois Participants.....	23	23
Balance of State of Illinois Investments, end of year.....	\$ 2,093,613,306	\$ 1,682,854,024
Number of Employees, full time equivalents.....	17	19
<b>TREASURER</b>		
During Engagement Period: Honorable Michael Frerichs		
Currently: Honorable Michael Frerichs		

**FINDINGS, CONCLUSIONS, AND  
RECOMMENDATIONS**

**LACK OF ADEQUATE CONTROLS OVER THE  
REVIEW OF EXTERNAL SERVICE PROVIDER**

The Office did not maintain adequate controls to ensure all external service providers' internal controls were reviewed.

The Office utilized an external service provider as the custodian of the Illinois Funds Program and an external service provider as a payment processor for the E-Pay program. As of June 30, 2018, the net position held in trust for pool participants was \$5.6 billion.

During testing, the auditors noted:

**The SOC report reviewed by the Office did not cover all significant services provided by the custodian.**

- Office personnel obtained and reviewed the Service Organization Control (SOC) report for one business group of the custodian of the Illinois Funds Program, but did not obtain all SOC reports to cover all significant services provided by the custodian.
- The Office did not perform procedures to review and monitor the internal controls of the payment processor external service provider. (Finding 1, pages 63-64)

**Internal controls of the payment processor were not reviewed.**

We recommended the Office establish an internal control process to timely request, review and document the review of all SOC reports from its service providers when reports are issued. If SOC reports are not available, other procedures should be performed by the Office to ensure internal controls at the external service provider are adequate.

**The Office accepted the recommendation.**

The Office accepted the recommendation.

**AUDITOR'S OPINION**

The auditors stated the Office of the Treasurer, Illinois Funds 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**

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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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