



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, 2019**

**Release Date: February 11, 2020**

FINDINGS THIS AUDIT: 1				AGING SCHEDULE OF REPEATED FINDINGS			
	<u>New</u>	<u>Repeat</u>	<u>Total</u>	<u>Repeated Since</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>
<b>Category 1:</b>	<b>0</b>	<b>0</b>	<b>0</b>	2017		19-01	
<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>				
<b>FINDINGS LAST AUDIT: 1</b>							

**SYNOPSIS**

- (19-01) 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, 2019**

<b>STATEMENTS OF FIDUCIARY NET POSITION</b>	<b>2019</b>	<b>2018</b>
<b>Assets</b>		
Repurchase Agreements.....	\$ 1,600,415,375	\$ 1,300,216,778
Commercial Paper .....	1,846,697,319	1,678,704,860
Money Market Mutual Funds.....	400,180,132	438,401,299
U.S. Treasury Bills .....	-	24,972,396
U.S. Treasury Notes .....	74,883,688	79,785,918
<b>U.S. Agency Obligations</b>		
Federal Home Loan Bank Debentures.....	449,999,941	294,888,644
Federal Home Loan Mortgage Corporation Notes.....	201,965,013	94,236,106
Federal Home Loan Mortgage Corporation Discount Notes.....	-	34,992,888
Federal Home Loan Bank Discount Notes.....	34,824,067	300,865,187
Federal National Mortgage Association Debentures.....	13,000,000	14,992,556
Federal Farm Credit Banks Discount Notes.....	39,836,722	292,086,165
Federal Farm Credit Bureau Debentures.....	435,498,598	500,000,777
Supranational Notes.....	234,546,939	235,463,323
Corporate Bonds.....	276,098,376	277,083,340
Accrued Interest Receivable.....	7,379,542	4,397,518
Total Assets.....	<u>5,615,325,712</u>	<u>5,571,087,755</u>
<b>Liabilities</b>		
Bank Custodial Fees Payable.....	343,068	344,799
State Management Fees Payable.....	225,363	235,239
Total Liabilities .....	<u>568,431</u>	<u>580,038</u>
Net Position Held in Trust for Pool Participants.....	<u>\$ 5,614,757,281</u>	<u>\$ 5,570,507,717</u>
<b>STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION</b>	<b>2019</b>	<b>2018</b>
<b>Revenues</b>		
Investment Earnings.....	<u>\$ 136,610,905</u>	<u>\$ 80,643,381</u>
<b>Expenses</b>		
Bank Custodial Fees.....	2,213,898	2,035,166
State Management Fees.....	3,034,595	2,735,228
Total Expenses.....	<u>5,248,493</u>	<u>4,770,394</u>
Net Investment Earnings / Dividends to Participants.....	131,362,412	75,872,987
<b>Share Transactions</b>		
Subscriptions.....	26,033,159,879	25,695,071,237
Reinvestments.....	123,664,130	69,838,825
Redemptions.....	<u>(26,112,574,445)</u>	<u>(24,852,332,357)</u>
Change in Net Position.....	44,249,564	912,577,705
Net Position, Beginning of Year.....	5,570,507,717	4,657,930,012
Net Position, End of Year.....	<u>\$ 5,614,757,281</u>	<u>\$ 5,570,507,717</u>
<b>SELECTED ACTIVITY MEASURES</b>	<b>2019</b>	<b>2018</b>
Total Number of Participants.....	1,533	1,622
Number of State of Illinois Participants.....	24	23
Balance of State of Illinois Investments, end of year.....	\$ 1,916,803,244	\$ 2,093,613,306
Number of Employees, full time equivalents.....	18	17
<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 PROVIDERS**

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

The Office utilized external service providers as the custodian of the Illinois Funds Program and as a payment processors for the E-Pay program. All service providers utilized subservice organizations. As of June 30, 2019, the net position held in trust for pool participants was \$5.6 billion. The Office did not establish an adequate process to monitor its population of service and subservice providers. The following issues were identified during testing:

**SOC reports were not reviewed  
timely**

- Two of six (33%) significant Service Organization (SOC) reports were not reviewed timely. The untimely reviews were performed 178 days and 217 days after the SOC report was issued.

**Significant subservice organization's  
SOC reports were not reviewed  
timely**

- The Office did not establish adequate controls to review significant subservice organizations. The Office identified eight subservice organizations as being significant. Five of eight (63%) significant subservice organization's controls were not reviewed. Two of eight (25%) significant subservice organization's controls were not reviewed timely. One untimely review did not document the SOC report issuance date, but the review was performed approximately 450 days after the SOC report period end. The other untimely review was performed approximately 300 days after the SOC report was issued. In addition, for the two untimely reviews, the Office did not obtain a bridge letter through the fiscal year end.

**Significance of subservice  
organizations utilized by one of its  
significant service organizations was  
not determined**

- The determination of significant subservice organizations utilized by one of six (17%) significant service organizations was not documented. (Finding 1, pages 56-57)

We recommended the Office establish an internal control process to identify all third party service providers and determine and document if a review of controls is required. If required, the Office should:

- Obtain SOC reports or perform independent reviews of internal controls associated with outsourced systems at least annually.

- Monitor and document the operation of the complementary user entity controls relevant to the Office's operations.
- Either obtain and review SOC reports for subservice organizations or perform alternative procedures to satisfy itself that the existence of the subservice organization would not impact its internal control environment.
- Document its review of the SOC reports in a timely manner, reviewing all significant issues with subservice organizations to ascertain if corrective action plans exist and when they will be implemented, identifying any impacts to the Office, and any compensating controls.
- Review contracts with service providers to ensure applicable requirements over the independent review of internal controls are included.

In addition, we recommended the Office obtain training for its staff regarding service organization due diligence procedures.

**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, 2019, 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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