



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

Frank J. Mautino, Auditor General

**SUMMARY REPORT DIGEST**

**OFFICE OF THE TREASURER**  
**NONFISCAL OFFICER RESPONSIBILITIES**

**Compliance Examination  
 For the Two Years Ended June 30, 2019**

**Release Date: June 25, 2020**

FINDINGS THIS AUDIT: 5	New	Repeat	Total	AGING SCHEDULE OF REPEATED FINDINGS			
				Repeated Since	Category 1	Category 2	Category 3
<b>Category 1:</b>	<b>1</b>	<b>0</b>	<b>1</b>	2017		19-2	
<b>Category 2:</b>	<b>1</b>	<b>3</b>	<b>4</b>	2015		19-5	
<b>Category 3:</b>	<b>0</b>	<b>0</b>	<b>0</b>	2003		19-3	
<b>TOTAL</b>	<b>2</b>	<b>3</b>	<b>5</b>				
<b>FINDINGS LAST AUDIT: 3</b>							

**INTRODUCTION**

The independent accountant’s report on State compliance, on internal control over compliance and on supplementary information for State compliance purposes on the Office of the Treasurer for the two years ended June 30, 2019 includes a scope limitation. Accountants were unable to examine the unclaimed property division of the Office of the Treasurer at the request of law enforcement and investigatory authorities in order to avoid interference with an ongoing investigation and related legal proceedings.

**SYNOPSIS**

- **(19-1)** The Office of the Treasurer did not maintain adequate controls over external service providers.
- **(19-2)** The Office of the Treasurer did not maintain adequate controls over monthly appropriation, contract, and obligation reconciliations.

**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.

**OFFICE OF THE TREASURER  
NONFISCAL OFFICER RESPONSIBILITIES  
COMPLIANCE EXAMINATION  
For the Two Years Ended June 30, 2019**

EXPENDITURE STATISTICS	2019	2018	2017
<b>Total Expenditures</b> .....	\$ 5,709,966,386	\$ 3,777,245,180	\$ 5,104,703,253
OPERATIONS TOTAL.....	\$ 259,273,337	\$ 153,693,365	\$ 190,873,977
% of Total Expenditures.....	4.6%	4.1%	3.7%
Personal Services .....	12,566,384	11,571,842	11,335,321
Other Payroll Costs (FICA, Retirement) .....	10,925,649	6,499,097	6,000,048
All Other Operating Expenditures.....	235,781,304	135,622,426	173,538,608
AWARDS AND GRANTS.....	\$ 864,148	\$ 441,433	\$ 250,663
% of Total Expenditures.....	0.0%	0.0%	0.0%
DEBT SERVICE.....	\$ 5,237,414,317	\$ 3,461,630,570	\$ 4,742,793,180
% of Total Expenditures.....	91.7%	91.6%	92.9%
REFUNDS.....	\$ 212,414,584	\$ 161,479,812	\$ 170,785,433
% of Total Expenditures.....	3.7%	4.3%	3.4%
<b>Total Receipts*</b> .....	\$ 772,798,950	\$ 597,455,938	\$ 340,671,588
<b>Average Number of Employees (Not Examined)</b> .....	179	178	179

TREASURER
During Examination Period: Honorable Michael W. Frerichs
Currently: Honorable Michael W. Frerichs

\* Fund 0103 and Fund 337 - Airport Departure Tax were omitted from the FY16/17 Digest

**FINDINGS, CONCLUSIONS, AND  
RECOMMENDATIONS**

**LACK OF ADEQUATE CONTROLS OVER THE  
REVIEW OF INTERNAL CONTROLS OVER SERVICE  
PROVIDERS**

The Office of the Treasurer (Office) did not maintain adequate controls over external service providers.

The Office uses service providers and vendors to carry out various programs and operational activities. At the request of the auditors, the Office compiled a listing of service providers and summarized its monitoring efforts over the providers. In reviewing the documentation related to monitoring of service providers, the auditors noted the following:

**SOC report not reviewed**

- The Office did not review the Service Organization Control (SOC) report for the Illinois Department of Innovation and Technology, the organization which provides the payroll application for Office employees. As a result, the Office did not identify deficiencies in the SOC report which may require mitigating controls be implemented by the Office.
- The Office utilized third-party service providers as the custodian of the Illinois Funds Program and as payment processors for the E-Pay Program. The service providers utilized external subservice organizations to perform certain significant services. The Office did not perform adequate monitoring efforts over significant subservice organizations utilized by the service providers.
- The Office utilized a service provider to manage the Achieving a Better Life Experience Program, which utilized an external subservice organization to perform certain significant services. During testing, the auditors noted the Office performed procedures designed to understand the external subservice organization's process and controls, but did not properly assess the sufficiency of the procedures related to financial reporting controls. In addition, the procedures performed were not sufficiently documented.

**Inadequate subservice organization  
monitoring**

In addition, we noted the Office did not maintain a formal, centralized vendor management program which documented its evaluation of new service providers and vendors and its monitoring of existing service providers and vendors. (Finding 1, pages 9-10)

We recommended the Office identify all 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.
- Either obtain and review SOC reported for subservice organizations or perform alternative procedures to satisfy itself that the usage of the subservice organizations would not impact the Office's internal control environment.
- Document its review of the SOC reports and review all significant issues with subservice organizations to ascertain if a corrective action plan exists and when it will be implemented, any impacts to the Office, and any compensating controls.

In addition, we recommended the Office implement a formal and centralized vendor management program to determine the degree of monitoring required for each vendor and the appropriate complementary controls the Office should implement for each vendor.

**The Office agreed with auditors**

The Treasurer's Office accepted our recommendation and stated they have started to develop a centralized vendor management program as part of a comprehensive updating of financial systems for the Office. The Office also stated they already obtain SOC reports of the outsourced systems deemed necessary, on an annual basis and in the one instance this was not done, it involved a State agency providing a service. Additionally, the Office stated SOC reports are obtained for the subservice organizations when deemed necessary and reviews of these reports are documented, to include all significant issues, corrective action plans and compensating controls.

**LACK OF CONTROLS OVER MONTHLY RECONCILIATIONS**

**Controls over monthly reconciliations need improvement**

The Office of the Treasurer (Office) did not maintain adequate controls over monthly appropriation, contract, and obligation reconciliations.

The Office expended \$3.777 billion and \$5.710 billion in Fiscal Years 2018 and 2019, respectively. During our sample testing of Fiscal Year 2018 and 2019 reconciliations between Illinois Office of the Comptroller (IOC) records and Office records, we noted the following:

**SC14 reconciliations not performed**

- The Office did not perform reconciliations of the Agency Contract Report (SC14) during the examination period.
- Two of five (40%) Monthly Obligation Activity Report (SC15) reconciliations tested were not

performed within 60 days. The reconciliations were completed 77-98 days after month-end.

**SC15, SB01, SA002, SB03  
reconciliations not performed timely**

- One of five (20%) Monthly Appropriation Status Report (SB01) reconciliations tested was not performed within 60 days. The reconciliations was completed 75 days after month-end.
- One of five (20%) Object Expense/Expenditures by Quarter Report (SA02) reconciliations tested was not performed within 60 days. The reconciliations was completed 75 days after month-end.
- One of five (20%) Monthly Appropriation Transfer Report (SB03) reconciliations tested was not performed within 60 days. The reconciliations was completed 75 days after month-end. (Finding 2, pages 11-12)

We recommended the Office develop controls to ensure monthly reconciliations are being completed and reviewed in a timely manner.

**The Office agreed with auditors**

The Treasurer's Office accepted our recommendation and stated they will review reconciliation processes with the objective of strengthening internal controls to ensure monthly reconciliations are completed and reviewed in a timely manner.

**OTHER FINDINGS**

The remaining findings pertain to the noncompliance with personnel policies and procedures, lack of controls over agency fee imposition reports and noncompliance with vehicle policies and procedures. We will review the Agency's progress towards the implementation of our recommendations in our next compliance examination.

**ACCOUNTANT'S OPINION**

The accountants conducted a compliance examination of the Office for the two years ended June 30, 2019, as required by the Illinois State Auditing Act. The accountants qualified their report on State compliance due to a scope limitation and Finding 2019-001. Accountants were unable to examine the unclaimed property division of the Office at the request of law enforcement and investigatory authorities in order to avoid interference with an ongoing investigation and related legal proceedings. Except for the scope limitation and the material deviation from the specified requirements described in the report on State compliance, the accountants stated the Office complied, in all material respects, with the requirements described in the report.

This compliance examination was conducted by Crowe Horwath 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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