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# REPORT DIGEST

## OFFICE OF THE TREASURER FISCAL OFFICER RESPONSIBILITIES

### FINANCIAL AUDIT AND COMPLIANCE EXAMINATION

For the Year Ended:  
June 30, 2009

#### Summary of Findings:

Total this report: 1  
Total last report: 1  
Repeated findings: 1

Release Date:  
May 13, 2010



State of Illinois  
Office of the Auditor General

**WILLIAM G. HOLLAND**  
AUDITOR GENERAL

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## SYNOPSIS

- The Office of the Treasurer's internal control over securities lending did not identify an error during the preparation of the June 30, 2008 financial statements and notes, which required a restatement of those financial statements.

{Financial information and highlights are summarized on the reverse page.}

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**OFFICE OF THE TREASURER - STATE OF ILLINOIS  
FISCAL OFFICER RESPONSIBILITIES  
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION  
FOR THE YEAR ENDED JUNE 30, 2009**

<b>ASSETS, LIABILITIES AND ACCOUNTABILITIES</b>	<b>JUNE 30, 2009</b>	<b>JUNE 30, 2008</b>
<b><u>Assets and Other Debits</u></b>		
Cash and Cash Equivalents .....	\$ 5,989,981,984	\$ 5,155,590,883
Deposits and Investments, At Market .....	2,506,130,482	4,102,132,177
Securities Lending Collateral.....	961,557,402	1,520,104,060
Other Assets.....	20,060,892	34,193,647
Amount of Future General Revenues Obligated for Debt Service.....	<u>33,485,887,771</u>	<u>33,598,442,201</u>
<b>TOTAL ASSETS AND OTHER DEBITS.....</b>	<b><u>\$42,963,618,531</u></b>	<b><u>\$44,410,462,968</u></b>
<b><u>Liabilities and Accountabilities</u></b>		
Liabilities for Balances on Deposit.....	\$ 7,862,502,298	\$ 8,638,125,883
Obligations Under Securities Lending. ....	961,557,402	1,520,104,060
General Obligation Indebtedness .....	34,125,091,138	34,233,358,682
Accountabilities.....	<u>14,467,693</u>	<u>18,874,343</u>
<b>TOTAL LIABILITIES AND ACCOUNTABILITIES .....</b>	<b><u>\$42,963,618,531</u></b>	<b><u>\$44,410,462,968</u></b>
<b>FINANCIAL HIGHLIGHTS</b>	<b>YEAR ENDED JUNE 30, 2009</b>	<b>YEAR ENDED JUNE 30, 2008</b>
Investment Income Earned .....	\$165,518,156	\$375,516,199
Average Yield on Investments (unaudited).....	2.05%	4.27%
Decrease in Investment Base From Prior Year (unaudited).....	(729,000,000)	(478,000,000)
Total amount of estate tax collections (unaudited).....	\$287,757,169	\$372,862,320
Total amount of estate tax distributions (unaudited).....	\$16,718,322	\$21,824,956
Total amount of estate tax refunds (unaudited).....	\$8,999,403	\$8,999,824
# of warrants issued, countersigned and recorded (unaudited).	7,867,518	7,961,548
# of warrants canceled, paid and recorded (unaudited).....	7,740,834	7,936,315
\$ of warrants issued, countersigned and recorded (unaudited).	\$66,155,335,947	\$65,673,525,469
<b>STATE TREASURER</b>		
During Audit Period: Honorable Alexi Giannoulis		
Currently: Honorable Alexi Giannoulis		

## **FINDING, CONCLUSION, AND RECOMMENDATION**

### **WEAKNESS IN FINANCIAL REPORTING OF SECURITIES LENDING TRANSACTIONS**

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**Internal controls did not identify securities lending reporting error**

The Office of the Treasurer's (Office) internal control over securities lending did not identify an error during the preparation of the June 30, 2008 financial statements and notes, which required a restatement of those financial statements.

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**Fiscal year 2008 financial statement were misstated by \$50,242,190**

During preparation of the Fiscal Officer Responsibilities June 30, 2009 financial statements, the Office's securities lending activities were reformatted to a more detailed presentation. The Fiscal Officer Responsibilities financial statements are two-year comparative statements, therefore, the June 30, 2008 securities lending activity also required reformatting. During this process, Office management discovered an error in the June 30, 2008 Fiscal Officer Responsibilities financial statements that caused an overstatement of \$50,242,190.

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**Error was found during current year financial statements preparation**

During testing of the securities lending transactions for the previous audit the auditors made inquiries to the Office regarding a difference between the securities lending collateral confirmed and the amount the Office had included in their financial statements. Office staff responded to the auditors that their file used to generate the financial statement amount was incorrect and provided an updated file revising the securities lending collateral. The auditors agreed with the Office's staff regarding the amount reported in the financial statements as collateral from securities lending activities. As noted in the previous paragraph, upon the reformatting of the securities lending presentation for the June 30, 2009 financial statements it was identified that collateral from two securities lent should not have been included in the June 30, 2008 financial statements.

We recommended the Office improve its internal control over the financial reporting process to ensure the accurate preparation of financial statements and disclosures. (Finding 09-1, pages 11-12)

The Treasurer agreed with our recommendation and stated the Office will continue to evaluate and strengthen controls over the financial reporting process to ensure accurate

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**Treasurer agreed with the recommendation**

preparation of financial statements and disclosures.

**OTHER DISCLOSURE**

**ILLINOIS INSURED MORTGAGE PILOT PROGRAM TRUST**

The Illinois Insured Mortgage Pilot Program Trust (Trust) was created in October 1982 in order to stimulate construction activity in the State. The State purchased \$120,000,000 of investment certificates for which the underlying collateral was a pool of mortgage loans for the purpose of providing financing to approved construction projects. Two mortgage agreements in the pool were secured by hotel properties, the Collinsville Holiday Inn (Collinsville Hotel) and the Abraham Lincoln Hotel and Conference Center (formerly the Renaissance).

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**Illinois Insured Mortgage Pilot Program Trust mortgage agreements**

In 2006, a judgment was entered in favor of the Trustee and against Collinsville Hotel Venture declaring that the loan was in default and authorizing the Trustee to pursue collection proceedings against the personal guarantee. On January 2, 2007, the Trustee filed a foreclosure complaint against the Collinsville Hotel Venture. A foreclosure sale was held on October 18, 2007. The Collinsville Hotel and all associated property were sold to the Trust, as high bidder. At a sealed bid auction, the Trust sold the Collinsville Hotel property to a hotel developer for \$5.25 million. The sale closed on August 26, 2008. The parties remain in post-closing phase, sorting through final distribution of outstanding assets that were sold with the Collinsville Hotel property and issues such as payment of outstanding property taxes. As of June 30, 2009, the Trust received approximately \$600,000 from an outstanding operating account. In addition, the Trust is pursuing collection proceedings with respect to the judgment it obtained against the guarantors and has filed a lawsuit to seek payment of four letters of credit totaling \$1,637,375, that were additional loan collateral.

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**Collinsville Hotel property sold August 26, 2008**

On January 2, 2007, the Trustee filed a foreclosure complaint against the President Lincoln Hotel Venture following a ruling in December 2006 declaring the President Lincoln Hotel Venture to be in default of its loan. The complaint also requested the court appoint a receiver to operate the Hotel during foreclosure proceedings. On March 1, 2007, a court-appointed receiver formally took over operations of the President Lincoln Hotel. On January

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**Trustee purchased President  
Lincoln Hotel in FY 2008**

18, 2008, the Court entered a Judgment of Foreclosure and Sale against all defendants. On March 4, 2008, the Trust purchased the President Lincoln Hotel. The Court confirmed the sale on March 14, 2008.

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**President Lincoln Hotel  
property sold December 14,  
2009**

Once the Trust obtained merchantable title to the President Lincoln Hotel it proceeded with a claim against the surety bond. On May 1, 2009 the Trust and the surety company settled the issue of the outstanding surety bond for \$5.65 million, with title to the President Lincoln Hotel remaining with the Trust. The Trust offered the President Lincoln Hotel for sale at an open outcry auction on December 14, 2009. The Trust received a bid of \$6.5 million to purchase the President Lincoln Hotel. After the Trust conducted a screening of the bidder, the Trust and the purchaser both signed a Purchase and Sale Agreement, which called for the sale to close within 65 days of the auction. The transaction closed in February 2010 with the purchaser transferring the sale price to the Trust accounts.

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**June 30, 2009 investment in  
Trust was \$1,543,393**

The Office's recorded value for the investment in the Trust was \$1,543,393 as of June 30, 2009, and the loan balance was \$29,304,000. The mortgage loans on the two properties are considered nonperforming assets. Accrued interest receivable at June 30, 2009 for the nonperforming assets approximated \$435,000. Interest on nonperforming assets is recognized when collected, and therefore has not been recorded on the financial statements.

**AUDITORS' OPINION**

The auditors stated the Office of the Treasurer, Fiscal Officer Responsibilities financial statements as of June 30, 2009 and for the year then ended were presented fairly in all material respects. The auditors noted the financial statements have been prepared on a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The Office of the Treasurer, Fiscal Officer Responsibilities securities lending collateral at June 30, 2008 has been restated / decreased by \$50,242,190 to correct errors in reporting invested collateral. Because the June 30,

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**June 30, 2008 financial  
statements have been  
restated**

2008 securities lending collateral has been restated, the previously issued auditors' report dated March 25, 2009 is not to be relied upon without consideration of the auditors report dated April 30, 2010 on the restatement of the June 30, 2008 securities lending collateral.

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WILLIAM G. HOLLAND, Auditor General

WGH:RPU:pp

**SPECIAL ASSISTANT AUDITORS**

Crowe Horwath LLP was our special assistant auditors on this engagement.

