

REPORT DIGEST

**OFFICE OF THE TREASURER - STATE OF ILLINOIS
FISCAL OFFICER RESPONSIBILITIES
FINANCIAL AND COMPLIANCE AUDIT
FOR THE YEAR ENDED JUNE 30, 1994**

{Financial information is summarized on the reverse page.}

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

NEED TO UPGRADE COMPUTER PROGRAM USED TO ALLOCATE INVESTMENT INCOME

The Treasurer's computer program utilized to allocate \$3,900,000 of pooled investment income to participating funds each month is outdated and inflexible, resulting in difficulties in recording certain investment transactions and increased personnel time to process and interpret the allocations. **This finding has been repeated since 1992.**

The computer program employed to compute individual fund earnings has not been updated in recent years to reflect the changes in the Treasurer's investment portfolio. At the time the current program was developed, the Treasurer's investment portfolio was comprised almost entirely of time deposits. In recent years, the Treasurer has invested in other investment vehicles, such as U.S. Treasury notes, and the Secondary Investment Pool Program to increase the portfolio yield. The accounting for such investments is somewhat more complex and involves the monthly accrual of income, amortization of premiums and accretion of discounts. However, the present computer software cannot perform such functions which results in manual computations.

We recommended that Treasurer personnel continue to develop a replacement for the existing computer program and implement such a system as soon as it is operational. (Finding 1 on page 11)

The Treasurer stated the office accepts the recommendation and has declared a software development moratorium and devoted all available resources to the design of the new investment and interest allocation system. The Treasurer expected to begin full parallel testing of the new system on December 1, 1994, with full implementation by January 1, 1995. (For previous agency responses, see Digest Footnote 1.)

NEED TO DOCUMENT SHREDDING OF EVIDENCE OF INDEBTEDNESS

The Treasurer's office did not document by certificate the shredding of bonds, notes or other evidence of indebtedness, nor was such certificate maintained by the Treasurer's office as required by the Destruction of Indebtedness Certificates Act (15 ILCS 530/1).

We recommended that Treasurer personnel notify the Comptroller and the Governor of the planned dates for destroying documents of indebtedness; obtain from the Officers' representatives their certificates of witnessing the destructions; and, retain the certificates as a permanent record of destructions as required by statute. (Finding 2 on page 13)

The Treasurer stated the office accepts the recommendation.

Mr. James A. Stapleton, the Treasurer's Chief Fiscal Officer, provided the responses to our recommendations.

OTHER MATTERS

As of June 30, 1994, the Treasurer recorded a \$5.9 million provision for the write-down of three investment loan balances in the Illinois Insured Mortgage Pilot Program based upon the most recent independent appraisals. The provision is presented in the financial statements as a reduction of investment income earned. The write-down of the investment is not considered forgiveness of the obligations and collection efforts will continue for the entire loan balance. (Note D, pages 32-37)

SUBSEQUENT EVENTS

Due to a failure to perform as agreed, the Trustee of the Illinois Insured Mortgage Pilot Program declared a default on the loan to the Park Plaza Shopping Center on August 25, 1994. On October 28, 1994, the Trustee drew \$100,000 on the letter of credit held as additional collateral on this loan. On November 1, 1994, the Trustee filed a complaint for foreclosure on the Park Plaza Shopping Center. (Note I, page 44)

On October 28, 1994, the Trustee of the Illinois Insured Mortgage Pilot Program signed a restructuring agreement with the borrowers of the Geneva on the Dam property. The terms of this agreement require a payment of \$150,000 upon signing and monthly payments which include principal on a 15-year amortization schedule. The interest rate remains at 8% and the maturity date was extended to January 25, 2000. (Note I, page 45)

The State of Illinois issued the following bonds subsequent to June 30, 1994:

\$ 300,000,000 General Obligation Bonds, Series of July, 1994
\$ 687,000,000 General Obligation Certificates of August, 1994
\$ 135,000,000 Build Illinois Bonds, Series V, offered on September 22, 1994
\$ 210,000,000 General Obligation College Savings Bonds, Series of October, 1994

AUDITORS' OPINION

Our auditors state the June 30, 1994 financial statements present fairly, in all material respects, the assets, liabilities and accountabilities of the Office of the Treasurer.

WILLIAM G. HOLLAND, Auditor General

WGH:BLB:pp

SUMMARY OF AUDIT FINDINGS

Number of This Audit Prior Audit

Findings 23

Repeated Findings 11

Prior Recommendations Implemented
or Not Repeated 22

SPECIAL ASSISTANT AUDITORS

Kerber, Eck & Braeckel were our special assistant auditors for this audit.

DIGEST FOOTNOTES

#1: ALLOCATION OF POOLED INVESTMENT INCOME - Previous Agency Responses.

1993: "Recommendation accepted. A redesign of the existing computer program to allocate investment income within the Treasurer's portfolio commenced in August, 1993, but has not yet been completed. The Treasurer has been able to meet last year's recommendation of the addition of an adjustment line to the current program, which has somewhat facilitated the process. The new computer program is scheduled for full implementation during the fourth quarter of FY 1994."

1992: "Recommendation accepted. The Treasurer has established revision of the interest allocation program as a high priority within the Data Processing Steering Committee. This revision is scheduled to commence January 1, 1993. The Treasurer will also add an adjustments line to the income statement to provide a clear audit trail of all manual calculations."

**OFFICE OF THE TREASURER - STATE OF ILLINOIS
FISCAL OFFICER RESPONSIBILITIES
FINANCIAL AND COMPLIANCE AUDIT
FOR THE YEAR ENDED JUNE 30, 1994**

| <u>ASSETS, LIABILITIES AND ACCOUNTABILITIES</u> | <u>JUNE 30, 1994</u> | <u>JUNE 30, 1993</u> |
|--|--|--|
| <u>Assets</u> | | |
| Cash | \$ 32,643,415 | \$ 97,834,570 |
| Revenue - Producing Deposits and Investments, At Cost (which approximates market) | 3,769,402,939 | 3,274,531,762 |
| Other Assets | 254,489,821 | 132,086,368 |
| Due from Multi-Purpose Bond Funds | 2,576,200 | 3,760,000 |
| Amount of Future General Revenues Obligated for Debt Service | <u>7,304,070,902</u> | <u>7,047,030,115</u> |
| TOTAL ASSETS | <u>\$11,363,183,277</u> | <u>\$10,555,242,815</u> |
| | | |
| <u>Liabilities and Accountabilities</u> | | |
| Liabilities for Balances on Deposit | \$ 3,796,050,500 | \$ 3,281,341,176 |
| Arbitrage Rebate Tax Payable | 2,576,200 | 3,760,000 |
| General Obligation Indebtedness | 7,550,374,173 | 7,267,165,415 |
| Accountabilities | <u>14,182,404</u> | <u>2,976,224</u> |
| TOTAL LIABILITIES AND ACCOUNTABILITIES | <u>\$11,363,183,277</u> | <u>\$10,555,242,815</u> |
| | | |
| FINANCIAL HIGHLIGHTS | <u>YEAR ENDED JUNE 30, 1994</u> | <u>YEAR ENDED JUNE 30, 1993</u> |
| Investment Income | \$ 126,756,174 | \$ 107,160,331 |
| Average Yield on Time Deposits | 3.48% | 3.36% |
| Average Yield on Short-Term Investments | 3.04% | 3.38% |
| Write-down of Illinois Insured Mortgage Pilot Program | \$ 5,897,000 | \$ 8,928,256 |
| STATE TREASURER | | |
| During Audit Period: Honorable Patrick Quinn Currently: Honorable Judy Baar Topinka | | |