



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

OFFICE OF THE SECRETARY OF STATE

**Financial Audit
 For the Year Ended June 30, 2020**

Release Date: May 25, 2021

FINDINGS THIS AUDIT: 3	New	Repeat	Total	AGING SCHEDULE OF REPEATED FINDINGS			
				Repeated Since	Category 1	Category 2	Category 3
Category 1:	1	1	2	2016	20-1		
Category 2:	1	0	1				
Category 3:	0	0	0				
TOTAL	2	1	3				
FINDINGS LAST AUDIT: 1							

SYNOPSIS

- **(20-01)** The Office of the Secretary of State (Office) used inaccurate queries to determine the adjustment to record cash on hand and cash in transit at fiscal year-end, excluded receipts deposited in the Illinois State Treasurer’s clearing accounts at the end of June 2020, and failed to record June 2020 adjustments made in August 2020 in its cash on hand and cash in transit balances.
- **(20-02)** The Office did not have internal control over reporting its census data and did not have a reconciliation process to provide assurance census data submitted to its pension and other postemployment benefits (OPEB) plans was complete and accurate.

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 SECRETARY OF STATE
FINANCIAL AUDIT
For the Year Ended June 30, 2020**

STATEMENT OF NET POSITION (in thousands)	2020	2019
Assets		
Unexpended appropriations.....	\$ 30,188	\$ 34,689
Cash equity with State Treasurer.....	443,036	349,139
Securities lending collateral of State Treasurer.....	11,713	10,307
Taxes and other receivables, net.....	3,507	5,423
Intergovernmental receivables, net.....	138	158
Due from other State funds.....	234	-
Inventories.....	4,248	5,524
Capital assets.....	169,157	174,728
Deferred outflows of resources.....	575,906	679,609
Other.....	5,852	3,637
Total assets and deferred outflows of resources.....	1,243,979	1,263,214
Liabilities		
Accounts payable and accrued liabilities.....	22,036	37,447
Intergovernmental payables.....	27,760	12,962
Due to other State funds or component units.....	4,175	2,919
Unearned revenue.....	30,301	23,124
Obligations under securities lending of State Treasurer.....	11,713	10,307
Net pension liability.....	1,357,651	1,446,189
Deferred inflows of resources.....	380,312	301,641
Long-term obligations.....	1,346,574	1,317,404
Total liabilities and deferred inflows of resources.....	3,180,522	3,151,993
Net position		
Net investment in capital assets.....	167,699	172,748
Restricted.....	12,878	11,165
Unrestricted.....	(2,117,120)	(2,072,692)
Total net position.....	\$ (1,936,543)	\$ (1,888,779)
STATEMENT OF ACTIVITIES (in thousands)	2020	2019
Expenses		
General government.....	\$ 640,748	\$ 533,124
Program revenues		
Charges for Services.....	2,180,779	2,067,252
Operating grant revenues.....	5,393	5,620
Net program revenues.....	1,545,424	1,539,748
General revenues		
Interest and investment income.....	615	670
Other taxes.....	242,366	248,985
Other.....	1,858	830
Total general revenues.....	244,839	250,485
Other sources (uses)		
Appropriations from State resources.....	466,173	440,793
Receipts collected and transmitted to State Treasury.....	(2,249,706)	(2,311,047)
Other.....	(54,494)	1,563
Total other sources (uses).....	(1,838,027)	(1,868,691)
Change in net position.....	\$ (47,764)	\$ (78,458)
AGENCY DIRECTOR		
During Examination Period: The Honorable Jesse White		
Currently: The Honorable Jesse White		

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

**WEAKNESSES IN DETERMINATION OF CASH ON
HAND AND CASH IN TRANSIT AMOUNTS
REPORTED IN THE FINANCIAL STATEMENTS**

The Office used inaccurate queries to determine the adjustment to record cash on hand and cash in transit at fiscal year-end, excluded receipts deposited in the Illinois State Treasurer’s clearing accounts at the end of June 2020, and failed to record June 2020 adjustments made in August 2020 in its cash on hand and cash in transit balances.

We tested cash on hand and the cash in transit balances reported in the General Revenue Fund (Fund 0001), Road Fund (0011), Capital Projects Fund (0694), and the State Construction Account Fund (0902). Some of the more significant issues we noted included the following:

- The spreadsheet used to calculate total cash on hand and cash in transit for the General Revenue Fund and Road Fund improperly included July 2020 receipts from the queries used to determine June receipts not yet deposited into the Treasurer’s Clearing Accounts at June 30, 2020. Further inaccurate receipt amounts were included in the query used. This error resulted in a \$4.9 million overstatement in the General Revenue Fund and a \$68.9 million overstatement in the Road Fund.
- The June deposits included in the cash on hand and cash in transit calculations that were held in the Illinois State Treasurer clearing accounts but not yet remitted to the Illinois Office of Comptroller did not include deposits from June 29 and June 30, 2020. Further, one clearing account was not included for the General Revenue Fund. This error resulted in a \$7.4 million understatement in the General Revenue Fund and a \$39.9 million understatement in the Road Fund. (Finding 1, pages 66-68). **This finding was first reported in 2016.**

Spreadsheet used to calculate total cash on hand included errors

June deposits incorrectly included cash on hand and cash in transit

We recommended the Office implement a process to review the calculation over the cash on hand and cash in transit process to determine that the calculation includes the correct fiscal year information and considers all in transit activity as of June 30th.

Office agrees

Office officials agreed with the recommendation.

INADEQUATE INTERNAL CONTROLS OVER CENSUS DATA

The Office did not have internal control over reporting its census data and did not have a reconciliation process to provide assurance census data submitted to its pension and other postemployment benefits (OPEB) plans was complete and accurate.

During testing, we noted included the following:

Initial reconciliation of census data to SERS was not performed

- The Office had not performed an initial complete reconciliation of its census data recorded by State Employees' Retirement System (SERS) and Central Management Services (CMS) to its internal records to establish a base year of complete and accurate census data.

Process to annually obtain changes had not been developed

- After establishing a base year, the Office had not developed a process to annually obtain from SERS and CMS the incremental changes recorded by SERS and CMS in their census data records and reconcile these changes back to the Office's internal supporting records.

Employee did not contribute the proper contribution rate to SERS

- One of 80 (1%) employees tested did not contribute the proper contribution rate to SERS during Fiscal Year 2019, the census data accumulation year for SERS' actuarial valuation used to prepare the Office's Fiscal Year 2020 financial statements. We noted the employee was only contributing 4% of their total compensation under the regular retirement formula for employees with Social Security, as opposed to 8% of their total compensation under the regular requirement formula for employees without Social Security. We worked with SERS' actuary to project the impact of this error on SERS' valuation and determined it did not materially impact the Office's financial statements. (Finding 2, pages 69-71).

We recommended the Office implement controls to ensure employee contributions to SERS are complete, accurate, and in accordance with the Illinois Pension Code. Further, we recommended the Office work with SERS and CMS to develop an annual reconciliation process of its active members' census data from its underlying records to a report from each plan of census data submitted to the plan's actuary.

Office accepts recommendation

The Office accepted the recommendation.

OTHER FINDINGS

The remaining finding pertained to failure to adjust license and fee revenues. We will review the Office's progress towards the implementation of our recommendations in our next financial audit.

AUDITOR'S OPINION

The auditors stated the financial statements of the Office as of and for the year ended June 30, 2020 are fairly stated in all material respects.

This financial audit was conducted by Sikich, 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

FJM:SDW