



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

**OFFICE OF THE TREASURER-
 THE ILLINOIS FUNDS**

**Financial Audit
 For the Two Years Ended June 30, 2023**

Release Date: August 8, 2024

FINDINGS THIS AUDIT: 2	New	Repeat	Total	AGING SCHEDULE OF REPEATED FINDINGS			
				Repeated Since	Category 1	Category 2	Category 3
Category 1:	0	1	1	2022		2	
Category 2:	0	1	1	2020	1		
Category 3:	<u>0</u>	<u>0</u>	<u>0</u>				
TOTAL	0	2	2				
FINDINGS LAST AUDIT: 2							

SYNOPSIS

- **(23-01)** The Office of the Treasurer had inadequate controls over the Office’s Illinois Funds Program financial statement preparation and review process.
- **(23-02)** The Office of the Treasurer did not maintain adequate controls to ensure all 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.

OFFICE OF THE TREASURER - THE ILLINOIS FUNDS
FINANCIAL AUDIT
For the Year Ended June 30, 2023

STATEMENTS OF FIDUCIARY NET POSITION	2023	2022
Assets		
Cash.....	\$ 4,099	\$ -
Repurchase Agreements.....	806,977,577	555,239,398
Commercial Paper	1,241,113,692	2,012,110,306
Money Market Mutual Funds.....	1,642,732,433	1,375,150,883
U.S. Treasury Bills	390,838,544	128,008,069
U.S. Treasury Notes	413,680,959	149,605,123
U.S. Agency Obligations		
Federal Home Loan Bank Debentures.....	755,340,437	102,204,819
Federal National Mortgage Association Debentures.....	103,444,164	-
Federal Farm Credit Bureau Debentures.....	367,864,001	571,440,017
Certificates of Deposit.....	152,466,764	-
Supranational Notes.....	167,140,151	634,065,032
Corporate Bonds.....	1,864,467,028	1,325,683,978
Accrued Interest Receivable.....	35,645,186	13,554,686
Total Assets.....	<u>7,941,715,035</u>	<u>6,867,062,311</u>
Liabilities		
Bank Custodial Fees Payable.....	156,139	134,727
State Management Fees Payable.....	467,093	406,801
Total Liabilities	<u>623,232</u>	<u>541,528</u>
Net Position Held in Trust for Pool Participants.....	<u>\$ 7,941,091,803</u>	<u>\$ 6,866,520,783</u>
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION	2023	2022
Revenues		
Investment Earnings.....	<u>\$ 294,913,935</u>	<u>\$ 22,358,437</u>
Expenses		
Bank Custodial Fees.....	1,752,150	1,309,301
State Management Fees.....	3,719,601	2,453,794
Total Expenses.....	<u>5,471,751</u>	<u>3,763,095</u>
Net Investment Earnings / Dividends to Participants.....	289,442,184	18,595,342
Share Transactions		
Subscriptions.....	15,345,076,644	14,668,517,004
Reinvestments.....	284,010,750	15,187,912
Redemptions.....	<u>(14,554,516,374)</u>	<u>(12,916,450,350)</u>
Change in Net Position.....	1,074,571,020	1,767,254,566
Net Position, Beginning of Year.....	<u>6,866,520,783</u>	<u>5,099,266,217</u>
Net Position, End of Year.....	<u>\$ 7,941,091,803</u>	<u>\$ 6,866,520,783</u>
TREASURER		
During Engagement Period: Honorable Michael Frerichs		
Currently: Honorable Michael Frerichs		

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

**INADEQUATE INTERNAL CONTROLS RELATED TO
REVIEW OF FINANCIAL STATEMENTS**

The Office of the Treasurer (Office) had inadequate internal controls over the Office's Illinois Funds Program financial statement preparation and review process.

Office incorrectly accounted for cancelled, un-executed purchases and redemptions.

During preparation of the financial statements, the Office incorrectly accounted for cancelled, un-executed purchases and redemptions. The cancelled purchases should have been netted with purchase transactions. The error led to the overstatement of both subscriptions and redemptions on the Statements of Changes in Fiduciary Net Position by \$170,421,701.

The Office corrected the error noted above within the year-end financial statements.

We recommended the Office improve controls over the financial reporting process of the Illinois Funds Program by verifying that cancelled, un-executed purchases are not recorded at gross amounts within the financial statements. (Finding 1, page 65). **This finding has been reported since 2020.**

Office accepted the recommendation

The Office accepted the recommendation and stated it will implement additional controls over the reporting and review process of the Illinois Funds financial statements.

**INADEQUATE INTERNAL CONTROLS RELATED TO
REVIEW OF SERVICE PROVIDERS**

The Office of the Treasurer (Office) did not maintain adequate controls to ensure all service providers' internal controls were reviewed.

The Office utilized service providers as the custodian of the Illinois Funds Program and as payment processors for the E-Pay program. As of June 30, 2023, the net position held in trust for pool participants, internal and external, was \$19,191,730,000. The Office did not establish an adequate process to monitor its service and subservice providers. The following issues were noted during testing:

SOC Report was not reviewed

- One of three (33%) significant System and Organization Control (SOC) reports was not reviewed for the Illinois Funds Program. In addition, the SOC report was not provided timely to the auditors, as it was provided 222 days after the original request due date.

SOC Report did not address qualified opinion

- One SOC report for the Illinois Funds Program included a qualified opinion related to inadequate controls precluding operating effectiveness of certain applicable controls. The Office's SOC report review did not address the qualified opinion.

The Office did not establish adequate controls to review significant subservice organizations related to the Illinois Funds Program

- The Office did not establish adequate controls to review significant subservice organizations related to the Illinois Funds Program. There was no evidence the Office was collecting, tracking and maintaining the appropriate SOC reports for all significant subservice organizations.
 - Due to one of three (33%) SOC reports not being provided to the auditors, the population of significant subservice organizations could not be determined. The auditors were unable to determine the Office reviewed the subservice organization SOC reports.
 - The Office provided two lists of significant service and subservice organizations. The list for the Illinois Funds Program did not list any subservice organizations. The list for the E-Pay Program listed the Illinois Funds service organization with three significant subservice organizations.
 - The Office provided its review of one significant subservice organization for the Illinois Funds within its service organization review; however, the wording for the subservice organization review had not been updated from the prior fiscal year report review.

Office did not establish adequate controls to review significant service and subservice providers related to E-Pay program

- The Office did not establish adequate controls to review significant service and subservice providers related to the E-Pay program. The population of E-Pay program payment processors identified three significant service providers and nine significant subservice providers. Two of three (67%) significant service organizations, including the same report identified above for the Illinois Funds Program, were not reviewed. In addition, the Office obtained a SOC 3 report for one its service organizations but did not review the report. Nine of nine (100%) significant subservice organizations' SOC reports were not reviewed. (Finding 2, pages 66-67)

We recommended the Office establish an internal control process to document if a review of controls is required. Additionally we recommended the Office:

- Obtain and review SOC reports or perform independent reviews of internal controls associated with outsourced systems at least annually.
- 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. (Finding 2, pages 66-67)

Office management accepted the finding

Management accepted the findings and stated it has implemented further procedures to the SOC report review process to confirm that the audit findings are not repeated.

AUDITOR’S OPINION

The auditors stated the financial statements of the Office of the Treasurer, the Illinois Funds Program as of and for the years ended June 30, 2023, and June 30, 2022, 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

FJM: sjs