

LEGISLATIVE AUDIT COMMISSION



Review of
State Treasurer
Nonfiscal Officer Responsibilities
Two Years Ended June 30, 2001

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**REVIEW: 4170
STATE TREASURER
NONFISCAL OFFICER RESPONSIBILITIES
TWO YEARS ENDED JUNE 30, 2001**

**FINDINGS/RECOMMENDATIONS - 2
ACCEPTED - 2**

REPEATED RECOMMENDATIONS - 0

PRIOR AUDIT FINDINGS/RECOMMENDATIONS - 1

This review summarizes an audit of the State Treasurer, Nonfiscal Officer Duties, for the two years ended June 30, 2001, filed with the Legislative Audit Commission March 28, 2002. The auditors performed a financial and compliance audit in accordance with State law and Government Auditing Standards. The auditors stated that the financial statements for the nonshared State Treasury and locally held funds were fairly presented.

The principal constitutional and statutory power related to the Office of State Treasurer are: receipts, disbursement and custody of funds in the State Treasury; investment of funds in the State Treasury; ex-officio custodianship of funds controlled by certain other agencies of the State; custody of securities deposited within the State Treasury as collateral or for safekeeping; assurance that monies are available to pay principal and interest on general obligation bonds issued by the State; administration of certain trust funds; joint administration with the Attorney General of the Illinois Estate Tax Law, including receipt and accounting for tax collections; and the administration of the Illinois Public Treasurers' Investment Pool. During the two-year period covered by the audit, the Honorable Judy Baar Topinka was State Treasurer.

The average number of employees is presented in the table on the following page. As seen in the table, the Office of the State Treasurer increased the average number of personnel from 132 in FY99 to 188 in FY2001 with the greatest increase in Unclaimed Property Division personnel which was transferred from the Department of Financial Institutions effective July 1, 1999.

The Uniform Disposition of Unclaimed Property Act stipulates that the State should assist unclaimed property owners in the retrieval of their abandoned assets. The law requires that all public and private entities remit all unclaimed assets that have been left unclaimed for five years or more. Government entities must remit all unclaimed assets within seven years. Because Illinois is a custodial state, an owner or heir can always claim funds remitted to the division. There is no time limit. According to the audit report, during FY01,

REVIEW: 4170

the Treasurer received in excess of \$126.6 million in unclaimed property remittances and paid \$36.4 million in unclaimed property claims.

Unclaimed property is generally stored in a vault beneath the State Capitol Building. Assets are sold periodically at auction, and the money is designated to the five pension systems. If heirs or owners of items reclaim an item after it is auctioned, the owner receives the amount the item sold for at auction.

	Year Ended June 30		
	<u>2001</u>	<u>2000</u>	<u>1999</u>
Executive Offices	19	18	18
Banking Division	19	17	17
Warrant Division	7	8	9
MIS Division	7	7	8
Fiscal Operations Division	13	13	-
Accounting Division/Support Services	12	11	21
Estate Tax Division	4	4	-
Economic Development Division	4	3	2
Chicago Operations Division	9	10	22
Law Division	5	5	-
Personnel Division	3	4	-
Internal Audit Division	2	4	-
Inter-Governmental Affairs Division	6	1	-
Unclaimed Property Division	53	55	4
IPTIP (nonappropriated funds)	24	19	31
College Savings (nonappropriated funds)	1	-	-
TOTAL	188	179	132

Expenditures From Appropriations

The General Assembly appropriated a total of \$991,047,516 to the State Treasurer for FY2001. Of this amount, the Office expended \$975,412,418 plus an additional \$150,446,310 in unappropriated funds for a total of \$1,125,858,728 in expenditures. Expenditures for FY2000 were approximately \$898 million, and \$1 billion in FY99. Of this, approximately \$103 million was for operations, including \$80 million in interfund cash transfers. The remaining balance was for the debt service, refunds, awards and grants, and estate tax disbursements. Appendix A summarizes these appropriations and expenditures for the period under review.

Total expenditures increased from \$898 million in FY2000 to \$1.125 billion in FY01, an increase of \$227 million. This 25% increase was largely due to \$119 million in payment to an escrow agent for the purpose of refunding outstanding general obligation bonds and an additional \$73 million in payment of principal and interest related to general obligation bonds and short-term borrowing. Refunds of monies paid under protest increased from about \$9 million in FY2000 to \$17.9 million in FY01. Refunds of assets claimed in the

REVIEW: 4170

Unclaimed Property Trust increased from \$29.7 million in FY2000 to \$36.6 million in FY01 due to the Office's emphasis on finding owners.

The Illinois Funds

The Illinois Funds, formerly the Illinois Public Treasurers' Investment Pool (IPTIP), was established in 1976 to supplement and enhance the investment opportunities available to custodians of public agency funds throughout the state. The Illinois Public Treasurers' Investment Pool Administrative Fund is an unappropriated internal service fund. The IPTIP Administrative Fund was established to administer a pool of assets held by the Treasurer in a trustee capacity as an agent for public treasurers throughout the state. The IPTIP Administrative Fund is charged for costs incurred for the provision of investment services and support for the pool marketing effort, and the Treasurer allocates resources to provide indirect support between the General Revenue Fund and the IPTIP Administrative Fund. The appropriate reimbursement is made biannually. Appendix B contains the balance sheet for the IPTIP for FY01 and FY2000. The balance sheet stood at \$3.7 billion as of June 30, 2000 compared to \$4.6 billion as of June 30, 2001.

Firstar Bank performs the custodial responsibilities for the administration of The Illinois Funds. Firstar calculates the administrative and custodial fees paid to the State Treasurer and Firstar, respectively. Fees are calculated on a tiered structure. Both fees are paid from a charge based on the net asset value of The Illinois Funds. The fee is accrued daily and withdrawn monthly. The custodian's fee for the Money market Fund is calculated at .08% for the first \$500,000,000 / .06% for the next \$500,000,000 / .025% for the amount over \$1,000,000,000. The custodian's fee for the Prime Fund is calculated at .052% for the first \$250,000,000 / .042% for next \$250,000,000 / .032% for the next \$500,000,000 / .022% for the amount over \$1,000,000,000 per annum of the market value of the total amount of the fund. The State Treasurer receives .06% per annum of the net asset value of The Illinois Funds. This fee is used to defray administrative costs associated with investing The Illinois Funds assets, to increase marketing efforts needed to expand participation in The Illinois Funds, and to improve the level of service to participants.

Administrative expenses of the IPTIP, which are from unappropriated funds, increased from approximately \$1.5 million in FY2000 to almost \$2.5 million in FY01. The audit report states that the \$1 million increase was due to greater emphasis on communicating the availability of the Illinois Funds to local governments. According to the FY01 Illinois Fund financial report, account holders paid approximately \$2.4 million in fees to the Administrative Fund in FY01.

Bright Start College Savings Program

In May 1999, the General Assembly adopted PA91-0607 authorizing the State Treasurer to establish and administer a program designed to be a qualified State tuition program under Section 529 of the Internal Revenue Code. This program is known as Bright Start

REVIEW: 4170

College Savings Program. The Program provides an opportunity for investors residing in Illinois, or anywhere else in the United States, to invest on a tax-favored basis toward the “qualified higher education expenses” of a designated beneficiary associated with attending an institution of higher education, including most community colleges, public and private colleges, universities, and certain proprietary and vocational schools.

A Program participant may make investments in an account established for the purpose of meeting the higher education expenses of the designated beneficiary on the program account. Amounts contributed to the Program will be invested in the Bright Start College Savings Trust. The Treasurer has initially selected Salomon Smith Barney, Inc (SSB) to advise the Office on the investment of Trust assets, to administer the Trust assets, and to provide other services relating to the Program.

The Program offers several investment options including age-based option, fixed income option and equity option. The Program assets consist of mutual funds held by SSB along with certificates of deposits in participating financial institutions.

The Program began March 27, 2000. Appendix C contains the balance sheet for the Program which stood at \$11.2 million at June 30, 2000 and \$108,918,755 at June 30, 2001. According to the audit report, Administrative costs for FY2000 were \$55,000 compared to \$177,000 for FY01. Net decrease in the fair value of investments was almost \$64,000 in FY2000 and \$7.3 million in FY01. Bank custodial fees were \$3,435 in FY2000 and \$156,001 in FY01.

Property and Equipment

Appendix D provides a summary of property and equipment for the period under review. Property and equipment increased from \$2,532,441 as of July 1, 1999 to \$3,582,902 as of June 30, 2001.

Accountants’ Findings and Recommendations

Condensed below are the two findings, recommendations and responses presented in the audit report. There were no repeated recommendations.

Accepted

- 1. Comply with the statute and retain no more than \$2,500,000 in the trust fund or seek legislative remedy to the statutory requirement.**

Findings: The Office of the Treasurer maintained cash balances in the Unclaimed Property Trust Fund in excess of \$2.5 million in 23 of the 24 months during the audit period. Month end cash balances ranged from \$2 million to \$25.3 million. Office

REVIEW: 4170

Accepted - concluded

management stated that the excess balances were necessary due to the unclaimed property payment process and to maintain the ability to pay expected claims greater than \$2.5 million.

Response: Accepted. The Treasurer will seek legislative remedy to increase the statutory balance limitation.

- 2. Complete the customization of the Disaster Recovery Plan and broaden the Plan to include recovery of the wide area network. Review and update the Plan on an ongoing basis, complete the scheduled test, and fully document the results and adjust the Plan. Test the Plan annually thereafter. Develop a training schedule for Office personnel to effectively address a disaster situation.**

Findings: The Office's information technology disaster recovery plan has not been fully customized and should be more fully documented and tested on an annual basis. The Office uses information technology to perform critical activities concerning investments, interest income, collateral/safekeeping, Funds in Clearing, and warrant processing. Auditors noted the following weaknesses:

- Plan was not customized;
- Plan did not include required restoration times;
- Some recovery procedures not fully documented;
- Plan did not address different levels of disasters;
- Disaster Recovery Coordinator was not identified; and
- Disaster recovery information should be housed off-site.

Response: Accepted. A target date of March 30, 2002 was set for disaster recovery documentation update and completion of testing.

Emergency Purchases

The Illinois Purchasing Act (30 ILCS 505/1) states that "the principle of competitive bidding and economical procurement practices shall be applicable to all purchases and contracts ..." The law also recognizes that there will be emergency situations when it will be impossible to conduct bidding. It provides a general exemption for emergencies "involving public health, public safety, or where immediate expenditure is necessary for repairs to State property in order to protect against further loss of or damage ... prevent or minimize serious disruption in State services or to insure the integrity of State records. The Chief procurement officer may promulgate rules extending the circumstances by which a purchasing agency may make 'quick purchases', including but not limited to items available at a discount for a limited period of time."

REVIEW: 4170

State agencies are required to file an affidavit with the Auditor General for emergency procurements that are an exception to the competitive bidding requirements per the Illinois Purchasing Act. The affidavit is to set forth the circumstance requiring the emergency purchase. The Commission receives quarterly reports of all emergency purchases from the Office of the Auditor General. The Legislative Audit Commission is directed to review the purchases and to comment on abuses of the exemption.

During FY2000 and FY01, the Office of the Treasurer, Nonfiscal Officer filed no affidavits for emergency procurements.

Headquarters Designations

The State Finance Act requires all State agencies to make semiannual headquarters reports to the Legislative Audit Commission. Each State agency is required to file reports of all its officers and employees for whom official headquarters have been designated at any location other than that at which official duties require them to spend the largest part of their working time.

The State Treasurer indicated in July 2001 that the Office had 17 employees for whom official headquarters had been designated at a location other than that at which their official duties require them to spend the largest part of their working time.

REVIEW: 4170
OFFICE OF THE TREASURER
NONFISCAL OFFICER RESONSIBILITIES
TWO YEARS ENDED JUNE 30, 2001

APPENDIX A

SUMMARY OF APPORPRIATIONS AND EXPENDITURES

	<u>2001</u>	<u>2000</u>	<u>1999</u>
<u>APPROPRIATIONS</u>	\$ 991,047,516	\$ 784,168,867	\$ 925,021,869
<u>UNAPPROPRIATED FUNDS</u>	150,446,310	129,275,369	112,581,231
TOTAL	\$ 1,141,493,826	\$ 913,444,236	\$ 1,037,603,100
<u>EXPENDITURES from GRF</u>			
Personal Services	4,786,892	4,509,971	4,225,233
Retirement, Employee	177,439	173,426	165,577
Retirement, State	476,210	438,237	402,775
Social Security	353,412	334,173	316,707
Contractual Services	976,644	886,283	795,215
Travel	149,100	166,297	113,768
Commodities	75,476	42,060	32,067
Printing	30,046	26,716	12,629
Equipment	36,961	84,977	32,073
EDP	841,631	873,377	590,443
Telecommunications	198,116	172,329	148,787
Operation of auto equipment	14,792	9,450	8,794
SAMS conversion costs	-	-	398,435
Refunds of estate tax overpaid, and accrued interest thereon	7,499,932	7,066,589	4,175,861
Refunds of accrued interest on protested tax cases	1,605,180	1,201,604	964,295
TOTAL From GRF	\$ 17,221,831	\$ 15,985,489	\$ 12,382,659
Other Funds			
General Obligation Fund	909,734,675	717,143,487	863,924,945
IPTIP Administrative Fund	2,491,349	1,556,053	1,392,856
Protest Fund	17,921,863	8,985,458	31,520,535
Matured Bond & Coupon Fund	121,806	127,665	197,608
Estate Tax Distributive Fund	23,126,384	18,496,996	20,606,367
Bank Services Trust	5,930,228	4,391,865	4,552,496
Metropolitan Pier & Exposition Fund	92,997,365	88,726,547	79,667,840
Unclaimed Property Trust Fund	36,603,532	29,752,902	-
Municipal Economic Development Fund	271,430	191,640	-
College Savings Pool Administration Fu	160,771	62,769	-
Capital Litigation Fund	12,445,743	5,947,055	-
State Pensions Fund	6,831,751	6,681,399	-
TOTAL EXPENDITURES	\$ 1,125,858,728	\$ 898,049,325	\$ 1,014,245,306

REVIEW: 4170
OFFICE OF THE TREASURER
NONFISCAL OFFICER RESPONSIBILITIES
TWO YEARS ENDED JUNE 30, 2001

APPENDIX B

ILLINOIS FUNDS

	<u>2001</u>	<u>2000</u>
Cash and Cash equivalents	\$ 217,248,200	\$ 754,521,860
Repurchase Agreements	3,148,193,365	2,400,802,000
Certificates of deposit	15,952,286	22,811,929
Commercial paper	219,676,228	-
Direct U.S. Treasury obligations	901,672,299	543,385,975
U.S. Agency obligations	145,541,632	-
Accrued interest receivable	2,822,077	5,491,879
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TOTAL ASSESTS	<u>\$ 4,651,106,087</u>	<u>\$ 3,727,013,643</u>

**REVIEW: 4170
OFFICE OF THE TREASURER
NONFISCAL OFFICER RESPONSIBILITIES
TWO YEARS ENDED JUNE 30, 2001**

APPENDIX C

**BRIGHT START COLLEGE SAVINGS PROGRAM
BALANCE SHEET**

	ASSETS	
	<u>2001</u>	<u>2000</u>
DEPOSITS AND INVESTMENTS, AT MARKET		
Cash and cash equivalents	\$ 2,580,022	\$ 1,121,515
Dividends receivable	186,646	19,381
Mutual funds	<u>107,271,522</u>	<u>10,424,316</u>
TOTAL ASSETS	<u>\$ 110,038,190</u>	<u>\$ 11,565,212</u>
 LIABILITIES AND FUND BALANCE		
Accrued liabilities		
Payable for securitites purchased	\$ 1,094,525	\$ 318,783
Advisory fees	<u>24,910</u>	<u>2,090</u>
TOTAL LIABILITIES	\$ 1,119,435	\$ 320,873
Fund balance	<u>\$ 108,918,755</u>	<u>\$ 11,244,339</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 110,038,190</u>	<u>\$ 11,565,212</u>

REVIEW: 4170
OFFICE OF THE TREASURER
NONFISCAL OFFICER RESPONSIBILITIES
TWO YEARS ENDED JUNE 30, 2001

APPENDIX D

Summary of Property and Equipment

	<u>2001</u>	<u>2000</u>
Beginning Balance, July 1	\$ 3,750,090	\$ 2,532,441
Additions		
Purchases	430,989	831,014
Inter-agency transfers	-	424,635
	<u>430,989</u>	<u>1,255,649</u>
Deductions		
Inter-agency transfers	586,547	-
Inventory adjustments	11,630	38,000
	<u>598,177</u>	<u>38,000</u>
Ending Balance, June 30	<u>\$ 3,582,902</u>	<u>\$ 3,750,090</u>
