



Michael W. Frerichs
ILLINOIS STATE TREASURER

A FINANCIAL ROADMAP TO THE AMERICAN DREAM
PROVIDING TOOLS FOR SUCCESS TO WORKING FAMILIES

100 DAY REPORT • APRIL 2015





MISSION STATEMENT

The Illinois State Treasurer's Office is dedicated to protecting the state's portfolio, ensuring the liquidity of all investments, and consistently producing earnings at or above industry standards.

Our investment decisions will promote education, access, and opportunity for individuals and governmental bodies across our state to give families the tools to achieve the American Dream.

The Treasurer's Office is committed to fulfilling this mission in a highly professional and ethical manner, while striving for transparency, efficiency, and preservation of public trust.

TABLE OF CONTENTS

| | |
|----|---|
| 6 | Message from the Treasurer |
| 7 | Executive Summary |
| 8 | History of Treasurer's Office |
| 9 | Inherited Challenges |
| 11 | By the Numbers |
| 13 | Snapshot of Programs |
| | <u>First 100 Days</u> |
| 19 | Restoring Trust and Integrity in Government |
| 21 | Fighting for Working Families |
| 27 | Making Wise Investments to Strengthen Illinois' Portfolio |
| 29 | Providing Opportunities for Illinois Businesses |
| 30 | Enhancing Core Policies and Practices |
| 31 | Plante Moran Performance Review |



TO THE PEOPLE OF ILLINOIS,

Thank you for entrusting me with the honor of serving as your Illinois State Treasurer. My role in restoring confidence in our state officially began January 12, 2015. April 22nd marks 100 days since the inauguration.

As Treasurer, I am a consumer advocate. **Every day, I will fight for working families.** The Treasurer's Office will provide tools that communities and working families can use to expand education, access, and opportunity for a chance at achieving the American Dream.

Educational attainment is the best predictor of employability. **We will give working families the opportunity to send their children to college.** Studies show children who have college savings accounts are almost seven times more likely to attend college than children without an account. That is why we in the Treasurer's Office are focused on managing savings plans for college and trade school. For as little as \$25, you can start that path for your loved ones to higher education and employability through Bright Start or Bright Directions. I believe this commitment sets the expectation for our children that college or trade school is within their reach.

Too many of our hard-working neighbors are not saving enough for their retirement. **In fact, over half of all workers in Illinois lack access to employment-based retirement plans.** That is why Secure Choice is so important. Secure Choice will provide workers the option to automatically deduct retirement savings from their paycheck to be invested professionally and securely.

As Treasurer, I am the state's Chief Investment Officer. The office actively manages approximately \$25 billion. Currently, the portfolio includes \$13 billion in state funds, \$7 billion in college savings plans, and \$5 billion on behalf of state and local governments. The investment approach is conservative to ensure the safety of principal, while investing in communities throughout Illinois.

As a Certified Public Finance Officer, I know the value in teaching people about investing. **The more knowledge we share to help working families become more fiscally stable, the stronger Illinois' economy becomes.** Our financial literacy programs will again help people of all ages better understand money management. Doing so places each person in a position to stretch their paycheck, invest wisely, and provide for their loved ones.

There is much to be done to help ensure all working families are successful, and I am up for the challenge. Working together, we can make Illinois an even better place to live, work, and raise a family.

Michael W. Frerichs, Illinois State Treasurer

EXECUTIVE SUMMARY

The following pages contain a summary of inherited challenges as well as successes already achieved.

This 34 page report includes a detailed performance review of the Treasurer's Office by Plante Moran, a well-respected Midwest accounting and consulting firm. Plante Moran generously donated their time and effort to help guide the Treasurer's Office to become more effective and efficient.

Among the findings of the performance review is concern of a failed internship program that needs a complete overhaul before reactivating, security cameras with limited view of unclaimed property inventory, and home-based workers with few set rules, expectations, or oversight. These issues hurt Illinois families and will be addressed in coming months.

The report also outlines the progress that the Frerichs administration has made in its first 100 days in office and future plans to help Illinois families succeed.

In the next four years, the Treasurer's Office will make strong investments and provide tools that benefit working families and boosts Illinois' economy. We know a strong working class drives a strong economy.

- With our investments in municipalities and Illinois-based technology companies, we will diversify the state's portfolio and earn strong returns for Illinoisans while investing in communities throughout the state.
- Through Secure Choice, we will provide a solution to retirement insecurity and give all workers an opportunity to retire with dignity.
- Our college savings programs will make a college and trade school education attainable and affordable.
- The Treasurer has emphasized increasing diversity and access. Since taking office the Treasurer has prioritized diversity - including gender, race and ethnicity, veteran status, and disability – when selecting firms, banks, and investment vehicles.
- Consistent with safe and sound banking practices, the Treasurer has taken steps to require banks that do business with the Treasurer's Office to help meet the credit needs of the communities in which they operate.

Under the Frerichs administration, we will continue to identify ways for families to own a home, get a good education, save for retirement, and build generational wealth.

HISTORY OF THE TREASURER'S OFFICE

The Office of the Illinois State Treasurer predates Illinois statehood, tracing its roots to the early days of the Republic. The office was enumerated in the original state constitution in 1818.

Since achieving statehood, 74 people have served as the Illinois State Treasurer. Only one woman has ever served as State Treasurer, Judy Baar Topinka, who also served the longest term in the office's history for twelve years, from 1995-2007. Seventy State Treasurers have been elected either by the legislature or the public, while four were appointed by the Governor.

In the early days of the office, the State Treasurer's primary responsibility was to be custodian of a strongbox where the state's funds were kept. State funds could be loaned out by the State Treasurer, who was allowed to keep the interest as personal income. In the early 20th Century, state law was changed to require that state funds be deposited into banks. As our system of government and finance evolved, more checks and balances were put into place to ensure better record keeping, accountability, and transparency.

Since 1970, the State Treasurer is the state's Chief Investment Officer, managing tens of billions of dollars in state funds and billions more pooled from local governments.

The Treasurer's Office establishes sound investment policies to ensure the safekeeping of those funds, provide the necessary liquidity to pay the state's bills, and earn the best rate of return for the people of Illinois and local governments.

The Treasurer's Office administers the Bright Start and Bright Directions college savings programs, enabling families to combat the rising costs of college by earning tax-free money toward a child's higher education. The office also oversees several low-interest loan and financial programs aimed at spurring economic growth, creating jobs, providing assistance to farmers, enhancing Illinois communities, and making homeownership a reality.

The Unclaimed Property Division seeks to reunite more than \$2.1 billion in lost and abandoned property and cash with its rightful owners and generate new revenue for the state. The Treasurer's Office is also responsible for financial education for children, teenagers, and adults to avoid debt and build wealth.

INHERITED CHALLENGES

On January 12, 2015, Michael Frerichs was sworn in as the 74th Illinois State Treasurer.

Upon taking office and through diligent work with staff at Plante Moran, Treasurer Frerichs identified a number of existing challenges facing the office. Among those challenges are:

- An ongoing lawsuit against his predecessor that has already cost state taxpayers tens of thousands of dollars.
- A “clout-heavy” paid internship program with no formal written policies and procedures for the recruitment or management of intern participants. The internship program also lacked performance monitoring mechanisms.
- The college savings scholarship program, which creates scholarship accounts awarded by the State Treasurer, is in desperate need of a complete overhaul. Although hundreds of scholarships have been awarded, these scholarships are absent of basic rules governing proper record keeping, management, and distribution. New policies and procedures need to be set to restore the integrity of the scholarship program and ensure a fair, transparent process.
- The State Treasurer is mandated to manage the state’s unclaimed property. Internal audits from previous years identified inadequate inventory controls, noted a limited view of inventory for security cameras, and underscored issues relating to the timeliness of recording property, advertising property for auction, responses to filing extension requests, and sales of securities.
- Home-based workers lack adequate supervision, incur higher travel reimbursement costs than office-based employees, and are not geographically located effectively.

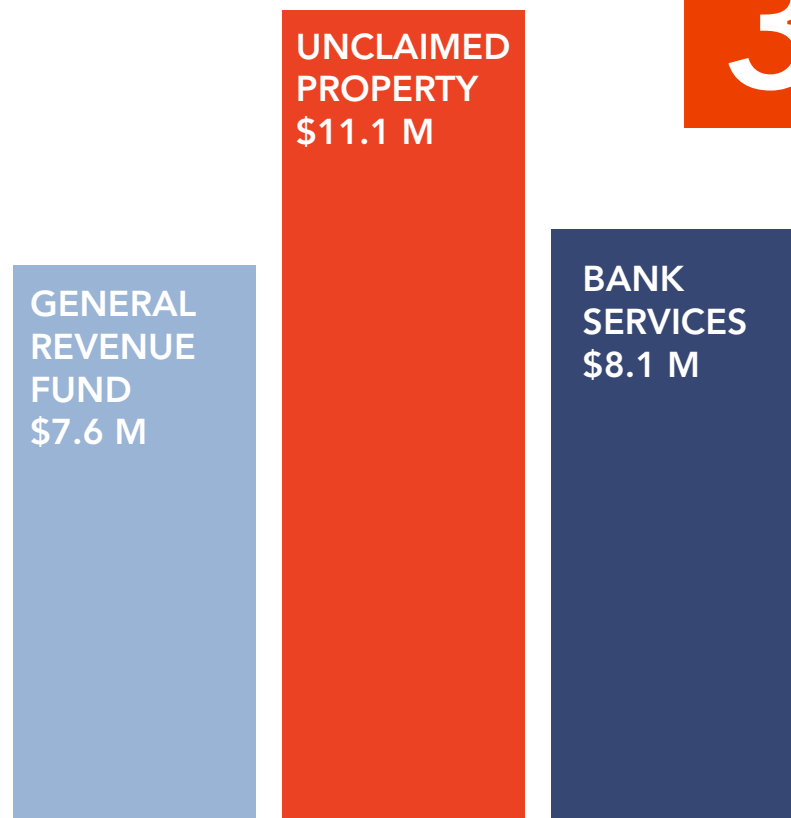
This represents a small fraction of the challenges facing the Treasurer’s Office, but the team will rise to the occasion to tackle these issues with integrity, protect state funds, and do what is best for working families in Illinois.



ILLINOIS TREASURER'S OFFICE BY THE NUMBERS

TOTAL VALUE OF UNCLAIMED PROPERTY **2.1** BILLION DOLLARS

COLLEGE SAVINGS ACCOUNTS **390,000**

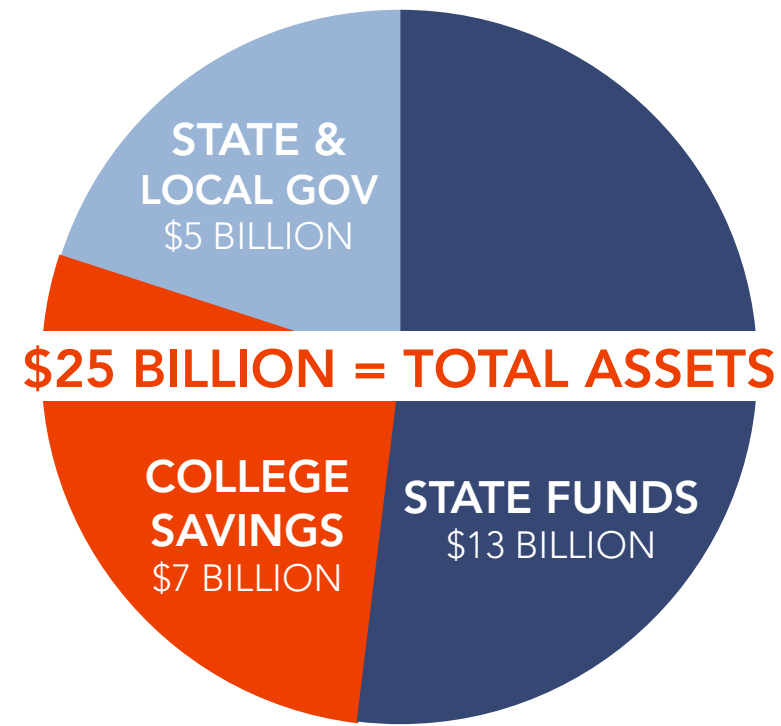


OPERATIONS – \$26.8 MILLION

170 EMPLOYEES

STATE UNIVERSITIES RETIREMENT SYSTEMS

\$197 MILLION TRANSFER IN FY15



\$748 MILLION IN REVENUE GENERATED

(that's nearly \$28 for every \$1 spent!)



SNAPSHOT OF PROGRAMS

WORKING FAMILIES INITIATIVE

As the state's Chief Investment Officer, Treasurer Frerichs will leverage our investments to not only earn strong returns for the people of Illinois, but also create good-paying jobs that help families and communities rebuild the American Dream.

Under the direction of Treasurer Frerichs, the Treasurer's Office will leverage existing state programs and investments to give communities and families the tools to build a thriving household, send their children to college, and save for a secure retirement.

Building off this premise, the Working Families Initiative will identify ways to reach more Illinoisans, better understand their needs, and provide opportunities to help put everyone in a position to succeed.

CHARITABLE TRUST STABILIZATION FUND

The Charitable Trust Stabilization Fund awards grants to 501(c)(3) organizations incorporated in the state of Illinois with special attention to non-profit corporations with operating budgets up to \$1 million that are located in economically depressed areas of the state. In an effort to help these organizations prosper, grants of up to \$25,000 can be allocated for operating or start-up expenses to non-profit institutions focused on health and human services, community and economic development, and arts and culture.

COLLEGE SAVINGS

The Treasurer's Office manages two 529 college savings plans: Bright Start and Bright Directions. Both plans are designed as "qualified tuition programs" under Section 529 of the Internal Revenue Code of 1986. Currently, 390,000 residents hold a Bright Start or Bright Directions account. Many families use Illinois' college savings plans to invest in their children's education beyond high school. These plans are critical to raising wages and living conditions for everyone because educational attainment is the best predictor of employability. Under the Illinois 529 college savings plans, investments grow tax-free as long as withdrawals are used to pay for higher education expenses. Illinois residents also enjoy additional tax benefits.

E-PAY

Local governments and state agencies use E-Pay to offer their constituents easier, faster payment choices. E-Pay participants can choose to accept credit cards, bankcards and/or electronic check payments online, by phone, or in person, making it more convenient for residents to do business with various entities. The service is provided by the Treasurer's Office to more than 650 local governments and state agencies in Illinois, including elected county officials, county treasurers, cities and villages, schools, libraries, parks and recreation facilities, sewage treatment districts, sanitation districts, community colleges, and universities.

ILLINOIS FUNDS

The Illinois General Assembly created the first local government investment pool in 1975 so communities statewide could invest their money together to earn greater returns. Today, the pool is called the Illinois Funds, and its portfolio holds over \$5 billion in assets. It is designed to ensure the safety of principal, provide liquidity to pay obligations, and provide the highest investment return for the state using authorized investment instruments. With the additional funds earned for communities, it provides more support, services, and stability for local families.

LINKED DEPOSITS

Linked Deposits allow the Treasurer's Office to partner with approved Illinois financial institutions to provide loans at reduced interest rates to Illinois businesses, farmers, and veterans.

These deposits are "linked" because government funds are deposited with banks at a below market rate with the understanding that the banks will lend money at reduced interest rates to qualified Illinoisans. Currently, Agricultural Invest is the most widely utilized linked deposit program in the Treasurer's Office.

- **AGRICULTURAL INVEST**

A program designed to provide low-interest loans to farmers through linked deposits to participating lenders. There are two options for the loans: Annual Ag Invest and Long-Term Ag Invest. These loans can help Illinois farmers pay the annual start-up costs associated with seed, fertilizer, crop insurance, equipment, and other expenses. Ag Invest, which has enjoyed great success over the years, was established in 1983 and has provided over \$1 billion in loans.



SECURE CHOICE

Signed into law on January 4, 2015, the Illinois Secure Choice Savings Program Act creates an automatic enrollment deduction IRA with the intent of promoting greater retirement savings for private-sector employees in a convenient, low-cost manner. The new program allows employers that do not currently have a qualifying alternative retirement program to set up an automatic retirement savings plan for their employees. The implementation of Secure Choice will begin in 2017. (Public Act 98-1150)

TECHNOLOGY DEVELOPMENT ACCOUNT

Technology Development Accounts (TDA) allow the Treasurer to invest a percentage of the state's portfolio to attract, assist, and retain quality technology businesses in Illinois by placing funds with Illinois venture capital firms. TDA I allows an investment of up to one percent of state assets, while TDA II allows up to two percent of state assets. The funds in these accounts are invested to provide venture capital to technology businesses seeking to locate, expand, or remain in Illinois. In addition to investing in high-growth industries and boosting the state's economy, TDA investments supported and created jobs to put Illinois families to work.

UNCLAIMED PROPERTY

The Unclaimed Property Program, known as I-Cash, is one of the state's oldest consumer protection programs, dating back to 1962. The State Treasurer's I-Cash program safeguards more than 14 million properties valued at approximately \$2.1 billion. Under Illinois law, the Treasurer's Office is the custodian of unclaimed property, which includes lost bank accounts, insurance policy proceeds, forgotten safe deposit boxes, stocks, bonds, mutual funds, bill overpayments, and other recovered property. Our goal is to reunite Illinois families with their assets and family mementos. When unclaimed property is received, it is deposited into the Unclaimed Property Trust Fund, and later excess funds are transferred to the State Universities Retirement Systems (SURS) to help pay the state's pension obligations.

Cream of the Crop Photo Contest 2015 Winning Photos





EDUCATION. ACCESS. OPPORTUNITY.

Over the next four years, Treasurer Frerichs will focus on existing programs to:

- Provide tools to working families to help them strengthen their financial footing through education, access, and opportunity.
- Educate Illinois families on building wealth through financial literacy programs.
- Promote access to traditional banks and lending products in underserved communities in order to help lift them out of poverty and protect them against predatory lending.
- Support opportunities for job creation and economic development through public private partnerships like Technology Development Accounts and AgInvest that help promote a stronger, more diverse economy.



"BY EXPANDING FINANCIAL EDUCATION, ACCESS, AND OPPORTUNITIES TO ALL ILLINOISANS, I BELIEVE THAT WE CAN PROVIDE A STRONG FOUNDATION ON WHICH TO BUILD ILLINOIS' ECONOMIC FUTURE - MAKING OUR STATE A BETTER PLACE TO GET AN EDUCATION, WORK, AND RAISE A FAMILY."

-MICHAEL W. FRERICHS, ILLINOIS STATE TREASURER

RESTORING TRUST AND INTEGRITY IN GOVERNMENT

ACTION

Engage an audit firm to conduct a top to bottom review to improve overall performance and effectiveness in the Treasurer's Office.

PROGRESS

On January 12, the Treasurer's Office engaged Plante Moran, a well-respected Midwest accounting and consulting firm, to conduct a thorough review of the Treasurer's Office to identify ways to increase efficiency, effectiveness, and reduce costs. The performance review was at no cost to the state.

The performance review helped to determine:

- modifications to management and reporting structure
- enhancements to existing programs
- updates to information technology
- improvements to internal controls
- how investments could be enhanced

NEXT STEPS

The Treasurer's Office will continue to examine processes and work towards implementation of the recommendations identified in the performance review conducted by Plante Moran.

ACTION

Prohibit campaign and political activities in the Treasurer's Office.

PROGRESS

Treasurer Frerichs took swift action to ensure a safe, professional, and harassment-free workplace for all employees.

On January 31, 2015, Treasurer Frerichs signed Executive Order 15-01 to protect government employees from being pressured into conducting campaign work.

The order empowers the Treasurer's Inspector

General to pursue allegations of violations, with penalties up to and including termination of employment. The new Bill of Rights also bans campaign donations by employees to campaign committees whose purpose is to promote the candidacy of Michael Frerichs.

ACTION

Treasurer Frerichs is committed to transparency and wants to ensure the public has access to his schedule and stays informed about Treasurer's Office programs, events, and initiatives.

PROGRESS

The public schedule of Treasurer Frerichs is posted at www.illinoistreasurer.gov.

In April 2015, Treasurer Frerichs launched a new e-newsletter. The newsletter will be distributed monthly to hundreds of thousands of Illinoisans. To join our email list, visit www.illinoistreasurer.gov.

ACTION

Engage the Governor, Comptroller, and Illinois General Assembly to merge the Treasurer's Office and Comptroller's Office to save taxpayer dollars, increase efficiency, and eliminate redundancies.

PROGRESS

Since the Constitutional Convention of 1970 that created the Illinois State Comptroller's Office, there have been multiple unsuccessful attempts to combine the offices of the Treasurer and Comptroller.

During the first 100 days, Treasurer Frerichs has worked with members of the Illinois General Assembly on pending legislation to merge the two offices. Treasurer Frerichs has started conversations with consultants to identify cost savings and how the merger can be achieved.

"THE PUBLIC SHOULD BE CONFIDENT THAT WE ARE LOOKING AT EVERY OPPORTUNITY TO STREAMLINE PROCESSES, IMPROVE SERVICES, AND SAVE TAXPAYER DOLLARS."

**-MICHAEL W. FRERICHS,
ILLINOIS STATE TREASURER**

PERFORMANCE REVIEW HIGHLIGHTS

Plante Moran recommendations:

- Overhaul failed, "clout-heavy" internship program
- Develop controls over college scholarship awardees
- Establish stronger security controls to prevent theft and protect unclaimed property
- Consolidate home-based workers to increase efficiency and save money

Plante Moran Performance Review and List of Recommendations on Page 31



FIGHTING FOR WORKING FAMILIES

ACTION

Conducted a review of the 529 college savings programs, “Bright Start and Bright Directions” which are both critical to creating opportunities for children and strengthening the economy, to develop a more transparent bidding process, provide more access, and improve program oversight.

Treasurer Frerichs is working to increase participation in college savings programs.

“WE WANT TO ATTRACT A TALENTED, DIVERSE GROUP OF FINANCIAL EXPERTS TO MANAGE THIS PROGRAM THAT ALLOWS FAMILIES FROM ALL SOCIO-ECONOMIC BACKGROUNDS TO SAVE MONEY FOR THEIR CHILD’S EDUCATION.”

MICHAEL W. FRERICHS, ILLINOIS STATE TREASURER

PROGRESS

Treasurer Frerichs issued a Request for Proposal (RFP) for financial firms interested in managing the Bright Directions programs. The RFP included a weighted criteria for bidders who are Illinois-based, minorities, women, veterans, and/or persons with disabilities.

Treasurer Frerichs sent a letter to the editor to newspapers across the state to encourage the United States Senate to join the United States House of Representatives in support of House Resolution 529. The proposal would expand qualified expenditures beyond tuition to include education-related technology such as computers, roll back unnecessary paperwork, and allow refunds from school to be re-deposited into the 529 accounts. These

STRONG INVESTMENT RETURNS OF TREASURER’S OFFICE COLLEGE SAVINGS PROGRAM

| ASSET GROWTH | | | | | |
|----------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------|
| | Q2 2014 | Q3 2014 | Q4 2014 | Q1 2015 | Growth |
| Bright Start Direct | \$ 3,322,687,685 | \$ 3,305,194,867 | \$ 3,501,070,768 | \$ 3,645,566,027 | 9.7% |
| Bright Start Advisor | \$ 1,883,953,469 | \$ 1,846,304,430 | \$ 1,910,452,613 | \$ 1,955,259,417 | 3.8% |
| Bright Directions | \$ 1,668,168,412 | \$ 1,656,713,551 | \$ 1,756,568,433 | \$ 1,844,785,783 | 10.6% |
| TOTAL | \$ 6,874,809,566 | \$ 6,808,212,848 | \$ 7,168,091,814 | \$ 7,445,611,227 | 8.3% |

| ACCOUNT GROWTH | | | | | |
|----------------------|----------------|----------------|----------------|----------------|-------------|
| Accounts | Q2 2014 | Q3 2014 | Q4 2014 | Q1 2015 | Growth |
| Bright Start Direct | 141,809 | 143,702 | 148,741 | 151,884 | 7.1% |
| Bright Start Advisor | 81,092 | 81,387 | 82,421 | 82,999 | 2.4% |
| Bright Directions | 92,784 | 95,339 | 98,754 | 101,416 | 9.3% |
| TOTAL | 315,685 | 320,428 | 329,916 | 336,299 | 6.5% |

changes will make college more attainable for our children, grow our economy, and attract good-paying jobs to Illinois.

NEXT STEPS

The Treasurer’s Office is drafting a new outreach/marketing plan for the college savings programs to ensure families from every socioeconomic background are getting the information needed to start saving for their children’s college. For as little as \$25, you can accelerate the path to higher education and employability for your loved ones through Bright Start or Bright Directions.

The Treasurer’s Office will:

- Commit to partnering with parent groups and organizations to increase program participation
- Target companies willing to match employee contributions for college savings
- Increase grassroots efforts to maximize success
- Train outreach staff to effectively communicate the benefits of these college savings programs

ACTION

Overhaul the college savings scholarship program to ensure transparency in how the scholarships are awarded.

PROGRESS

Currently, the college savings scholarship program is under review due to lack of basic rules governing record keeping, management, and distribution of scholarships. Since the program started in 2004, 345 scholarships have been distributed. The scholarship program peaked in 2006 when 83 scholarships were awarded totaling \$108,000. In 2014, there was only one scholarship awarded. The average age of scholarship

SINCE 2004:

345

scholarship accounts distributed

average age of beneficiaries is

17

average scholarship award

\$1,536

scholarships totaling

\$529,825

beneficiaries is 17, however there are a number of beneficiaries that are beyond 24 years of age who have yet to claim funds. In fact, there are two beneficiaries over the age of 27 who are holding accounts with untouched principal.

Prior to Treasurer Frerichs taking office, scholarship recipients received little or no direction from the Treasurer’s Office, and the process by which the scholarships were awarded lacked transparency.

NEXT STEPS

The scholarship program will be placed on hold until it can be determined that the scholarships can be awarded in a fair and transparent manner. New policies and procedures will be outlined to produce a successful program that helps ensure college is attainable for Illinoisans.

ACTION

Increase financial independence for Illinois families concerned about the security of loved ones suffering from disabilities.

PROGRESS

Treasurer Frerichs is working with the Illinois General Assembly on legislation for “Achieving a Better Life Experience” (ABLE). The program, which is similar to the college savings model, aims to ease financial strains faced by individuals with disabilities by making tax-free savings accounts available to cover qualified expenses such as education, housing, and transportation.

The legislation comes after the federal government passed the Achieving a Better Life Experience Act of 2014 with bipartisan support. States are required to pass enacting legislation to establish ABLE accounts. The Treasurer’s Office would be responsible for creating ABLE accounts in accordance with federal rules and regulations.

ACTION

Promote access to traditional banks and lending products in underserved communities in order to help lift them out of poverty and protect them against predatory lending. Many local community banks have chosen to close their doors in low-income neighborhoods and larger banks have yet to fill in the gaps. As a result, many people are left with access to only usurious non-bank financial services, such as check cashing stores or pay-day lenders.

PROGRESS

A Banking Desert Advisory Committee consisting of financial professionals and policy experts was created to address unbanked or underbanked communities and individuals in Illinois. Banking Deserts are areas without access to banking and financial services aimed at building credit. The goal is to reduce banking deserts and encourage banks to move into underserved communities. Providing access will give the underbanked population an opportunity to create savings plans, build credit, and become more financially educated.

ACTION

Developed new standards and procedures to ensure compliance with the Community Reinvestment Act (CRA) which were incomplete. The Treasurer's Office will no longer commit state funds to financial institutions that do not support the local communities in which they operate.

The CRA is designed to ensure that lending institutions treat all communities with dignity and fairness. It is also intended to encourage depository institutions to help meet the credit needs of the communities in which they operate, including low- and moderate-income neighborhoods, consistent with safe and sound banking practices.

PROGRESS

The Treasurer's Office recently updated its Investment Policy to ensure that consideration is given to financial institutions' record and current level of financial commitment to its local community when deciding whether to deposit State funds.

A new system has been established to set a standard for financial institutions to qualify for state deposits. Only financial institutions subject to CRA, with a CRA rating of "outstanding" or "satisfactory," will qualify for state deposits. This helps create an added incentive for banks and lenders to play an active role in the economic well-being of their local communities.

NEXT STEPS

The Treasurer's Office is also developing a new process by which members of the public can quickly communicate and provide feedback to the Treasurer's Office regarding a financial institution's compliance with their community reinvestment responsibilities. The Treasurer's Office has also instructed the Investment Policy Committee to develop standards and procedures to ensure that banks receiving investment money from the Treasurer's Office are in compliance with the law.

ACTION

Provide recommendations on the size, rules, and procedures for the Treasurer's I-Cash Program to improve the results on reuniting Illinoisans with old bank accounts, unclaimed insurance benefits, uncashed refund checks, family mementos, and other unclaimed property.

PROGRESS

The Unclaimed Property Division has undertaken a comprehensive review and recommended major changes to streamline the process for claiming property. The recommendation is to establish an e-claiming system that will allow most Illinoisans to complete and verify their claims online, while also providing program managers the opportunity to better monitor caseloads, improve efficiency, and enhance transparency. The comprehensive review, which includes Treasurer's Office staff and stakeholders, revealed a preliminary recommendation to shift marketing resources to a digital format to better inform the public.

The Treasurer's Office is intensifying its efforts to reach out to businesses and non-profit organizations whose recovered property is in our care. Our program goal is to reunite unclaimed property with its rightful owners. Examples of this effort include:

- Identification of more than three dozen human service organizations impacted by state budget cuts that have unclaimed property in our care. The Treasurer's Office is working to return it as quickly as possible.
- The new business outreach manager is working to reunite approximately 10,000 businesses with recently reported property waiting to be claimed.
- Partnering with Catholic Conference of Illinois to reunite hundreds of properties with non-profits, schools, churches, hospitals, and other affiliates. The Treasurer's Office is also planning an outreach effort this summer targeting parishioners across the state.

NEXT STEPS

Requests for Proposals are pending for a modernized I-Cash database system, with concurrent legislative changes being sought to enable e-claiming. New online and radio advertising to launch in May 2015, which will be sustained throughout the year to reach an audience of 1.1 million per month.

The Treasurer's Office will continue to pursue partnerships with associations of non-profits, businesses, and local elected officials to reunite the more than 14 million properties valued at approximately \$2.1 billion.





ACTION

Review the Treasurer's Financial Literacy Programs to ensure effectiveness when educating families on building wealth. The goal is to use new, innovative ways to teach people of all ages how to best manage their money, create generational wealth, and plan for their future.

PROGRESS

When Treasurer Frerichs took office, the two programs in the Financial Education Division aimed at enhancing financial knowledge and security were dormant. Previous financial education efforts did not adequately address financial literacy and opportunity. Within the first 100 days of taking office, Treasurer Frerichs reviewed the financial education programs, particularly the outreach and management structures, and the office is now in the initial stages of implementing a statewide financial literacy and opportunity model.

NEXT STEPS

Following the review of the financial education programs, Treasurer Frerichs is working to develop a statewide financial literacy and opportunity network to better deliver financial services to all Illinoisans.

Under the plan, Treasurer Frerichs, in coordination with Chicago Treasurer Kurt Summers and other leaders across the state, will build a comprehensive financial education and access network that can coordinate a statewide effort to address a wide range of financial issues in Illinois, including household budgeting, debt, credit, retirement saving, and investment. The Treasurer's Office would partner with existing non-profit organizations, local government entities, and community leaders to make financial resources more available and user-friendly to the public. A web portal would also be created to serve as a one-stop shop for important updates and information.

MAKING WISE INVESTMENTS TO STRENGTHEN ILLINOIS' PORTFOLIO

ACTION

Diversify the state's portfolio with dependable investments that mitigate risk, ensure the safety of principal, and earn strong returns for taxpayers.

PROGRESS

The Treasurer's Office updated the State Portfolio Investment Policy to include Illinois-based taxable municipals, such as interest-bearing bonds issued by counties or municipalities, and local public authorities. This enables the Treasurer's Office to actively invest in and support the growth of local communities.

The Treasurer's Office updated the State Portfolio Investment Policy to incorporate agencies and instrumentalities of the United States, which include federal land banks, federal intermediate credit banks, bank cooperatives, federal farm credit banks, and federal home loan banks, among others. This enables the Treasurer's Office to add further diversification and soundness to the investment portfolio, as well as offer an opportunity to actively invest in promising new sectors.

INVESTMENT EARNINGS (JANUARY-MARCH 2015)

| REVENUE SOURCE | JAN. 2015 | FEB. 2015 | MARCH 2015 | TOTAL |
|--------------------|--------------|--------------|---------------|---------------|
| ESTATE TAX | \$21,848,792 | \$39,146,422 | \$24,971,237 | \$85,966,451 |
| CIRCUIT CLERK | \$6,320,857 | \$7,766,764 | \$9,223,198 | \$23,310,819 |
| UNCLAIMED PROPERTY | \$13,926,675 | \$11,144,417 | \$70,053,898 | \$95,124,990 |
| TOTAL | \$42,096,324 | \$58,057,603 | \$104,248,333 | \$204,402,260 |

| INVESTMENT PROGRAM | EARNINGS (GROSS) | | | |
|--------------------|------------------|-------------|-------------|--------------|
| | JAN. 2015 | FEB. 2015 | MARCH 2015 | TOTAL |
| STATE PORTFOLIO | \$4,214,710 | \$4,029,231 | \$4,298,069 | \$12,542,010 |
| ILLINOIS FUNDS | \$416,143 | \$324,742 | \$452,915 | \$1,193,800 |
| TOTAL | \$4,630,853 | \$4,353,973 | \$4,750,984 | \$13,735,810 |

INVESTMENT EARNINGS + REVENUES: \$214.9 MILLION IN TOTAL INCOME

ACTION

Conduct a comprehensive evaluation of Technology Development Accounts to determine best practices for investments in start-up or growing technology businesses.

In 2005, the first Technology Development Account (TDA I) was established to help spur growth in Illinois' technology sector by allowing up to one percent of the state's investment portfolio to be used in Illinois-based capital funds.

In 2011, the Treasurer's Office was given authority to establish a second fund, allowing up to two percent of the state's investment portfolio to be invested in Illinois-based capital funds, in addition to what has already been invested in TDA I. The second Technology Development Account (TDA II) stipulates that if a capital fund receives TDA II funding, it must make an investment twice that size into Illinois technology companies. Under the previous administration, a decision was made not to implement the program.

PROGRESS

The Treasurer's Office, in accordance with generally accepted accounting principles, is responsible for making fair valuations in our annual financial statements. As part of fulfilling our fiduciary responsibility, the Treasurer's Office has begun discussions on reporting our technology development accounts at fair value in upcoming annual financial statements and disclosures.

In addition, the Treasurer's Office has hosted meetings with the Illinois Venture Capital Association to gain industry insight and communicate the status and development of the investment program.

NEXT STEPS

The development of the Request for Proposal for the management of TDA II is underway and is expected to be released in summer 2015. Once implemented, the program is expected to bring in additional revenues to the state and further diversify the state's portfolio. Additionally, it would provide more capital into Illinois-based businesses.



PROVIDING OPPORTUNITIES FOR ILLINOIS BUSINESSES

ACTION

Improve access to business opportunities within the Treasurer's Office.

PROGRESS

On February 15, the Treasurer's Office issued a Request for Proposal (RFP) seeking a firm that would be responsible for administering the Bright Directions 529 college savings program. The RFP included weighted evaluation factors for bidders whose companies are Illinois-based and has employees making investment decisions that include minorities, women, veterans, and/or persons with disabilities. Illinois is believed to be the first state in the country to include such a request in a 529 plan RFP.

ACTION

Creating more opportunities for business growth to veteran-owned companies.

PROGRESS

Veteran-owned companies are now included within

underrepresented firms targeted for business opportunities within the Treasurer's Office. Veteran-owned firms are now accorded preference in the Treasurer's Office. Previously, only disabled-veteran owned firms were given preference.

- Created a questionnaire, new guidelines, and certification process for minority, woman, veteran, and disabled-owned firms to better navigate the experience and pursue business transactions.
- Appointed a liaison to assist minority, woman, veteran, and disabled-owned firms in navigating the process of doing business with the Treasurer's Office.
- Conducted a comprehensive review of assets brokered over the last 3 years with minority, woman, veteran, and disabled-owned firms to assess utilization rates and establish benchmarks.

NEXT STEPS

Treasurer Frerichs is working to increase business opportunities for minority, woman, veteran, and disabled-owned companies.

ENHANCING CORE POLICIES AND PRACTICES

ACTION

Create efficiencies and enhance internal operations and processes.

PROGRESS

The Treasurer's Office has performed a comprehensive review of all pertinent investment policies, including those related to the Illinois Funds, the College Savings Program, state agency investments, and the state portfolio to ensure that all policy guidelines properly correspond with sound and innovative investment practices as well as the administration's vision for a more inclusive and prosperous Illinois. Changes to relevant investment policies have also been published online and in local newspapers to enhance transparency and public awareness.

To ensure that staff and operating costs are properly monitored, accounted for, and allocated through the appropriate fund, the Treasurer's Office has implemented a number of enhancements to the cost allocation system. Under Treasurer Frerichs, cost allocations are now (1) reviewed on a quarterly basis (as opposed to annually), (2) subject to the approval of executive management, and (3) required to be documented/justified in a written submission. These changes are designed to strengthen transparency, accuracy, and accountability.

In addition, the Treasurer's Office recently established a Credit Risk Analysis Unit to provide enhanced expert-level support in anticipating, identifying, and mitigating credit risk exposure to the office's investment portfolio.

Lastly, the rate of return achieved on the Treasurer's investment portfolio is measured at regular intervals against relevant industry benchmarks to determine the effectiveness of investment decisions in meeting office objectives. Since coming into office, Treasurer Frerichs has launched a detailed examination of all pertinent benchmarks to ensure accuracy and relevance, which had not been conducted in four years. Finally, Treasurer Frerichs updated operating policies to ensure that benchmarks are evaluated at a minimum of every two years.

NEXT STEPS

After performing a comprehensive review of various investment-related operations, the Treasurer's Office has developed and implemented a number of standard operating procedures in areas where efficiency was lacking or delegation of duties was unclear. New operating procedures, which lay out specific objectives, guidelines, and staff duties, will help create efficiencies, streamline activities, and optimize program execution.

The Treasurer's Office has launched a new strategic planning process for investment operations, engaging division directors and program managers in a coordinated effort to (1) clearly outline specific tasks and priorities for the coming months and years, (2) determine a clear, actionable approach and timetable to execute each of these tasks, and (3) identify innovative strategies, new technologies, and new potential projects to help overcome challenges and enhance office operations. Not only will this process enhance coordination and create efficiencies internally, but it will further ensure the execution of key priorities that serve the people of Illinois.



PLANTE MORAN PERFORMANCE REVIEW SYNOPSIS

When Treasurer Frerichs took office, his first action item was bringing in a reputable firm to perform a top-to-bottom review to improve overall performance and effectiveness of the Treasurer’s Office.

Plante Moran, a large, Midwestern based accounting and consulting firm with offices in Illinois, Michigan and Ohio, took on this task at no cost to the state. The firm is ranked 13th nationally in size and 6th largest in the state of Illinois. The company specializes in various industries, including government. It has a deep understanding of the unique accounting, financial, operational, and technology needs of government organizations.

Plante Moran’s performance review focused on four aspects of the Illinois Treasurer’s Office:

- Organizational review
- Technology review
- Internal controls review
- Investment review

After a thorough review of the Treasurer’s Office, Plante Moran provided the following conclusions.

CONCLUSIONS

In general, State Treasurer functions appear to meet the expectations that are defined in program material and statutory mandates. Internal audit reports had identified some exceptions to this that had not been sufficiently resolved in previous years. We recommend resolution of previously identified internal audit findings. In addition, our review uncovered some additional items that were not included in an internal audit report. Samples of internal audit and additional issues include:

- College savings scholarship program has several inadequacies including lack of rules outlining eligibility, no formal policy to guide how the State Treasurer communicates with recipients, and no clear guidelines outlining how the Treasurer should manage the scholarship accounts.
- Unclaimed property internal audit findings related to non-compliance with statutory requirements and administrative codes were reported in four separate instances in reports dating as far back as 2005.

- Inventory of unclaimed property safe deposit boxes were an average of 118 days beyond the 180 day target established internally.
- Video from security cameras is insufficient due to location of cameras. Sections of the unclaimed property vault are not within range of security cameras, leaving some inventory out of sight. Security cameras should be replaced and located to adequately record all vault inventory.
- Repeat findings related to the paid Internship Program (lack of formal job descriptions, inadequate supervision, questionable program expenses, inaccurate time sheets, excessive expense claims, travel voucher processing errors, etc.) could not be observed, as the program has yet to be activated during the current administration.
- Home-based community affairs employees lack adequate supervision, incur higher travel reimbursement costs than office-based employees, and are not geographically located effectively.

In addition, there are a number of improvement opportunities that the State Treasurer can take that will transform the State Treasurer to a best practice. Recommendations include:

- Align organizational structure according to complimentary functions in order to improve productivity through cross-functional planning.
- Institutionalize the importance of measuring work productivity, resources, and quality. Use these metrics to evaluate program effectiveness and efficiency.
- Improve the documentation of policies and procedures so that work expectations can be clearly communicated to employees to help ensure standardization.
- Develop common marketing and communications strategy so that interactions with various constituents become better coordinated.
- Develop overall IT strategic plan and governance structure and integrate technology systems both within State Treasurer and among other state agencies, where appropriate.
- Become actively engaged in the State ERP discussion, as such a system could replace or enhance many data systems that have been developed internally over the years.
- Create mechanisms to ensure resolution of internal audit findings. In addition, transform internal audit philosophy from a traditional approach to a risk-based one to increase the organization’s focus on operations that have greater overall risk.
- Additional recommendations are identified throughout the report.

Find a PDF of Plante Moran’s Performance Audit Report on our website at:

www.illinoistreasurer.gov



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