

Office of Illinois State Treasurer: Performance Review

RECOMMENDATIONS | APRIL 2015

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Management Summary

PROJECT SCOPE AND OBJECTIVES

The State Treasurer engaged Plante Moran in a performance review of various Office functions. The intent is that this report be used by the State Treasurer to prioritize areas in which he may focus organizational efforts for potential improvement. To achieve this objective, the Plante Moran team engaged staff of the State Treasurer and other key stakeholders and researched policies and structures of other comparable treasury operations in other states. Our primary method involved interviews and document research as well as utilization of questionnaires and staff surveys to assist with data gathering and analysis.

The scope of the engagement included a focus on four aspects of the Office:

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

The focus was strictly on operations of the Office and not on policy – we did not examine or advise the State Treasurer on whether a program should exist but we did examine the extent to which a program meets its stated goal and identify risks associated with the program. In addition, we did not review the State's financial situation or cash position, which is well-documented.

PROJECT APPROACH

The Plante Moran team of consultants received and reviewed several key documents. Key documents reviewed included:

- Draft organizational structure and position list
- Internal audit reports and supporting documents
- Office budget (FY 2015)
- Technology plan
- Department summary information
- Transition Document 2014, prepared by former Treasurer Dan Rutherford

The Plante Moran team also had one-on-one interviews with several managers and supervisors to gain insight into key issues and concerns. The majority of those interviewed were appointees and the majority of interviews occurred on-site at either the Thompson Center in Chicago or the Monroe Building in Springfield. Some individuals interviewed may have changed roles over the course of the engagement. Those interviewed included:

- Jay Rowell, Deputy Treasurer
- Justin Cajindos, Chief of Staff
- Aimee Pine, Deputy Chief of Staff for Human Resources
- Tracy Rutter, Deputy Chief of Staff of Procurement
- Dave Clarkin, Deputy Chief of Staff of Public Affairs

- Roxanna Hollenstine, Deputy Chief of Staff of Unclaimed Property and Compliance
- Keith Horton, General Counsel and Ethics Officer
- Zach Koutsky, Senior Advisor to the Treasurer
- Debbie Price, Chief Information Officer
- Rodrigo Garcia, Chief Investment Officer
- Mark Polistina, Director of Investments/ Illinois Funds
- Liz Turner, Director of State Portfolio/ Banking
- Julian Federle, Chief Policy and Programs Officer
- Randall Welsh, Director of College Savings
- Chasse Rehwinkel, Director of Policy
- Barb Ringler, Chief Internal Audit
- Additional technology and internal audit employees

After information was gathered and organizational documents reviewed, issues and opportunities were shared with the State Treasurer and appointed leadership in a visioning session on March 26th.

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:

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- 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 this report.

It has been a pleasure for Plante Moran to work with the State Treasurer and his staff in this engagement. We wish the Treasurer and his staff well as they continue to serve the public in their important functions.

Organizational Assessment

One of the issues that the State Treasurer requested evaluation is the organizational structure and roles/responsibilities of employees. This was to identify potential opportunities for improvement. Plante Moran consultants interviewed department leadership and other key staff to determine employee responsibilities, key constituency and customer base for program delivery, services costs, and workload measures. In addition, Treasury offices in other states were examined to identify whether staffing levels are comparable.

SUMMARY

The Office of the State Treasurer is an elected office in Illinois and is responsible for a number of constitutional duties, statutory duties, and some discretionary services. Some responsibilities are uncommon among comparable offices in other states.

The Office of the State Treasurer has 170 employees. The majority of employees are full time although some are contractual employees. The Treasurer has just four employees who report directly him including the Deputy Treasurer, the Senior Advisor to the Treasurer, an Executive Assistant, and the Chief Internal Auditor. All remaining employees report either directly or indirectly to the Deputy Treasurer through five major divisions:

- **Chief of Staff**, including several internal service operations (human resources, procurement, etc.) as well as the unclaimed property program;
- **General Counsel**, responsible for all legal issues for the Office;
- **Technology**, as described in detail in another section of this report;
- **Investments**, including banking and portfolio management; this division also includes internal service operations such as budget, accounting, and warrants;
- **Policy and Programs**, which includes the majority of program management as well as all policy analysis and legislative development;
- Additional employees reporting to the Deputy Treasurer include communication and special events.

The State Treasurer has multiple locations – the majority of employees are in the Monroe building in Springfield, the Myers building in Springfield, or the Thompson Center in Chicago. The State Treasurer also has an office at the State Capitol. A handful of additional employees work from a home office.

ORGANIZATIONAL FINDINGS

Misalignment of Services

Work units are not currently structured in a manner that allows for similar functions to complement one another. During our interviews, staff shared frustrations related to event planning, community outreach, and external communications. In one example, employees met at a community event, unaware that both had targeted the same audience.

As we examined the organizational structure, we identified that five different director-level positions are responsible for one or more facets of community outreach/ external communication. From a constituent perspective, this can lead to a confusing interaction with the State Treasurer, as each program has different contact information, different material branding, and different standards for responsiveness.

There are two additional areas of concern related to organizational design. First is internal services. Under the current arrangement, human resources and procurement report to the Chief of Staff, while budget and accounting report to the Chief Investment Officer and technology is managed independently. Under an ideal arrangement, these functions would be jointly managed and subject to a common strategic planning framework. Second is program management. Currently, all programs report to the Chief Policy and Programs Officer with one exception: unclaimed property. An alternate design would have all programs managed and evaluated together.

Exhibit 1 on the following page depicts the State Treasurer's organizational functions within the current organizational design.

Data Availability

Throughout our engagement, staff shared ideas about improving operations. Plante Moran requested data to support the ideas that were shared but in most cases, appropriate data was not available. Measuring operational effectiveness, efficiency and service costs have not been a priority for the State Treasurer. Without this important information, it is difficult to differentiate success from failure.

Staff Skills

In general, Plante Moran found staff to be competent, knowledgeable, and professional. However, staff also conveyed that their training opportunities have been limited. While not an issue today, we note that staff capabilities may be negatively impacted in the future if moderate investments are not made in skill maintenance.

Documentation is Limited

Staff policies and procedures were not readily available for review. Steps have already been taken by the Human Resources Director and the Chief Investment Officer to address this shortcoming. Their work product was not reviewed by Plante Moran as it was not completed at the time of this report.

Comparative Analysis

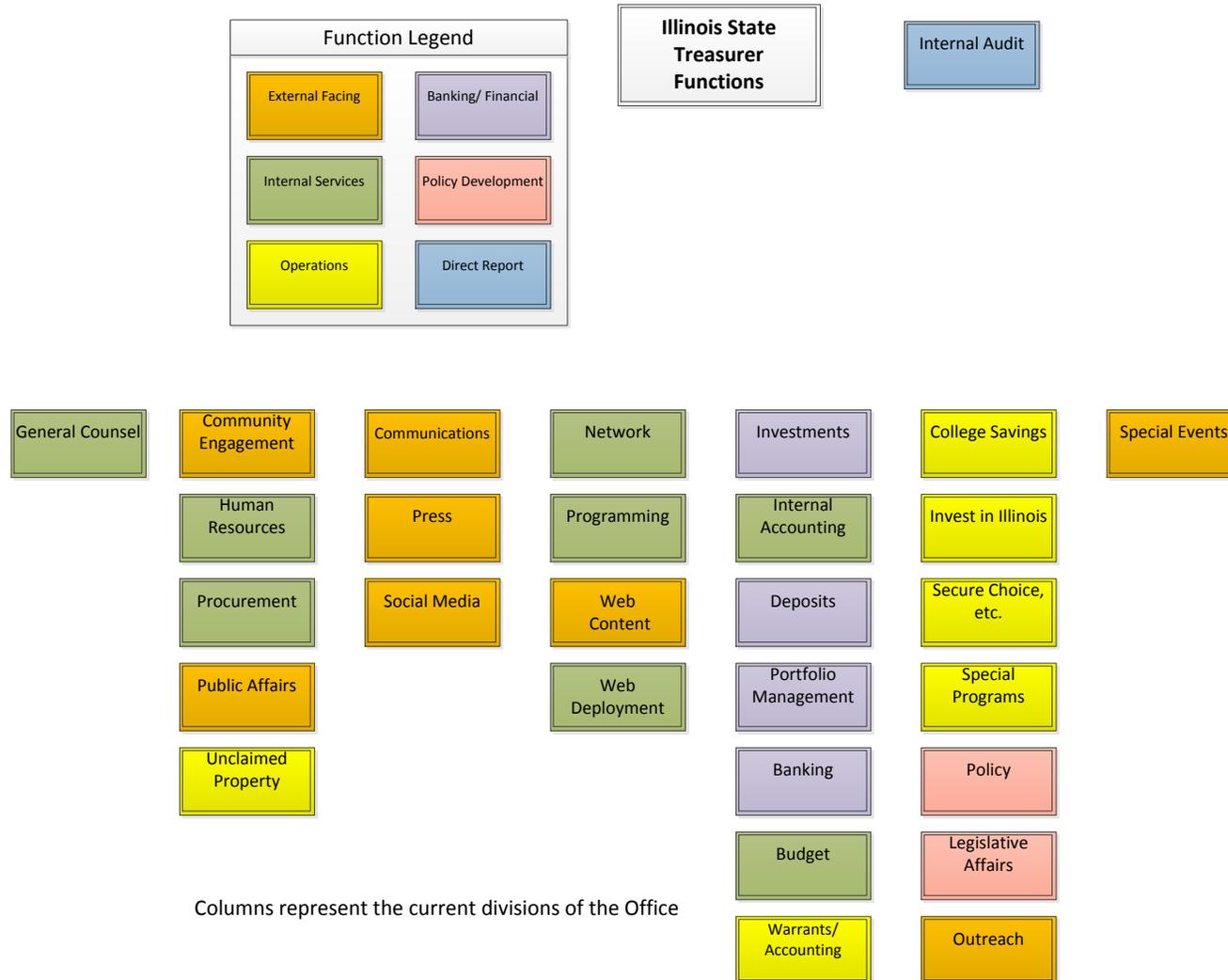
Plante Moran reviewed documentation published by the National Association of State Treasurers to identify whether programs or staffing levels for the programs in Illinois are comparable to other states. It is important to note that there is significant variance in responsibilities among states. For example, many state treasurers are responsible for tax management.

The findings from this analysis are limited. Staffing levels are in general comparable to other state treasury operations. Areas in which the State Treasurer may wish to consider increasing resources are cash management (currently one FTE) and investment (currently four FTE), as Illinois appears to have fewer employees dedicated to these functions than other states.

Remote Employees

Three community affairs employees work out of their homes. This arrangement was made under the previous administration as a replacement for community affairs employees who worked out of regional offices. These home-based employees lack adequate supervision, incur higher travel reimbursement costs than office employees, and are not geographically located effectively. Reportedly, community affairs employees have previously worked out of regional offices in state office buildings and local government office buildings in a rent free arrangement. The home-based arrangement results in an increase in travel expenses.

Exhibit 1: State Treasurer Organization by Functions



RECOMMENDATIONS

Measure What Matters

We recommend a thorough examination of all programs – both internal services and external services. However, doing so requires significant foundational work including a focus from leadership on accountability and a focus on the importance of measures in making business decisions.

We envision a standard “business plan” for each program. Examples from other governments can be found on-line, as the importance of instituting performance measures in government has been a priority of the Government Finance Officers Association and other national organizations for many years. We recommend a simple tool to begin – one that requires managers to focus only on the essentials for managing programs. Key elements would include:

- **Mandate/ Mission.** Why does this program exist? What constituency is being served? Is the program tied to a State mandate?
- **Resources.** How much is the service costing the Treasurer both in terms of human resources and financial resources?
- **Productivity.** What is being produced as a result of this program’s activity?
- **Quality.** How do we measure the success of this program? Are participants satisfied with the service? Are we achieving the change that was envisioned?

Once these key questions are answered for each program, we recommend the State Treasurer track measures annually and use that information to determine any modifications that are necessary within the organization. Evaluation of programs should occur prior to budget process so that resources can be directed to areas in which they will add the most value. Evaluating services annually will ensure wise investment of State resources.

Reorganize Reporting Structure

The State Treasurer should consider altering reporting structures so that similar services are jointly managed. Specifically, we recommend:

- Consolidate all externally facing functions into one division. This division’s purpose would be to simplify the experience that constituents have with the State Treasurer. It would include community engagement, outreach, events, communications, social media, and web content. Initially, this division would be responsible for implementing a consolidated marketing and communication strategy (see below).
- Manage all internal services jointly. This would help ensure alignment between budget, procurement, human resources, technology, and accounting. In addition, this division would be responsible for supporting the rest of the organization’s efforts to create and monitor business plans, as recommended above.
- Move Unclaimed Property to be managed under the same structure as other programs.

Marketing and Communication Strategy

The current state of marketing and public engagement is disjointed. In essence, a separate strategy is developed for each program as a need arises. The result is that materials do not share a similar style to brand the Office or convey priorities for the Office. As an example, individuals who contribute to a Bright Start account are not encouraged to search the iCash program for unclaimed property.

We recommend that the Treasurer examine the marketing and branding strategies for all programs with a goal of having a unified strategy that encompasses outreach, community engagement, special events, and program information. This would include all brochures, pamphlets, web content, social media, etc.

Each of the at-home employees perform community engagement. Currently, the standards, expectations and work requirements for these employees is different than others. We see no compelling reason or any documented benefits to sustain this arrangement. We recommend transferring the positions to one of the office locations to better support the marketing and communication strategy.

Improve Organization Fundamentals

A best practice operation has standards in place that enable consistency, predictability, and reliable information. We recognize significant steps that have been taken already to document policies and procedures. We observed that the Treasurer has engaged employees in various meetings and has increased communication to employees, including an employee bill of rights. We encourage the continuation and enhancement of these fundamentals.

Program Evaluation

The charitable trust grant program is one in which the State Treasurer can authorize grants to not-for-profit organizations. From our review, we find few controls in place that guide allocations to appropriate applicants. The standards for qualifying are poorly defined and the application process was unclear as were the reporting requirements. The enabling legislation prescribes the membership of the Charitable Trust Stabilization Committee and requires that it meet quarterly. This committee had not met during the course of our engagement.

Similarly, the State Treasurer has a college savings scholarship program (Bright Start Scholarship) that has insufficiently documented recipient requirements, insufficient controls, and no discernible governance structure to ensure that program requirements are being met. It is unclear what criteria were used in the selection of past recipients and how the selection process was managed. Of particular concern is that staff have been unable to identify any documentation related to the internal administration of the program. Despite awarding hundreds of thousands of dollars in scholarships since 2004, there remains no formal policy on how the State Treasurer must communicate with scholarship beneficiaries and there are no clear guidelines outlining how the accounts should be managed. Like the charitable trust grant program, the reporting requirements were also suspect, and it appears that some scholarships have even gone unclaimed for a period of several years. This program has been in gradual decline since 2006. Due to the number of issues identified during our brief review, we recommend that the State Treasurer put a moratorium on awarding any scholarships until a comprehensive review takes place and a governance structure is implemented.

Both programs were inactive during our review and did not have any allocations during the State Treasurer's tenure. The State Treasurer should consider eliminating both of these programs, as they are discretionary, and have significant risk due to the lack of controls – there appears to be little to prevent funds from being misappropriated. However, both can have significant public benefit if the controls are developed and enforced. If the Treasurer plans to retain these programs, we recommend that appropriate controls and oversight should be developed, approved, and published to ensure the transparency of the programs. As an alternative to developing these standards in house, the State Treasurer might consider partnering with a community foundation, United Way, or similar not-for-profit that administers similar programs. The Charitable Trust Stabilization Act allows for third party administration.

Technology Assessment

Plante Moran reviewed existing documentation to gain a comprehensive understanding of the State Treasurer's current technology environment. Examples included technology inventory, contracts, support agreements, license agreements, and the current technology plan that was adopted in 2003. We also conducted an online survey to identify satisfaction with services provided by IT and satisfaction with technologies in use within the State Treasurer's Office. The survey which was made available to all staff included questions in the following topic areas:

- Communication
- Service and Support
- General Technology
- Training

The survey results identified gaps between current and desired levels of service as well as gaps where current technology is not meeting the needs of a particular program. Concurrently, with the survey, Plante Moran performed the State Treasurer IT staff interviews to review their areas of support and other organizational, administrative and technology support components.

SUMMARY

The current State Treasurer IT management and staff are well respected throughout the organization. This has allowed the team to complete the current IT initiative of updating existing systems platforms to the latest technology. While this update was important to the ongoing operations of the existing systems, many of the systems are dated and are not integrated in a way that supports the State Treasurer's business objectives.

The current systems are serviceable, but will become outdated and may be considered a liability within 3-5 years. These systems are continuing to need enhancements to stay in alignment with the organizational priorities and are not taking advantage of industry best practices.

The IT team is strong although the systems are aging. The State Treasurer should look to get a better return on investment in technology by:

- Taking advantage of market best practices and systems,
- Integrating/ replacing core systems and processes to maximize the use of data,
- Aligning the IT department to gain greater internal efficiencies, and
- Improving the constituent facing technology.

Plante Moran suggests the following approach for improving the current systems and processes:

- Create an IT Strategic Plan that will integrate / replace the current key systems,
- Ensure that a "Holistic Approach" is taken when completing the IT Plan, and
- Look to the market for best practices and systems where possible (e.g. "Buy" vs. "Build" whenever possible).

TECHNOLOGY FINDINGS

Staff Satisfaction

The IT staff are supplying the support needed to operate and maintain the current systems. The team in place has been able to meet the existing needs but are limited in the amount of improvement they can offer the business owners. The team attempts to support users where there is a critical need but these priorities are not clearly understood or communicated. Basically, the IT team is reacting to requests, instead of working from a clear plan based upon priorities.

The staff supporting these systems understand how the systems operate and have experience with the systems, as they have developed and improved them over the years. The staff expertise is largely limited to specific systems and there is little knowledge transfer or system documentation to ensure appropriate knowledge redundancies are in place. Employees also lack exposure to and knowledge of new technologies available in the market place.

Technology Planning

The IT team is very close to completing the 2003 system improvement plan. This plan included updating the technology platform that the systems are operating on, as well as finishing the disaster recovery plan. This plan did not look to update any user or business functionality that may be desired to improve the day-to-day operations. It is recommended that this effort be completed to allow for ongoing maintenance of these systems, but a new IT Strategic Plan be put in place quickly to look at how to replace/ integrate these systems.

Build First Approach

The current approach to IT is an expensive one. The systems in place today were created 15-20 years ago through internal staff design and development. These systems were built based on the business processes that existed at the time, were designed and developed individually, and enhanced over time as resources were available. This has created systems that operate in silos, do not share data, and are not allowing the business to become more efficient through the use of technology. The market place has matured and offers systems that perform business functions using industry and technology best practices at a lower cost.

Limited Coordination with Other State Agencies

Currently, the Office of the State Treasurer operates systems to perform business functions that are identical across other state departments. For example, the processing of financial, procurement, budgeting, human resources and payroll functions are typically combined in one enterprise system. These enterprise systems in some cases are owned and operated internally or are shared across State government. With the State looking to purchase and install an Enterprise Resource Planning (ERP) system, there is an opportunity for the State Treasurer to replace the existing systems that support these business functions and gain efficiencies for minimal investment. The current status of the State ERP project is unclear but the benefits of coordination with the State are great enough that the State Treasurer is encouraged to monitor this status closely.

RECOMMENDATIONS

IT Strategic Planning

State Treasurer would benefit from creating a strategic plan for the future of systems to include integration, technology improvements, and system replacement strategies. An IT plan will also assist in re-aligning IT resources to support and operate, as well as implement and manage new projects, portfolio management processes and position itself for operational efficiencies, succession planning and knowledge transfer. We suggest the following be established for creating the IT Strategic Plan.

Create an IT Governance Structure. We recommend establishing a formalized IT governance structure that will be responsible for the creation and oversight of a long-term strategic plan. For many organizations like the State Treasurer, the management team serves as this committee by allocating a portion of its weekly meeting agenda to technology topics. Topics would include:

- IT policy
- IT spending priorities
- IT standards
- Project status monitoring
- Project evaluation, including return on investment

The benefits that can be gained through the governance structure will include:

- Information technology policies to allow for full implementation and integration of systems and data
- Information technology standards and protocols to encourage efficiency
- Enhanced technology decision making and greater clarity for IT staff
- A prioritization and decision making process that includes all stakeholders

Establish a Project Management Office (PMO). The State Treasurer IT has many projects and should institute and standardize project management techniques by establishing a PMO. The size of the office is a function of the number and complexity of projects and could range from one or more positions to being a part of the IT Director's job description. The PMO would assist by ensuring projects are aligned and appropriately prioritized relative to organizational objectives. It will also ensure standards of performance relative to project management and project portfolio management (PPM). We highly recommend a formal and structured approach to project management. This includes:

- Establish a formal project management office (PMO)
- Staff the PMO with experienced project managers and project coordinators
- Incorporate project portfolio management tools
- Formalize the project request process

Currently, there is limited formal project portfolio management methodology to manage the IT department's workload. This is a key best practice to an efficient and effective information technology organization. The benefits will extend to every future project and ensure the utmost efficient allocation of resources.

Create the IT Strategic Plan. A plan would include integration, technology improvements, and system replacement strategies. An IT plan will also assist in re-aligning IT resources to support and operate, as well as implement and manage new projects, portfolio management processes and position itself for operational efficiencies, succession planning and knowledge transfer. It would also incorporate new technologies such as social media coordination.

The State Treasurer has made a significant investment in its technology and major systems. The organization's tendency has been to custom develop applications and functionality without fully analyzing the true cost of the project. The IT Department should consider the following and incorporate them into IT strategic plan:

- Review all existing and new technologies from a perspective of ROI and “build versus buy” with a strong emphasis placed on “buying” before “building.”
- Analyze the costs of services that IT performs to identify whether costs can be contained by strategically sourcing specific services. The scope of review should minimally include applications, infrastructure, and customer support functions.
- IT should conduct formal needs assessments, where possible, when exploring the replacement of major applications (e.g., administrative systems) and technology items. The needs assessments should include documentation of the business case for the purchase as well as the cost-benefit analysis.
- Disaster recovery planning should be one component of the IT strategic plan.

Once the plan is developed and approved by the management team, projects would be managed by the PMO. The management team would receive regular progress reports as a standard agenda item at their regular meetings. In addition, we recommend that the management team dedicate significant time each year to review the plan and reprioritize projects to ensure the plan always reflects current needs.

State ERP

We recommend that the State Treasurer become actively engaged in the State ERP project. While this is a project that would be sponsored by the Governor and/ or Comptroller, we believe that significant dividends can be realized by the State Treasurer as well as other State departments and elected offices, as it could potentially replace several of the State Treasurer’s data systems. Being aware of the selection process will assist the State Treasurer in technology strategic planning and active participation will help ensure that the needs of the State Treasurer will be met in the selected system.

Internal Audit

Plante Moran performed a review of the Internal Audit operations. Our approach was to review five major steps of an audit and compare various components of those five steps with best practices from both public and private sector organizations. Those five aspects included:

- Internal Audit Infrastructure
- Risk Assessment
- Internal Audit Plan
- Deploy, Test and Report
- Monitor and Optimize

We reviewed many internal audit reports for content. In addition, we reviewed two programs (Illinois Funds and Unclaimed Property) in greater depth at the request of the Treasurer.

SUMMARY

Internal audit includes a team of three individuals, one of whom is the Chief Internal Auditor. Each team member has a deep finance/ accounting background and several years of audit experience. Internal Audit prepares a risk assessment of the operating processes within the State Treasurer's Office on an annual basis. The results of the Risk Assessment are used to drive the Internal Audit plan, coverage and timing. Internal audit provides leadership with audit reports covering the detail findings and a year-end summary. Many internal audits are directed by statute.

Over the course of our engagement, the Chief Internal Auditor left the Office of State Treasurer to work for another state agency.

INTERNAL AUDIT FINDINGS

Our overall findings were positive. There are no major deficiencies in the internal audit program and the staff are competent. Our point of comparison are audit standards outlined by the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF), industry programs commonly used at other organizations, and best practice procedures which go beyond standards set forth in the IIA IPPF.

Infrastructure

One of the strengths of the internal audit program is its infrastructure. Internal audit has written policies and procedures which are followed. The department utilizes clear communication protocols to the constituents being audited and to leadership. Internal audit has transparency in their audit plan and follows the internal audit timeline to meet reporting deadlines. We believe the internal audit department is operating effectively within their current policy.

Risk Assessment

The risk assessment prepared by internal audit is comprehensive and takes into account quantitative and qualitative factors in assessment of the operations areas. The risk assessment prepares a numeric calculation to rank the operating areas which drives the nature, extent and timing of the audits performed. We believe the risk assessment utilized by the internal audit department is satisfactory based on the current internal audit policy.

Internal Audit Plan

The risk assessment drives the frequency of the areas being audited and establishes hours by auditable entity and risk level within the internal audit plan. The plan takes into account necessary timing restraints, requirements and efficiencies by fiscal quarter and factors in availability, alignment and audit integration with other audit areas (information technology, regulatory deadlines, etc.). The internal audit plan is presented and approved by leadership prior to the start of the year.

Deploy, Test and Report

Internal audit develops and executes their audits based on the approved audit plan. The policy requires that pre-audit notifications be sent to the auditees in advance of the kickoff of the audit fieldwork. The Internal Audit staff and the chief internal auditor plan the audits to achieve the objectives set out in the audit plan. Internal Audit staff execute the audit programs, prepare work papers and collect the evidence supporting the testing performed. The chief internal auditor reviews all work papers and reports for accuracy and completeness. Draft audit reports are shared with their auditee departments who are permitted to provide management responses to address the audit findings with leadership.

Monitor and Optimize

A key component of the internal audit function is to provide timely reports to management with actionable recommendations to strengthen the control environment and improve operating efficiencies. Effective internal audit departments then track the findings and management's effort to remediate the deficiencies. Currently, there is room to improve the development of the tracking and remediation process within the internal audit department.

Repeat Findings

Our review of Internal Audit reports found numerous audit findings that were repeat findings from prior year audit reports that had never been effectively remediated. We discovered the same findings in each report on multiple occasions. This is indication of lack of follow-through from management on remediation plans and an overall lack of accountability to resolve internal audit deficiencies. The value-add for any internal audit department is not in reporting that a deficiency exists but in management taking necessary action to correct the deficiency.

PROGRAM FINDINGS

As noted above, the internal audit team reviews several programs each year. Two of these were selected by the State Treasurer for deeper analysis by Plante Moran.

Unclaimed Property

The State Treasurer is mandated to manage unclaimed property for the state. This process begins with financial institutions reporting to the State Treasurer any unclaimed property recovered at the financial institution. These reports are entered in to the Unclaimed Property System (UPS 2000) and the property is scheduled to be delivered to the Unclaimed Property department at the state capitol in Springfield, Illinois. All cash and securities (stocks, bonds, etc.) are forwarded directly to the investment safekeeping locations. Any miscellaneous property from safe deposit boxes, trusts, estates, etc. typically sits at the financial institution for a five year period and is then forwarded to the Unclaimed Property department. The items are inventoried, appraised, tagged and placed in the vault waiting for the owners or beneficiaries to claim the property. After an additional five year period, the items are sent to auction to convert the items into cash value. The cash value of the beneficiary's property is then held in perpetuity in the Unclaimed Property division records until claimed.

The Internal Audit department performed extensive audits of the Unclaimed Property division and the latest report was issued on December 16, 2013. We noted numerous internal audit findings with several that were repeat findings from previous years. A sample of findings included:

- Inadequate inventory controls – the lack of which present the opportunity for employee theft of unclaimed property.
- Sections of the vault are not within range of security cameras, leaving inventory in these areas out of sight. Video from security cameras is sometimes unclear. Security cameras should be replaced and new cameras should be installed in more effective locations.
- Lack of timeliness in many areas including recording of property, advertising property for auction, responses to filing extension requests, and sales of securities.

We performed inquiry and observation procedures to walkthrough the Unclaimed Property process to validate the internal audit findings. Management indicated the Unclaimed Property leadership did make a change of personnel which resolved some of the internal audit findings. However, many of the findings from the last audit report had not been resolved as of the date of our fieldwork (March 5, 2015). The State Treasurer's leadership was made aware of this and reported that steps had been taken to resolve these issues.

We noted through inquiry and observation there are significant space constraints in the main vault area within the State Capitol building and it is possible that the program may grow too large for the existing space. We recommend that the Treasurer evaluate the percent of claims that are resolved by year it is held. The results might identify a threshold in which unclaimed property is likely to remain unclaimed and a change in policy might result. Staff shared that a reduction in holding property from five years to two would likely have significant impact on space issues while minimally impacting claims, although there is not currently data to support this hypothesis.

Illinois Funds

The State Treasurer provides a discretionary service in which municipalities can open an account with the Treasurer in which deposited funds are invested on behalf of the municipality. The funds are received into the State Comptroller's Office and the Treasurer directs the funds into pre-approved investment vehicles to gain interest income for the municipality to achieve a rate of return. This service assists the local municipalities as they do not have to maintain sophisticated investment analysts perpetually on staff.

Internal Audit issued a report on the Illinois Funds dated February 5, 2014. We met with the Illinois Funds leadership to discuss the findings and inquire as to the status of remediation. Management provided there has been turnover in leadership of the Illinois Funds program and the current Chief Investment Officer is re-writing the policies and procedures for each of the funds.

In addition, management provided a listing of 'Statement of Auditing Standards 112' Risk Assessment and Key Controls Documentation covering internal controls regarding municipality participant eligibility, account setup and closure procedures, and fee verification internal controls. We recommend the Chief Investment Officer review these internal controls for applicability to the new policies and procedures and maintain and expand these key controls in the new policies.

RECOMMENDATIONS

Risk-Based Internal Audit Approach

The internal audit department is operating effectively within the current policy and procedures. This traditional internal audit methodology, referred to as a bottom-up approach, focuses on testing multiple transactions and sampling of internal controls for operating effectiveness. There has been a shift across

the internal audit profession in the past decade from a bottom-up approach to a top-down, risk-based approach. Using the risk assessment as a launching point, the internal audit plan, programs and testing techniques are driven by the amount of risk allocated to each area. High risk areas receive a greater amount of audit hours and frequency, whereas lower risk areas are less frequent and are not subject to as close scrutiny. We believe a risk-based top-down approach will better serve the State Treasurer and his constituents.

Staffing

We noted that the Chief Internal Auditor is in process of transferring to another State agency subsequent to our internal audit fieldwork. We believe the three person department that has been in place (chief auditor and two staff) is an effective staffing framework for this department. We encourage leadership to replace the Chief Internal Auditor and maintain the three person department. In recruiting the next Chief Internal Auditor, we recommend identifying candidates who have experience in leading risk-based programs.

Corrective Action Program

Although audit reports follow a sound process resulting in sound findings, it was common for audit findings to go unresolved and repeat over several subsequent years' audits. This reveals a lack of action and discipline on the part of the organization. We recommend that a corrective action program be formalized so that internal findings are acted upon and managers are held accountable for inaction. An audit spotlight report can greatly assist in this effort to communicate the findings and status of the corrective action program. We recommend a spotlight report accompany the recap report that is submitted to the State Treasurer each September 30th.

Investment Review

The State Treasurer is required by statute to publish investment policies within ninety days of taking office. Plante Moran's original engagement included a review of these policies in order to recommend refinement. However, the policies were not fully drafted in time for a thorough review to occur. We might assist with this review and further investigate investments with the Treasurer after this report is submitted.

SUMMARY

Policies and procedures, operating manuals and succession planning are all in stages of development. The Chief Investment Officer (CIO) has taken a proactive approach to assessing the investment operations of the State. While he has confidence in the seasoned team that he inherited from the previous administration, he seeks to develop guidelines which will govern the investment process in a cogent and coherent manner.

The vast majority of policies governing the investment process are dictated by various statutes, which are not user friendly to State employees. The CIO and his staff are in the process of updating those policies into a more user friendly format that will drive committees and govern sections of the investment office.

The Chief Investment Officer has also begun the process of identifying, adopting and implementing best practices by performing in depth research and by having the department become involved in industry groups and organizations that can provide best practice recommendations and foundations for application of critical governmental practices.

INVESTMENT FINDINGS

Based upon our review of draft investment policies, procedural guidelines, internal controls, operating procedures and internal audit programs, it appears that the foundation and framework for development of enhanced policies and procedures are in place. We believe that a coordinated effort between Internal Audit and the Chief Investment Officer would be an optimal way for the department to develop operational policy on a go-forward basis.

Operating Manual

As of our review, there was no operating manual for the office. The CIO and his staff were in the process of developing updated policies and procedures. The CIO shared that the policies would be published within the mandated guidelines and that further refinement is likely after their publication. Based upon the updates that we have been provided, it appears that the suggested changes are designed to provide additional flexibility in the operations of the department. It should be noted that due to the mandates contained in the statutes and laws governing the states investment process, it is difficult to develop and implement sweeping changes to the investment policy.

The CIO is also in the process of creating standard operating procedures for the department, committees and sub-committees.

Best Practices

The Chief Investment Officer has been accumulating best practices from other state treasurer's offices and is in the process of distilling that information down to a manageable file. The Chief Investment Officer has also become involved in the State Treasurer's Association in an effort to network with other professionals that can provide guidance and suggestions to the department.

Succession Planning

It appears that the Chief Investment Officers' staff is comprised of primarily of professionals with ten (10) to twenty (20) years of experience. However, at this juncture it is not evident that there are clear lines of succession within the major departments reporting to the CIO, including:

1. Accounting/ Budget/ Warrants
2. Illinois Funds/ E-Pay
3. State Portfolio & Banking
4. Illinois Funds/ Portfolio Operations

The Chief Investment Officer is in the process of assessing the succession planning of the department and attempting to determine which deputy professionals can be promoted to director positions.

Credit Risk Analysis Unit

A major concern of the Chief Investment Officer is the decision making process with regard to investment choices made by his team on a daily basis. He is instituting a Credit Risk Analysis Unit in order to assess investment decisions. He proposes to institute a two (2) person department to provide counter party assessments of the state's decision making process with regard to state investments (i.e. commercial paper).

The amount of research and data required to make optimal decisions for the state is large. We believe it is in the best interests and a best practice for the Chief Investment Officer to implement this step as quickly as possible.

RECOMMENDATIONS

As noted above, the CIO has taken and has planned to take many steps to improve operations. Once these steps are taken, the Treasurer should seek outside validation of the steps to compare to ensure that the changes match up with what was intended. These would include:

- Policies and procedures – review, critique and propose edits to the areas under the supervision of the CIO.
- Investment Support – observe and review the reasoning and soundness of investment decisions made within the department.
- Investment Policy – review of best practices within the investment industry as well as practices instituted by other state treasurers would be useful in the development of the Treasurer's practices going forward.
- Succession Planning – ensure that optimal succession planning exists within the department.
- Internal Audit Findings – the CIO may require remediation assistance for internal audit findings.
- Risk assessment – review enterprise wide risk assessment and assist the State with developing short term and long term planning.

Appendices

IT User Survey Results

The key survey results are shown below. These results rank the overall support of IT to the department at a “**B**” for the support and direction provided by the IT staff. The overall applications and tools rank are far lower, ranking at a “**D**”.

From a staffing perspective, the team is supporting the level of service for the organization, but is overall understaffed and could provide a higher level of service with more staff.

IT Staff Ranking	Positive Response
IT Staff "Listen" to my needs and provide an action plan to resolve the request (when feasible)	82%
IT Staff are "customer service" oriented	83%
IT Staff "Listen" to my needs and provide an action plan to resolve the request (when feasible)	82%
Interaction with IT Management is positive and effective	82%
IT staff provide effective support	84%
I am satisfied with the quality and effectiveness of service delivered by IT support staff	86%
IT support staff appears to have adequate resources to provide the level of service required.	74%

The overall review of the IT applications process has much lower score and provides evidence for the need for an overall strategic plan and review of all existing applications from a user perspective.

IT Applications	Positive Response
Enterprise-wide technology is adequate	68%
There is a clear process for how technology related projects are identified, reviewed, prioritized and executed	50%
IT staff are well versed on current and emerging technologies	79%
Technology planning is aligned with the needs of the business units/departments	66%

Internal Audit Review

Plante Moran/ Illinois State Treasurer Office (STO) – Review of the Internal Audit Function

March 2015

INTERNAL AUDIT BLUEPRINT				Methodology
1 INFRASTRUCTURE	2 RISK ASSESSMENT	3 INTERNAL AUDIT PLAN	4 DEPLOY, TEST & REPORT	5 MONITOR & OPTIMIZE
<p>GOVERNANCE</p> <ul style="list-style-type: none"> Internal Audit Strategy Internal Audit Mission Statement Internal audit charter statement Perform Stakeholder Analysis to define key constituents Establish IIA IPPF and Quality Assurance Review process Create Policies & Procedures including Code of Ethics Communication protocols Define reporting protocols so IA is independent – Report directly to Audit Committee and administratively to Office Leadership <p>PEOPLE</p> <ul style="list-style-type: none"> Create IA job descriptions Establish IA leader and qualified staff personnel Assess necessary skill sets for industry, process, technical, and financial/ accounting experts Establish ongoing training program <p>TOOLS</p> <ul style="list-style-type: none"> Implement workpaper portal and findings tracker database Obtain necessary data mining software and risk analysis programs <p>METRICS</p> <ul style="list-style-type: none"> Co-develop expectations and measurable/ reportable KPI's Agree upon standard IA process timetable and reporting protocols Establish Audit Status reporting metrics to monitor IA Process 	<p>CONDUCT ANNUAL RISK ASSESSMENT</p> <ul style="list-style-type: none"> Conduct management & BOD interviews Identify / define audit population Define risk universe and create risk register for each process Assess and prioritize audit units based on the following: <ul style="list-style-type: none"> Dollar materiality Headcount Complexity of accounting Regulatory impact Control framework Changes in environment Technological capabilities Transaction volume Inherent risk <p>UNDERSTAND CONTROL ENVIRONMENT</p> <ul style="list-style-type: none"> Identify controls within each department Link controls to each risk Perform a Key Control analysis Build Risk, Control Matrix (RCM) for each process <p>RISK RANK AUDIT PROCEDURES</p> <ul style="list-style-type: none"> Customize audit plan goals, objectives and programs based on risk ranking Build audit models linked to risk rankings (high, moderate, low) Standardize audit methodology for each risk ranking 	<p>PRIORITIZE AUDITABLE ENTITIES</p> <ul style="list-style-type: none"> Build out Audit Plan based on Risk Assessment Establish necessary hours by auditable entity and risk level Determine necessary timing restraints, requirements and efficiencies by quarter (factor in availability, regulatory deadlines, alignment, audit integration, etc.) <p>ASSESS & ALIGN RESOURCES</p> <ul style="list-style-type: none"> Specialized IT skills Tech-industry skills Process or transaction skills Schedule individual audit engagements <p>COORDINATE & INTEGRATE</p> <ul style="list-style-type: none"> Review with Board and Assurance Auditor Review with other risk management functions Document areas for leverage Integrate operating and IT audits so impact of system controls is considered on operating controls Agree on reporting protocols 	<p>PLAN & SCHEDULE AUDITS</p> <ul style="list-style-type: none"> Pre audit notification letter Research and pre-planning Advance information request Workpaper and engagement setup <p>EXECUTE AUDIT ENGAGEMENTS</p> <ul style="list-style-type: none"> Planning and opening meeting Audit unit risk assessment & scoping Audit program development & execution Key controls for each department are tested for design and operating effectiveness Review and collaborate results with management Fieldwork exit meetings with Department Heads (CFO invited) Ongoing communication protocols <p>REPORTING</p> <ul style="list-style-type: none"> Scope of audit defined Findings rankings defined and measured Audit Report conclusions defined and measured Control deficiencies defined in clear, understandable format and are ranked in order of priority (High, Moderate, Low) Management provides detail Remediation Plans with proposed solutions, interim and final milestones and due dates. Final reports are signed by auditee department and division management. 	<p>MONITOR & REPORT</p> <ul style="list-style-type: none"> Internal audit tracks all audit findings and remediation plans in a database Management provides periodic updates to Internal Audit on each finding and remediation plan. Internal Audit prepares periodic Audit Committee updates to give status of each remediation plan. Department heads are held accountable to execute their remediation plans. Progress against IA key performance measures <p>QUALITY CONTROL</p> <ul style="list-style-type: none"> Peer Reviews are performed Survey auditee & report against predefined quality measures Survey audit committee for reporting improvements Update work papers files Review and close-out engagements Determine lessons learned and improvement for next year Value / process improvement recommendations <p>COLLABORATION</p> <ul style="list-style-type: none"> Integrate audit results into annual planning sessions Brainstorm with department heads methods to strengthen control environments and fraud risk assessments Advise on system implementations Partner with business units to provide ongoing internal control environment support

Process In Place
 Process Partially In Place
 Process Not In Place
 Cannot Determine if Process is In Place

Thank You

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