Does Illinois Need a State Treasurer and a Comptroller?

One of the big debates that resurfaces every election cycle is whether the state needs to have both a Treasurer and Comptroller to manage Illinois finances. Reasons for combining the positions include cutting redundancy within government departments and cost savings. Reasons against it lean towards separation of functions to keep a system of checks and balances. I have worked in the accounting industry for more than 12 years and have seen firsthand the thousands of checks and double checks that publically traded companies must follow in order to maintain compliance with both the Securities and Exchange Commission (SEC) and the Sarbanes-Oxley Act of 2002. As someone with the CPA certification, I have also studied heavily in the areas of financial reporting, auditing, regulation and economics. With this perspective in mind, I researched the pros and cons of combining the roles and I present my findings in the following pages.

The popular opinion is yes, the roles should be combined. The office of the Comptroller should be eliminated and the functions rolled up into the office of the Treasurer, or vice versa. This would save taxpayer dollars in both the short and long run by eliminating government waste from two roles that essentially share the same responsibilities. It would also align the office more closely with that of a private sector company that is managed by a CFO. There are many other states that have one central fiscal officer to their government. There is no reason Illinois shouldn't follow suit.

The unpopular opinion is no, the roles should not be combined, due to the threat of fraud and malfeasance from giving one individual that level of power, unrealistic cost-savings projections, and maintaining a good system of checks and balances within the finances. I am among the unpopular as I believe the roles should remain separate.

Not the Same

The first reason for combination is that the roles are essentially the same regarding function, money management and payment processing for the state, and eliminating one would eliminate redundancy. To see if that is a correct assumption, let's break down the responsibilities of each office.

The office of the Treasurer is the repository of all money collected from taxpayers, with some being invested and the rest disbursed through physically printing checks. The Treasurer is responsible for taking the revenues collected through various channels (real estate taxes, unclaimed funds, fees generated through the state and local governments) and investing those dollars in order to earn investment income, which is then used to help fund the government and lessen reliance on taxation. The Treasurer is also involved with facilitating bond sales and physically cuts the checks that go to taxpayers, companies, local governments, and the federal government. There are other responsibilities included but the essence of the role is that of a bank – taking in, managing, and sending out the funds it is entrusted with (1).

The role of the Comptroller is operational in nature. The Comptroller is the state's Chief Financial Officer and is responsible for review and approval of all bills to be paid by the state, management of the legal, efficient, and effective operations of state government, and ensuring financial information is both available and easily accessible to taxpayers. This overview involves not just the accounting at the state level but also that of the local municipalities. It includes review of the trust companies and state banks, building and loan associations, and credit unions that work with the state and receive funds from the state. The Comptroller collects and analyzes local government financial reports for compliance, and prepares and signs off on the Comprehensive Annual Financial Report (CAFR), which is a complete set of annual financial statements for the state. After review and approval of state invoices, the Comptroller issues warrants (requests for payment) to the Treasurer, who then cuts the checks and sends them back to the Comptroller for distribution. Just as with the Treasurer's role, there are other responsibilities involved, but the essence of the Comptroller's office is the accounting department of the state, making sure that public money is being spent legally and holding and verifying the documentation to back it all up (1).

Clearly the roles handle very different and very important functions for the state and co-mingling them could lead to very problematic consequences.

Accounting Segregation of Duties

One of the more prominent themes in accounting is the proper segregation of duties. Certain duties and responsibilities should be handled separately to keep the risk, and temptations, of bad behavior to a minimum. This concept is taught to students on day-one of accounting class, and it is a requirement for all publicly traded companies to remain compliant with the Securities and Exchange Commission (3).

While there are many areas within a business that can, and often are, segregated, the three main areas that are of most importance and should *always* be segregated are authorization, recordkeeping, and custody of assets. You don't want the same person who can authorize payment to be able to cut the check and record the transaction because the risks of fraud are so high. One person in control of $28 billion dollars, the amount the Treasurer manages (2), could easily 1) create a fake vendor in the system, 2) approve a fake invoice for payment, 3) print and sign a check to that company, and then 4) destroy or alter all records of the transaction.

In the accounting world, you are asking for trouble by co-mingling these functions; the temptation in a position like that is too strong to entrust to one person, and that is a very real concern in the state of Illinois. Here are a handful of Illinois elected officials who have been sent to prison within the last 30 years: Dan Rostenkowski, U.S. House of Representatives (4), Mel Reynolds, U.S. House of Representatives (5), George Ryan, Governor (6), Rod Blagojevich, Governor (7), and Betty Loren-Maltese, Cicero Town President (8).

Looking specifically at corruption from the treasurer/comptroller level there is Rita Crundwell, the treasurer and comptroller of Dixon, Illinois who spent almost 23 years embezzling over $54 million dollars from the city using those very tactics I discussed in the previous paragraph. She created her own companies, invoiced the city, cut checks that were deposited into a bank account she created, and hid the evidence because she had the authority over the whole of the accounting process, as well as the trust of the people. The state even gave her help, as she was able to blame monetary shortfalls on the state constantly being late in forwarding Dixon its share of tax revenues (9). More recently, the former Treasurer of Zeigler, Illinois, Ryan Thorpe, was convicted of embezzling more than $300 thousand dollars over the course of four years (10).

One argument is that the combined role would be too large and too visible as the top accounting job in the state for similar embezzlement to go undetected. I say no, not when you look at how many of our elected officials have gone to prison over the years. The entire reason the roles were created and separated in 1971 was because of fraud. Prior to our current state constitution of 1970, the functions of the Treasurer and Comptroller were under one umbrella called the Auditor of Public Accounts. Orville Hodge, who held the office until his indictment in 1956, embezzled over $6 million dollars through falsifying accounting records, inventing fake employees and cashing their checks, and creating a fraudulent paper trail to show that his office was insolvent and needed emergency funds (11). Both Orville Hodge and Rita Crundwell were well liked and had the trust of the people. Hodge was a favorite to run for Governor.

We can also look outside the governmental world for a moment, and focus on the two companies that led to the creation of the Sarbanes-Oxley Act of 2002, a United States federal law that set new rules for companies that are publicly traded. Enron became the largest seller of natural gas throughout the 1990's by overstating their revenues and earnings, and hiding increasing amounts of debt. The company was always in the public eye for their high earnings and consistently beating analyst estimates. Through the use of unethical accounting practices, deliberately complicated and misleading financial statements, and collusion with their auditing firm Arthur Andersen, the company hid billions of dollars of debt and showed billions in non-existent revenues until they could no longer maintain the illusion and imploded in 2002(12). If someone is good enough at playing the charlatan, they can do so in front of ten or ten thousand people.

The counter argument to this is that collusion between the two roles would negate the safeguards of keeping them separate, and Enron and Arthur Andersen are a good example of collusion. Unfortunately, that argument is true of every single publicly traded entity out there and the rules of separation of duties is still a longstanding requirement for being a publicly traded company. Why would the SEC even bother to impose separation of these essential functions? Because the risks of one person committing fraud are much greater than when you have two or more people involved. Fraud can happen anywhere if the person or people involved are determined enough, yes, but the more eyes you can put on something, the more difficult and less tempting it becomes.

Another argument I have heard is that the role could be combined and become more of an overview position, with departments created beneath it to separate those functions; much like a CFO oversees the whole of the accounting department. There are some states that have adopted or started out with this hierarchy and it works very well for them. I don't think it will work in Illinois.

The political arena of Illinois is rife with corruption, and from both sides of the domineering two-party system. From redrawing of district maps to shut out incumbents, political favors, or backdoor deals favoring prominent and well-connected individuals, Illinois has done it all. We the people are so desensitized by it that our most prominent political figures go to prison on a regular basis and the average Illinoisan isn't even surprised. Keeping the roles separate is an important safeguard that Illinois needs to maintain. Having two officials overseeing the banking and operational accounting aspects of the state helps to keep them honest, as neither one wants the blame if corruption charges loom. And when the people holding the positions are from opposing parties? That just gives them further incentive to be honest and watchful.

And if you have a 3rd party candidate with no shady political connections, the chances of collusion go way, way down.

Saving Money in the Long Run?

The biggest case for combination is that it will save Illinois money, but elimination of one elected position in our bloated state government will do little to correct the damage brought by years of poor spending habits and money juggling that put us into our current financial position. After both Republicans and Democrats assured Illinois taxpayers that the enacted FY19 budget was balanced, disclosure regulations for bond issuance revealed that there is a "structural deficit" of $1.2 billion dollars (13), which should make anyone skeptical of proposed savings elsewhere.

The dollar figure that is often quoted of how much Illinois could save annually is $12 million dollars, by merging the two offices. As an accountant, I will not support the elimination of an important internal control over the perception of cost savings. I have researched in great detail over the course of several years and have found no supporting documentation to back up this savings figure, and I will not sign off on any feel-good numbers without first analyzing how those numbers were calculated. What exactly will be eliminated, in order to achieve that $12 million dollar reduction? It certainly isn't the annual salary of either the Treasurer or Comptroller, as those are in the low six figures. If it is a matter of restructuring the offices and sharing services, why can't that be done now? Do they really need a constitutional amendment before they can share a printer?

If proponents of combining the offices really want to produce such cost savings, they can start by sharing services now. While the two constitutional office holders should maintain separate authority, I am a big proponent of the offices sharing services and sharing space. When a business is losing money, they downsize; Illinois government needs to follow suit.

Better Battles to Fight

According to Moody's Investor's Service, Illinois' adjusted net unfunded pension liability rose to $250 billion in 2017 (16) before the tax increase in 2018. Pension costs currently account for nearly a quarter of Illinois' budget (14) and that percentage is only going to grow in the coming years, courtesy of the "Edgar ramp," pension holidays, funding flaws and excessive borrowing. To manage the ever fluctuating backlog of unpaid bills, the state issued $6 billion dollars of bond debt to reduce the backlog down to $8 billion dollars. Illinois has the worst credit rating of all 50 states and has been downgraded 13 times in the last five years, which means we pay more when we borrow money, and people don't want to buy our bonds. It's a bad place to be.

Merging the roles of Treasurer and Comptroller is not the battle to focus on. Real cost savings can be achieved through budget management and spending cuts, not vague back-of-the-envelope promises. The Comptroller's office can identify areas of wasteful spending, budget overruns, and poor financial decisions through financial analysis, and can bring attention to these areas.

One of Many

Another reason to combine the offices, according to proponents, is that many other states have one central accounting figure, so why shouldn't Illinois? I visited each state's website and put together a list of all fifty states that have a Treasurer, a Comptroller/Controller, an Auditor, or some combination of the three. The role of the Auditor is generally one of independent oversight of the financial process; the auditor reviews the accuracy of financial reports and financial processes. The auditor role, in the context of government, can have overlapping responsibilities with those of the Treasurer and/or Comptroller, so while a treasury or controller-type position may have been eliminated, or never existed, certain functions are still divided and handled by separate offices.

The Auditor General of Illinois is elected to ten-year terms and reports directly to the Attorney General. They are responsible for reviewing the use of public funds (the obligations, expenditures, and receipts), so in essence, they are the external auditor of the state.

Taking into account overlapping responsibilities within the three areas, I compared each state and found that the states that have only one "head of accounting" are 5; Florida, Kansas, New Hampshire, New York, and Wisconsin. From that list, I further analyzed and found that several of these were not correct.

Florida has a Chief Financial Officer, who oversees a slew of departments including the department of Treasury and the department of Banking & Finance. The Florida Department of Revenue, on the other hand, is separate from the CFO and reports to the Governor and cabinet. While the bulk of the responsibilities of both the Treasurer and Comptroller are grouped under the CFO, I thought that the division of responsibility was worth noting. Florida's CFO is also Florida's State Fire Marshall, with a full department dedicated to fire investigation, including the ability to make arrests (15).

New York has a Comptroller, responsible for auditing all revenues and receipts collected; auditing all vouchers before payment and all official accounts, and supervises various subdivisions. The area of tax and finance is under a separate Tax and Finance Commissioner and reports to the Governor, but the Comptroller has the vast majority of the responsibilities. It is also illegal to ride an electronic bike in New York City – which mostly affects food delivery workers and resulted in a boost in revenues to the City from fines (17). Yes, in as crowded a place as New York, they decided to limit the options that reduce traffic congestion in order to raise money.

Wisconsin has a Treasurer, but also an Office of the Secretary, a role appointed by the Governor, and has a whopping 28 departments under his control including the Division of State and Local Finance, Division of Income, Sales & Excise Tax, and a Division of Lottery. A lot of these departments are comprised of one person, but separate roles for separate duties so it does not truly belong.

Kansas' financial officer is a Treasurer, and handles the financial responsibilities common of the Treasurer. The regulatory and reporting responsibilities reside with an Insurance Commissioner, who looks into financial solvency and regulatory compliance at both the state and local levels, so the role includes the regulatory functions in Illinois' Comptroller position. Their Department of Revenue falls, once again, under the umbrella of the Governor, and is separate from the functions of the other two. After some consideration, I believe Kansas is not consolidated in regards to finance and accounting.

New Hampshire has a Commissioner of the Treasury that handles the cash and debt management for the state. The Department of Revenue is headed up by a Revenue Commissioner that is responsible for revenue collection and accounting for businesses, property taxes, and other local taxes. In New Hampshire, red light and speed cameras are prohibited; there are no seatbelt laws past the age of 17, there is only one area code for the entire state (603). The functions of treasurer and comptroller are technically split.

After these considerations, I show there are two states that have one true Chief Financial Officer, handling all financial responsibilities for their state; Florida and New York.

So while there are other states that do indeed have one overall state financial officer, each state also has completely different social, economic, and environmental makeup to that of Illinois, and what is effective for one state isn't necessarily going to work for another. Florida has to deal with alligators in swimming pools the way Illinois has to deal with squirrels chewing on power cables, and New York thought it best at one point to ban large sizes of soda for the health of the state. A one-size-fits-all mentality doesn't work in most areas of life, and politics is no exception. Illinois needs more checks and balances, not less.

Voice of the People

The final point I want to make clear is that by eliminating one constitutionally elected office you are effectively eliminating a choice, and the voice, of the people in selecting who they want managing their state funds. With the combining of two constitutional roles, I doubt anyone believes that once combined, the remaining officer will handle the full responsibilities of both the Comptroller and Treasurer. They cannot, as the roles are fundamentally different, and the most likely outcome will be the establishment of deputy level roles, with responsibilities delegated down. How will that do more than eliminate one elected office and replace it with several appointed ones? It is yet another reason to keep the offices separate. I will always advocate for keeping the office holders separate and accountable while blending the offices and sharing services in order to achieve the desired cost savings, without eliminating an important internal control in state finances.

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