STATE OF ILLINOIS

OFFICE OF THE AUDITOR GENERAL

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

For the Year Ended June 30, 2014

WILLIAM G. HOLLAND

AUDITOR GENERAL

STATE OF ILLINOIS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FINANCIAL AUDIT
For the Year Ended June 30, 2014

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The annual financial statements of the State of Illinois for the year ended June 30, 2014 were issued under a separate cover.

STATE OF ILLINOIS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FINANCIAL AUDIT
For the Year Ended June 30, 2014

STATE OFFICIALS

Governor	Patrick Quinn (1/29/09 through 1/12/15)
Governor	Bruce Rauner (1/12/15 through present)
Comptroller	Judy Baar Topinka (1/10/11 through 12/10/14)
Comptroller	Jerry Stermer (12/19/14 through 1/12/15)
Comptroller	Leslie Geissler Munger (1/12/15 through present)
Speaker of the House	Michael J. Madigan
President of the Senate	John J. Cullerton
House Republican Leader	Jim Durkin
Senate Republican Leader	Christine Radogno

STATE OF ILLINOIS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FINANCIAL AUDIT
For the Year Ended June 30, 2014

SUMMARY

The audit of the State of Illinois' financial statements was performed in accordance with *Government Auditing Standards*. This report is an integral part of that audit.

SUMMARY OF FINDINGS

Number of	Current Report	Prior Report
Findings	5	5
Repeated findings	5	5
Prior recommendations implemented or not repeated	0	0

SCHEDULE OF FINDINGS

Item No.	Page	Description	Finding Type
		FINDINGS (*GOVERNMENT AUDITING STANDARDS*)	
2014-001	7	Inadequate Financial Reporting Process	Material Weakness
2014-002	10	Financial Reporting Weaknesses	Material Weakness
2014-003	14	Late Payment of Statutorily Mandated Transfers	Noncompliance
2014-004	16	Debt Covenant Violation	Noncompliance
2014-005	17	Finances Increase Risks	Material Weakness

EXIT CONFERENCE

The Office of the State Comptroller and the Office of the Governor have waived an exit conference.

AGENCY RESPONSES

Responses to the findings and recommendations were provided as follows:

Ms. Roma Larson, Deputy General Counsel, Governor's Office of Management and Budget on February 11, 2015.

Mr. Tracy Allen, Chief Internal Auditor, Office of the State Comptroller on February 11, 2015.

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OFFICE OF THE AUDITOR GENERAL
WILLIAM G. HOLLAND

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable Michael J. Madigan, Speaker of the House
Honorable John J. Cullerton, President of the Senate
Members of the General Assembly
Honorable Bruce Rauner, Governor
Honorable Leslie Geissler Munger, Comptroller

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Illinois, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the State of Illinois' basic financial statements as listed in the Table of Contents for Section II of the Illinois Comprehensive Annual Financial Report, and have issued our report thereon dated March 12, 2015.

Our report is modified to include a reference to other auditors who audited the financial statements of certain university related organizations, and included an emphasis-of-matter paragraph which stated that, as discussed in Note 2 to the financial statements, the financial statements have been restated as of July 1, 2013 for prior year errors and the implementation of GASB Statement 65, *Items Previously Reported as Assets and Liabilities.* Our report also included an emphasis-of-matter paragraph which stated the deficit for net position of governmental activities in Fiscal Year 2014 continued to increase by \$1,318,234,000 from \$47,851,938,000 at June 30, 2013 to \$49,170,172,000 at June 30, 2014. This deficit, which is presented on an accrual basis, is the excess of total liabilities and deferred inflows of resources over total assets and deferred outflows of resources and represents a deferral of current and prior year costs to future periods.

For purposes of this report, our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters did not include the State's discretely presented component units. Separate reports have been issued for these entities. The findings, if any, included in those reports are not included herein.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the State of Illinois' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State of Illinois' internal control. Accordingly, we do not express an opinion on the effectiveness of the State of Illinois' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2014-001, 2014-002 and 2014-005 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Illinois' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2014-003 and 2014-004.

The Office of the Governor's and Office of the State Comptroller's Responses to Findings

The Office of the Governor's and the Office of the State Comptroller's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Office of the Governor's and the Office of the State Comptroller's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the State of Illinois' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of Illinois' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Bruce L. Bullard

WILLIAM G. HOLLAND
Auditor General
State of Illinois

BRUCE. L. BULLARD, CPA
Director of Financial and Compliance Audits
Office of the Auditor General

Springfield, IL
March 12, 2015

2014-001. **FINDING** (Inadequate Financial Reporting Process)

The State of Illinois' current financial reporting process does not allow the State to prepare a complete and accurate Comprehensive Annual Financial Report (CAFR) in a timely manner. Reporting issues at various individual agencies caused delays in finalizing the financial statements. See also finding 2014-002 for additional detail. The lack of timely financial reporting limits effective oversight of State finances, may adversely affect the State's bond rating.

Accurate and timely financial reporting problems continue to exist even though the auditors have: 1) continuously reported numerous findings on the internal controls (material weaknesses and significant deficiencies), 2) commented on the inadequacy of the financial reporting process of the State, and 3) regularly proposed adjustments to financial statements year after year. These findings have been directed primarily towards major State agencies under the organizational structure of the Office of the Governor and towards the Office of the State Comptroller.

The Office of the State Comptroller has made significant changes to the system used to compile financial information; however, the State has not solved all the problems to effectively remediate these financial reporting weaknesses. The process is overly dependent on the post audit program being a part of the internal control for financial reporting even though the Illinois Office of the Auditor General has repeatedly informed State agency officials that the post audit function **is not and should not** be an internal control mechanism for any operational activity related to financial reporting.

The State of Illinois has a highly decentralized financial reporting process. During an Illinois Office of the Auditor General's management audit (released February 2011) of the State's financial reporting system it was reported that 88 of 90 primary units of government had 263 different financial reporting systems that are used by primary government agencies. Furthermore, it was reported that only 16 percent of these financial reporting systems are compliant with Generally Accepted Accounting Principles (GAAP), which drastically increases the amount of time spent by agencies during the year-end GAAP conversion process. In addition, 53 percent of the financial reporting systems are not interrelated which, consequently, requires manual intervention to convert data, increasing the likelihood of errors and is time consuming.

The financial reporting to the Office of the State Comptroller requires State agencies to prepare a series of financial reporting forms (SCO forms) designed by the Office of the State Comptroller which are utilized to prepare the CAFR. For the most part, these SCO forms are completed for each of the State's 816 primary government/fiduciary funds and 21 component units. The forms are completed by accounting personnel within each State agency who have varying levels of knowledge, experience, and understanding of GAAP and of the State's accounting policies and procedures. Agency personnel involved with this process are not under the organizational control or jurisdiction of the Office of the

State Comptroller. Further, these agency personnel may lack the qualifications, time, support, and training necessary to accurately report year end accounting information to assist the Office of the State Comptroller in the preparation of the Statewide financial statements in accordance with GAAP.

Although these SCO forms are subject to review by the Office of the State Comptroller's financial reporting staff during the CAFR preparation process, audit adjustments and significant internal control deficiencies relative to individual agencies' financial reporting have been identified during the last thirteen years. Additionally, beginning balances related to the primary government have been restated for 11 of the last 13 years.

We acknowledge that there have been two Public Acts that have positively affected the financial reporting process. Public Act 97-408, which became effective August 16, 2011, established a statutory deadline of October 31 of each year for State agencies to report financial information for the previous June 30 to the State Comptroller. If a State agency has not submitted the required financial information by October 31, the State Comptroller must serve a written notice to the appropriate agency head about the delinquency or inadequacy of the financial information. Under certain circumstances, agency heads are required to provide an action plan to bring the agency into compliance and the State Comptroller is required to post the action plan on the Comptroller's website. We noted that there were no agencies under the Governor that were delinquent in their financial reporting to the Office of the State Comptroller. Public Act 97-1055, which became effective August 23, 2012, established the Financial Reporting Standards Board (Board). The purpose of the Board is to "assist the State in improving the timeliness, quality, and processing of financial reporting for the State." The Board first met on September 25, 2013 and has had an additional nine meetings.

Concepts Statement of the Governmental Accounting Standards Board (GASBCS 1, paragraph 66) states, "if financial reports are to be useful, they must be issued soon enough after the reported events to affect decisions."

The Office of the Governor's management stated that the weaknesses are due to (1) lack of a Statewide accounting and grants management system and (2) lack of personnel adequately trained in governmental accounting and federal grants management. Without adequate financial and grants management systems, agency staff are required to perform highly manual calculations of balance sheet and SEFA amounts in a short time frame which results in increased errors. The lack of adequate financial and grants management personnel is due in part to a failure to update the qualifications in the respective job titles to ensure that applicants have the minimum required education and skill sets to be properly trained.

The Office of the State Comptroller's management indicated that delays at the departmental level were caused by a lack of sufficient internal control processes in State agencies for the accumulation and reporting of financial information used to prepare the financial statements.

Failure to establish effective internal controls at all State agencies regarding financial reporting for the preparation of the CAFR prevents the State from completing an audit in a timely manner and delays in financial reporting decreases the usefulness of such information. (Finding Code No. 2014-001, 2013-001, 12-1, 11-1, 10-1, 09-2, 08-2, 07-2)

RECOMMENDATION

We recommend the Office of the Governor and the Office of the State Comptroller continue to work together to resolve the State's inability to produce timely and accurate GAAP basis financial information.

AGENCY RESPONSES

Office of the Governor:

We agree. The Office of the Governor and the Office of the State Comptroller will continue to work together to address the core issues of the State's inability to produce timely and accurate GAAP basis financial information.

Office of the Comptroller:

The Office accepts the recommendation. The 2014 and 2013 CAFR opinions were signed approximately 3 months earlier than the 2012 CAFR. Even with this improvement, the State still faces several road blocks in the timely completion of the CAFR. The General Assembly enacted P.A. 97-0691, which extended lapse period from August 31 to December 31 for fiscal year 2013 and future fiscal years for medical assistance payments of the Department of Healthcare and Family Services. As a result of the extension, the preparation and completion of critical financial schedules will continue to be delayed. Further, the CAFR completion continues to be delayed because of financial reporting issues identified during individual State agency financial audits. The CAFR cannot be finalized until these issues are resolved at the individual State agency reporting level.

The Office will continue to work with the Governor's Office, the Auditor General's Office, the Financial Reporting Standards Board and agency GAAP coordinators to improve the timeliness, quality, and processing of financial reporting for the State.

2014-002. **FINDING** (Financial Reporting Weaknesses)

The State of Illinois did not have adequate controls to assess the risk that information reported by individual agencies of the primary government would not be fairly stated and compliant with generally accepted accounting principles. As reported in Finding 2014-001 the State has a decentralized financial reporting process. Primarily in response to this decentralized process, we perform audits at 27 agencies of the primary government, including the five pension systems and the State Board of Investments. During these audits, we noted deficiencies that were either material weaknesses or significant deficiencies related to the internal controls over the financial reporting process.

A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

The chart below summarizes the number of material weaknesses and significant deficiencies we reported for each agency.

Agency	Material Weaknesses	Significant Deficiencies	Combined Total
General Assembly Retirement System	0	2	2
Judges Retirement System	0	2	2
Department of Central Management Services	0	1	1
Department of Children and Family Services	0	1	1
Department of Corrections	2	3	5
Department of Employment Security	0	1	1
Department of Human Services	4	3	7
Department of the Lottery	1	1	2
Department of Healthcare and Family Services	0	3	3
Department of Revenue	1	0	1
Department of Transportation	2	3	5
Illinois Gaming Board	0	2	2
State Employees' Retirement System	0	3	3
Teachers' Retirement System	0	1	1
State Universities Retirement System	0	1	1
Total	10	27	37

Details of each material weakness and significant deficiency are reported in each agency's financial audit for the year ended June 30, 2014 (reports are available on the Auditor General's website). Material weaknesses and significant deficiencies further extend financial reporting timelines since additional measurements and reporting are required. Completion or substantial completion of these audits is necessary in order for the Auditor General to issue an opinion on the State's basic financial statements.

In addition to the deficiencies noted above, we identified two categories of material errors. Summary information regarding these errors is provided below.

Restatements – Correction of Prior Errors

Description of Error	Amount (in thousands)*	Responsible Agency
Understatement of amounts earned and due from Federal Government	$20,411	Governors' Office of Management and Budget
Understatement of accumulated depreciation	$41,758	Department of Corrections
Understatement of income taxes receivable	$121,815	Department of Revenue

Misstatements Identified During the Audit Process

The following chart indicates audit adjustments identified during our testing at individual agencies.

Opinion Unit	Amount (in thousands)*	Responsible Agency
Governmental Activities	$62,752	Department of Corrections
Governmental Activities	$169,326	Department of Human Services
Governmental Activities	$123,202	Department of Revenue
Governmental Activities	$116,064	Department of Transportation
Business-type Activities	$5,656	Illinois Student Assistance Commission
General Fund	$189,709	Department of Human Services
General Fund	$123,202	Department of Revenue
Road Fund	$63,615	Department of Transportation
Prepaid Tuition Fund	$5,656	Illinois Student Assistance Commission
Aggregate Remaining Fund Information	$122,501	Department of Human Services
Aggregate Remaining Fund Information	$10,889	Department of Transportation
Aggregate Remaining Fund Information	$5,347	Illinois Student Assistance Commission
Aggregate Remaining Fund Information	$40,784	Department of Healthcare and Family Services

* *Amounts resulted in one adjustment or a series of adjustments for the opinion unit. The dollar amount reported is the largest account type adjusted.*

The State's decentralized reporting system and related decentralized internal control system is not adequate to reduce the likelihood that a material misstatement of the State's financial statements could occur and not be detected during the normal course of business. Audit adjustments were routinely identified for the primary government's State agencies required to prepare financial statements that were not deemed material by agency management and were not posted to the financial statements. In working with the Office of the State Comptroller to finalize the State's financial statements, it is necessary to accumulate all of the uncorrected adjustments and evaluate these adjustments in total to ensure that they do not materially misstate the State's financial statements. Because of the volume of these passed adjustments, there is a continual risk that the State's financial statements could potentially be materially misstated until this accumulation and evaluation process is completed. In addition, these uncorrected adjustments require continued accumulation and evaluation in the subsequent year.

The Office of the Governor's management stated that the weaknesses are due to the lack of a Statewide accounting and grants management system. The State currently has 167 disparate accounting systems; this condition hinders the State's ability to implement standardized internal controls and business processes to ensure accurate and timely preparation of financial statements. This is compounded by the lack of personnel adequately trained in governmental accounting and federal grant reporting. The lack of adequate financial and grants management personnel is due in part to a failure to update the qualifications in the respective job titles to ensure that applicants have the minimum required education and skill sets to be properly trained.

The Office of the State Comptroller's management stated the misstatements at the departmental level were caused by a lack of sufficient internal control processes in State agencies for the accumulation and reporting of financial information used to prepare the financial statements. The Office of the State Comptroller has the statutory authority to develop and prescribe accounting policies for the State but does not have the statutory authority to monitor adherence to these policies as performed by State agencies.

In accordance with the Fiscal Control and Internal Auditing Act (30 ILCS 10/1002), each State agency's Chief Executive Officer maintains statutory responsibility for the establishment and continuous monitoring of the internal control function for accounting and other operating policies of the Officer's agency. (Finding Code No. 2014-002, 2013-002, 12-2, 11-2, 10-2, 09-1, 08-1, 07-1, 06-1, 05-1, 04-1, 03-1, 02-1)

RECOMMENDATION

We recommend the State continue their efforts to improve internal control procedures in order to assess the risk of material misstatements to the financial statements and to identify such misstatements during the financial statement preparation process. The internal control procedures should include a formal evaluation of prior problems and implementation of procedures to reduce the risk of these problems reoccurring.

AGENCY RESPONSES

Office of the Governor:

We agree. The Governor's Office will work with the Office of the State Comptroller to continue efforts to improve internal control procedures to reduce the likelihood of material misstatements to the financial statements.

Office of the State Comptroller:

The Office accepts the recommendation. The Office will continue to assist the Governor's Office in their efforts to increase the quality of GAAP packages by providing enhanced training and technical assistance to State agencies. In addition, the Office will continue to work with the Financial Reporting Standards Board in their mission to improve the timeliness, quality and processing of financial reporting for the State.

2014-003. **FINDING** (Late Payment of Statutorily Mandated Transfers)

The Office of the State Comptroller (Comptroller) did not make all statutorily mandated transfers from the General Revenue Fund within established timeframes, as required.

The Comptroller had a system in place to identify and record inter-fund transfers it was required to make. During the Fiscal Year ended June 30, 2014, the Comptroller timely recorded within the Statewide Accounting Management System (SAMS) the receivables and related payables for transfers of money in the State Treasury to be made between State of Illinois' funds. However, not all transfers were made timely. During Fiscal Year 2014, we noted 356 transfers from the General Revenue Fund to various other funds that were made greater than 30 days after the statutorily mandated transfer date. Transfers that were made between one and 30 days after the statutorily mandated transfer date were excluded from the information provided in this finding. The following summary concerning late payment of statutorily mandated transfers from the General Revenue Fund highlights the delays of making such transfers in Fiscal Year 2014 compared to Fiscal Years 2013 and Fiscal Year 2012:

	Fiscal Year 2014	Fiscal Year 2013	Fiscal Year 2012
• Number of late transfers	356 transfers	380 transfers	398 transfers
• Range of days transfers were late	31 to 443 days	33 to 416 days	34 to 529 days
• Total volume of late transfers, in dollars	$2.94 billion	$2.82 billion	$2.45 billion
• Late transfers outstanding as of and paid after June 30	$865 million	$616 million	$1.11 billion

Comptroller management stated, as they did during the prior examinations, that the late payment of transfers occurred because of cash management decisions and prioritization that was required due to the lack of available cash in the State Treasury. Further, some statutory provisions relating to transfers contain language such as "as soon as practicable" or "as soon as possible." The Comptroller stated that approximately 132 of the FY14 transfers totaling $1.17 billion contained this type of language.

Failure to make inter-fund transfers within applicable timeframes represents noncompliance with State law, and untimely transfers of monies may have delayed the receiving fund's use of appropriated funds. (Finding Code No. 2014-003, 2013-003, 12-3, 11-3, 10-3, 09-3)

RECOMMENDATION

We recommend the Office of the State Comptroller make transfers within timeframes established by applicable statute. While we realize that lack of available funds in the State Treasury requires prioritization and cash management decisions, we recommend the Office of the State Comptroller continue in its efforts to make transfers in as timely a manner as possible.

AGENCY RESPONSE

Office of the State Comptroller:

The Office accepts the recommendation. Taking into account the financial condition of State funds, the Office will continue in its efforts to make transfers in the timeliest manner possible.

2014-004. **FINDING** (Debt Covenant Violation)

The Illinois Student Assistance Commission (Illinois Designated Account Purchase Program) was not in compliance with two of the covenants relating to the agency's revolving line of credit agreement.

During the audit of the agency's June 30, 2009, 2010, 2011, 2012, and 2013 financial statements, the Illinois Designated Account Purchase Program (IDAPP) was in violation of one or more debt covenants related to the agency's revolving credit (loan) agreement. In addition, the facility matured on July 27, 2010 and has not been repaid. Per the agreement, the minimum required coverage condition ratio is 104%, while the ratio as of June 30, 2014 was 101.29%. Also per the agreement, the default ratio is set at a maximum of 6.25%, but at June 30, 2014 this ratio was 6.72%.

As a result of the debt covenant violation and the maturity of the facility, the bank has certain remedies available to it under the terms of the loan agreement, principal of which would be rights to call the loan and take possession of the collateral (the underlying student loan portfolio). The bank has been made aware of the event of default and the maturity of the loan and has not communicated to IDAPP any intent to exercise the remedies available to it under the terms of the loan agreement. The balance of the line of credit with the bank was $211,856,827 at June 30, 2014.

According to Commission management, the coverage condition and default issues are due to the poor performance of the portfolio. The portfolio continues to experience a high level of delinquent accounts. The line of credit has not been refinanced because of the conditions in the private loan credit market.

As a result of the violation, the bank may have certain remedies under the terms of the loan agreements, principal of which would be the right to call the loan and take possession of the collateral (the underlying student loan portfolio of IDAPP). (Finding Code No. 2014-004, 2013-004, 12-4, 11-4, 10-6, 09-3)

RECOMMENDATION

We recommend IDAPP continue to monitor the loan covenant violations and continue seeking remedies from the lender involved.

AGENCY RESPONSE

Office of the Governor:

We agree. We will continue to monitor the loan covenant violations and continue seeking remedies from the lender involved.

2014-005. **FINDING** (Finances Increase Risks)

The State of Illinois did not have sufficient controls over its finances to ensure obligations are paid. This condition increases the risk that liabilities will not be properly recorded. We noted the following during our financial audit of the State's financial statements.

As disclosed in Footnote 18 B, the State had transactions, totaling \$3.450 billion, on hand at June 30, 2014 that had been approved for payment by the State, but remained unpaid at year end due to the State's cash flow difficulties. Of this amount, approximately \$1.861 billion was owed to external parties, the remaining balance was related to intra-governmental transactions and statutorily mandated transfers. The external parties include State vendors, State Universities, local schools and local governments. The majority of these "held-payments" were payable from the General Revenue Fund.

The State's inadequate financial reporting process as described in Finding 2014-001 was designed in 1981 under the assumption that cash payments would be made at the time the expenditures were processed by the Comptroller. Since this was not the case at year-end, extra effort was required by the accountants and the auditors to ensure the "held-payments" were appropriately accounted for. In addition, due to the State not being able to pay external vendors in a timely manner, the State paid approximately \$160 million in interest payments during Fiscal Year 2014.

Economic conditions as well as years of unbalanced budgets appear to be the cause of the above condition.

Sound business practices require sufficient controls to ensure liabilities are paid timely. (Finding Code No. 2014-005, 2013-005, 12-5, 11-5, 10-7)

RECOMMENDATION

We recommend the Governor work with the General Assembly to improve the State's control over State finances in a manner that eliminates significant payment delays and unnecessary interest payments to State vendors.

AGENCY RESPONSE

Office of the Governor:

We agree. The Governor's Office will work with the General Assembly, the Office of the State Comptroller and the Office of the State Treasurer to improve the State's control over finances to eliminate significant payment delays and unnecessary interest payments to State vendors.