STATE OF ILLINOIS
OFFICE OF THE
AUDITOR GENERAL
William G. Holland, Auditor General

SUMMARY REPORT DIGEST

STATE OF ILLINOIS

Statewide Financial Statement Audit
For the Year Ended: June 30, 2013

Release Date: March 12, 2014

Summary of Findings:

Total this audit:	**5**
Total last audit:	**5**
Repeated from last audit:	**5**

INTRODUCTION

The Illinois Office of the State Comptroller prepares the State of Illinois Comprehensive Annual Financial Report (CAFR). The CAFR is the State's official annual report which provides the readers with the financial position of the State as of June 30, 2013, and results of operations during the fiscal year.

The financial section of the CAFR includes the Independent Auditors' Report on the basic financial statements, the management discussion and analysis, the basic financial statements, required supplementary information, and individual fund statements and schedules.

AUDITORS' OPINION

The June 30, 2013 financial statements of the State of Illinois are fairly presented in all material respects.

The financial statements at June 30, 2013 reflect the following:

- The net position of governmental activities continued to deteriorate and the deficit increased by $1.2 billion from FY12 to FY13. Overall, the net position of governmental activities is reported as a deficit of $47.8 billion. (Exhibit 1)

- The General Revenue Fund deficit decreased by $1.7 billion from FY12 to FY13. The June 30, 2013 deficit was $7.3 billion. (Exhibit 2)

Over time, increases and decreases in net position measure whether the State's financial position is improving or deteriorating. A comparison of Illinois' financial position to other states is contained in Exhibit 3.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE

In accordance with *Government Auditing Standards*, a report on our consideration of the State of Illinois' internal control over financial reporting and our tests of its compliance is also issued as part of our financial statement audit. This report is a separate document and is summarized in this document. Our report noted that the State's decentralized internal control system is not adequate. We also reported significant financial reporting deficiencies at several State agencies.

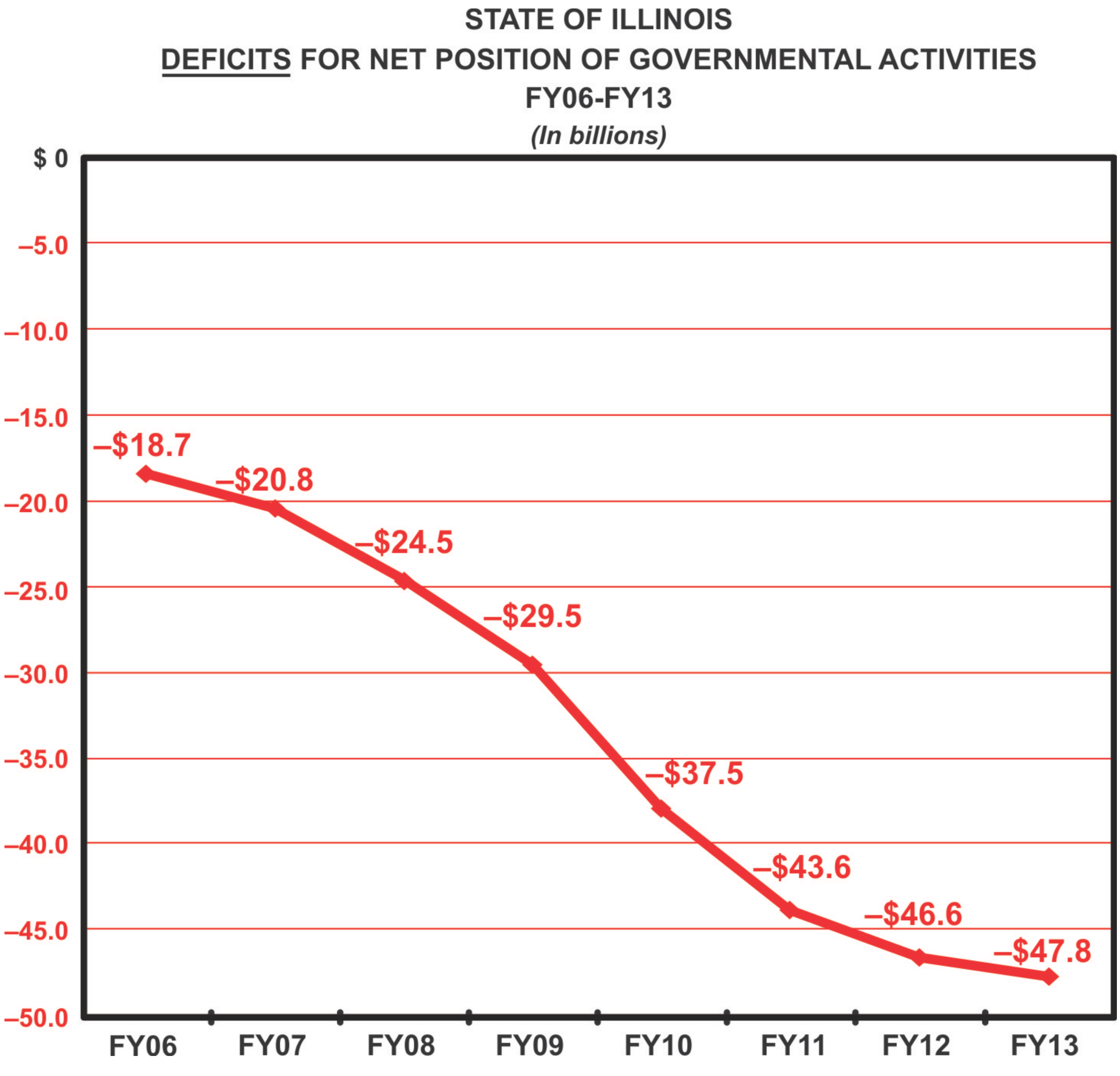
STATE OFFICIALS

Governor	Patrick Quinn
Comptroller	Judy Baar Topinka
Speaker of the House	Michael J. Madigan
President of the Senate	John J. Cullerton
House Republican Leader	Jim Durkin
Senate Republican Leader	Christine Radogno

FINANCIAL ANALYSIS OF THE STATE

The net position of the State's governmental activities declined $1.249 billion. The following condensed financial information was derived from the government-wide Statement of Net Position and reflects the State's governmental activities financial position as of June 30 for Fiscal Years 2006 through 2013.

EXHIBIT 1



Source: Illinois' Comprehensive Annual Financial Report (2013)
Numbers reflect restatements.

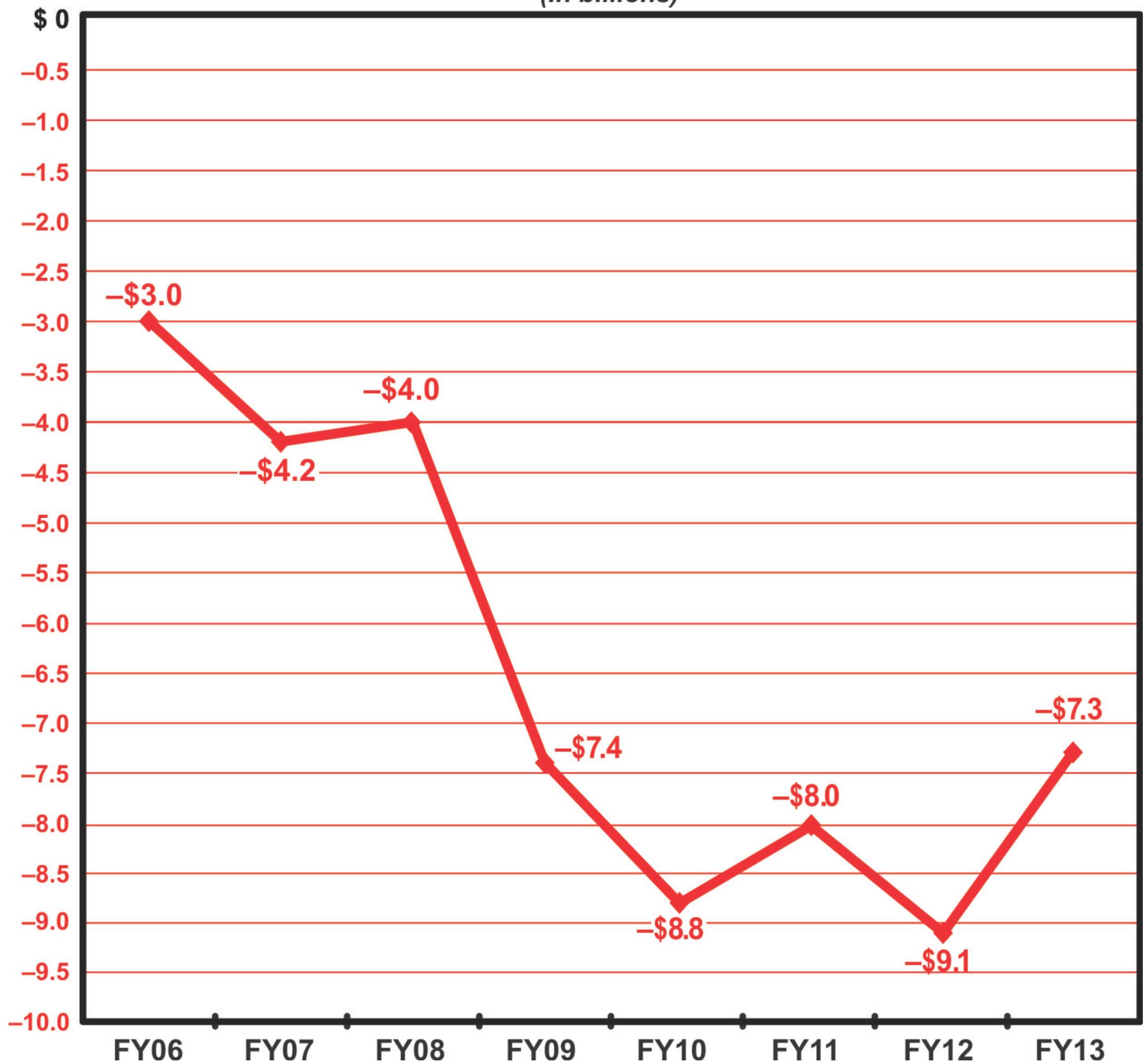
The deficits reflected in Exhibit 1 are presented on an accrual basis and represent the excess of total liabilities over total assets at a given point in time. These deficits represent the deferral of current and prior year costs to future periods.

GENERAL REVENUE FUND

Many programs are accounted for in the General Fund. The GAAP basis financial position of the General Revenue Fund deficit decreased at June 30, 2013 from June 30, 2012. The fund balance deficit in the State's General Revenue Fund decreased by $1.744 billion on a GAAP basis (from a deficit of $9.078 billion, as restated, to a deficit of $7.334 billion). Exhibit 2 reflects the General Revenue Fund deficit for Fiscal Years 2006 through 2013.

EXHIBIT 2

STATE OF ILLINOIS
GENERAL REVENUE FUND DEFICITS
FY06-FY13
(In billions)

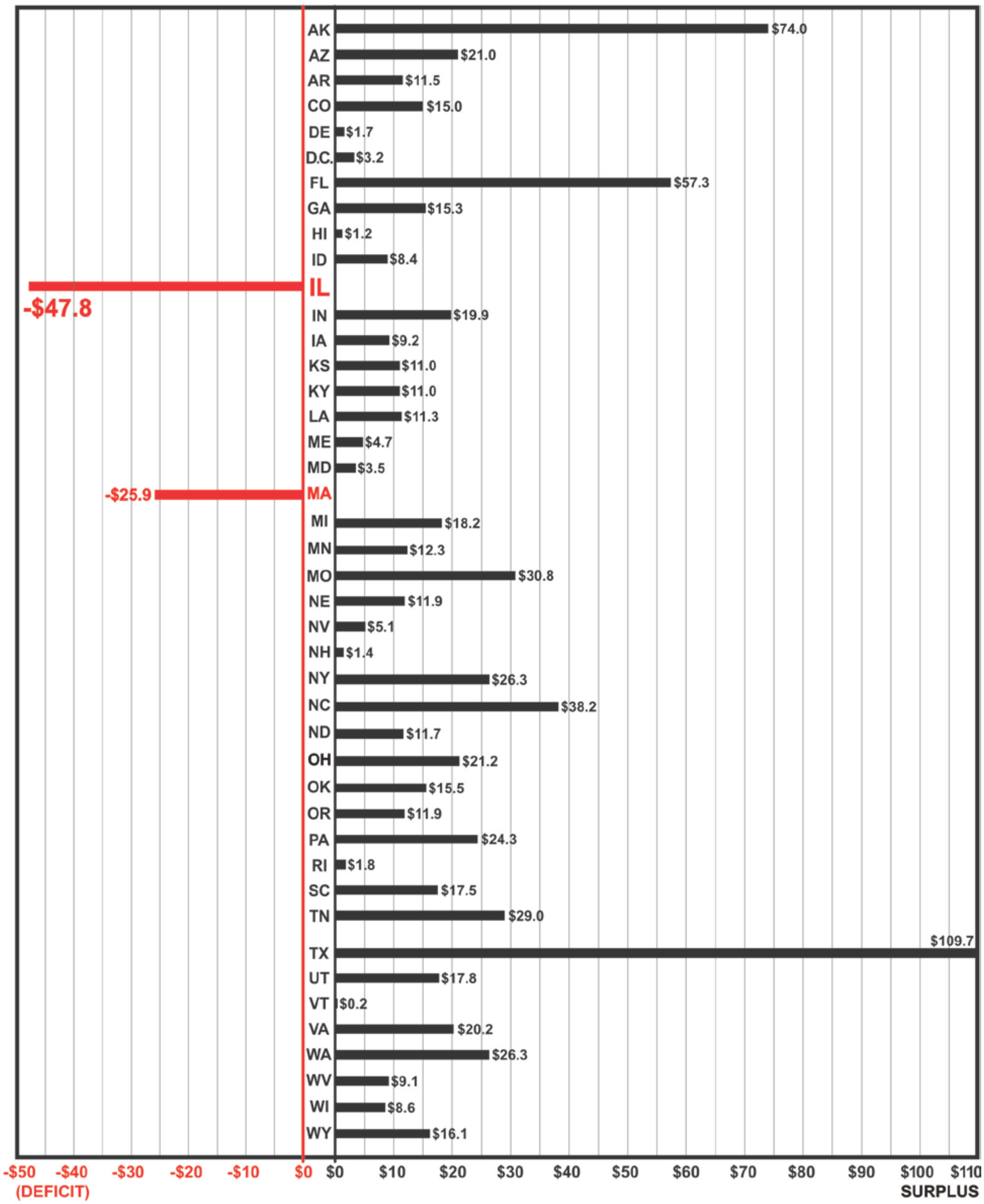


Source: Illinois' Comprehensive Annual Financial Report (2013)
Numbers reflect restatements.

STATE COMPARISON

Exhibit 3 provides an analysis of Illinois' Net Position at June 30, 2013 compared to other States.

EXHIBIT 3
STATE COMPARISON OF NET POSITION OF GOVERNMENTAL ACTIVITIES FOR FY13
(In billions)



Source: Compiled by Illinois Auditor General's Office from Comprehensive Annual Financial Reports (CAFR) for each state, excluding Alabama, California, Connecticut, Mississippi, Montana, New Jersey, New Mexico, and South Dakota, which were not available at February 28, 2014.

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

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) or the Schedule of Expenditures of Federal Awards (SEFA) in a timely manner. Reporting issues at various individual agencies caused delays in finalizing the financial statements. The lack of timely financial reporting limits effective oversight of State finances, may adversely affect the State's bond rating, and may jeopardize federal funding.

Financial reporting problems continue

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.

Financial reporting problems not resolved

Financial reporting process dependent on post audits

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.

Timeliness has improved

Two Public Acts positively affected process

Even though problems still exist in regard to the State's ability to provide accurate and timely external financial reporting, we do acknowledge that the number of deficiencies reported by the auditors in relation to the CAFR and SEFA has decreased and the timeliness has improved. We also 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 only one agency under the Governor was 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 four meetings. (Finding 1, pages 7-11)

We recommended 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 Generally Accepted Accounting Principles (GAAP) basis financial information and a Statewide SEFA.

Governor's Office agreed with auditors

The Governor's Office agreed with our recommendation and stated that the Governor's Office and the Governor's Office of Management and Budget (GOMB) are and will continue to work cooperatively with the Office of the State Comptroller to address these challenges with effective solutions. Further, the Governor's Office stated that a Request for Proposals for an enterprise resources planning project management office consultant was issued in October 2013 and a contract award pursuant to this solicitation is expected to be made in March 2014. This consultant will develop the necessary Statewide requirements for one or more RFPs for software and implementation services to address the State's need. The response provided further details of the plans to address the issues.

IOC agreed with auditors and will continue to assist the Governor's Office

The Comptroller's Office agreed with our recommendation and stated that the Office will continue to assist the Governor's Office in their efforts to increase the quality of GAAP packages and provide enhanced training and technical assistance to State agencies. In addition, the Office will work with the Governor's Office in their efforts to develop a Statewide financial accounting system. Further, the Office will continue to work with the newly created Financial Reporting Standards Board in their mission to improve the timeliness, quality and processing of financial reporting for the State.

FINANCIAL REPORTING WEAKNESSES

11 of 24 agencies with 29 internal control findings over financial reporting

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. The Office of the Auditor General performed audits at 24 agencies of the primary government, including five pension systems and the State Board of Investments. During these audits, we noted at

11 agencies there were a total of 14 material weaknesses and 15 significant deficiencies related to the internal controls over the financial reporting process.

Internal control deficiencies extend financial reporting timelines

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, a restatement and material errors were noted during our audits, which are as follows:

Beginning balances restated

- The beginning balances in the financial statements of the primary government were restated due to the correction of one error. The error resulted in a $11.499 million restatement.

Material misstatements identified

- Material misstatements were identified by the auditors at six agencies. The misstatements ranged from $11.5 million to $202 million. (Finding 2, pages 12-15)

We recommended 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.

Governor's Office agreed and focus is on implementing an enterprise-wide financial accounting system

The Governor's Office agreed with our recommendation and stated that the Governor's Office has focused on solving this problem by implementing a centralized financial accounting system. Further, the Governor's Office stated as the State develops an enterprise-wide financial accounting system it will incorporate standard internal controls to lessen the risk of inaccuracy by preemptively detecting and facilitating resolution of any material weaknesses or deficiencies.

IOC agreed with auditors and will continue to assist the Governor's Office

The Comptroller's Office agreed with our recommendation and stated that the Office will continue to assist the Governor's Office in their efforts to increase the quality of GAAP packages and provide enhanced training and technical assistance to State agencies. In addition, the Office will continue to work with the newly created Financial Reporting Standards Board in their mission to improve the timeliness, quality and processing of financial reporting for the State.

FINANCES INCREASE RISKS

Insufficient controls over the State's finances

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.

$4.061 billion of approved payments on hand at June 30, 2013

$318 million paid in interest payments

The State had transactions, totaling $4.061 billion, on hand at June 30, 2013 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 $2.648 billion was owed to external parties, the remaining balance was related to intra-governmental transactions and statutorily mandated transfers. Due to the State not being able to pay external vendors in a timely manner, the State paid approximately $318 million in interest payments during Fiscal Year 2013. (Finding 5, pages 20-21)

We recommended 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.

Governor's Office agreed with auditors

The Governor's Office agreed with our recommendation and stated measures have been taken to prevent future findings in this area. The response provided further details of the steps that have been taken.

OTHER FINDINGS

The remaining findings included two noncompliance issues. We will review the State's progress towards the implementation of our recommendations in our next audit.

WILLIAM G. HOLLAND
Auditor General

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