



STATE OF ILLINOIS
**OFFICE OF THE
 AUDITOR GENERAL**

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

STATE OF ILLINOIS

Statewide Financial Statement Audit
 For the Year Ended June 30, 2016

Release Date: March 7, 2017

FINDINGS THIS AUDIT: 5	New	Repeat	Total	AGING SCHEDULE OF REPEATED FINDINGS			
				Repeated Since	Category 1	Category 2	Category 3
Category 1:	0	5	5	2010	16-05		
Category 2:	0	0	0	2009	16-03, 16-04		
Category 3:	0	0	0	2007	16-01		
TOTAL	0	5	5	2002	16-02		
FINDINGS 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, 2016, 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, 2016 financial statements of the State of Illinois are fairly presented in all material respects.

The financial statements at June 30, 2016 reflect the following:

- The net position of governmental activities continued to deteriorate and the deficit increased by \$6.3 billion from FY15 to FY16. Overall, the net position of governmental activities is reported as a deficit of \$131.6 billion. (Exhibit 1)
- The General Fund deficit increased by \$2.7 billion from FY15 to FY16. The June 30, 2016 deficit was \$9.6 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.

- Category 1:** Findings that are **material weaknesses** in internal control and/or a **qualification** on compliance with State laws and regulations (material noncompliance).
- Category 2:** Findings that are **significant deficiencies** in internal control and **noncompliance** with State laws and regulations.
- Category 3:** Findings that have **no internal control issues but are in noncompliance** with State laws and regulations.

**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.

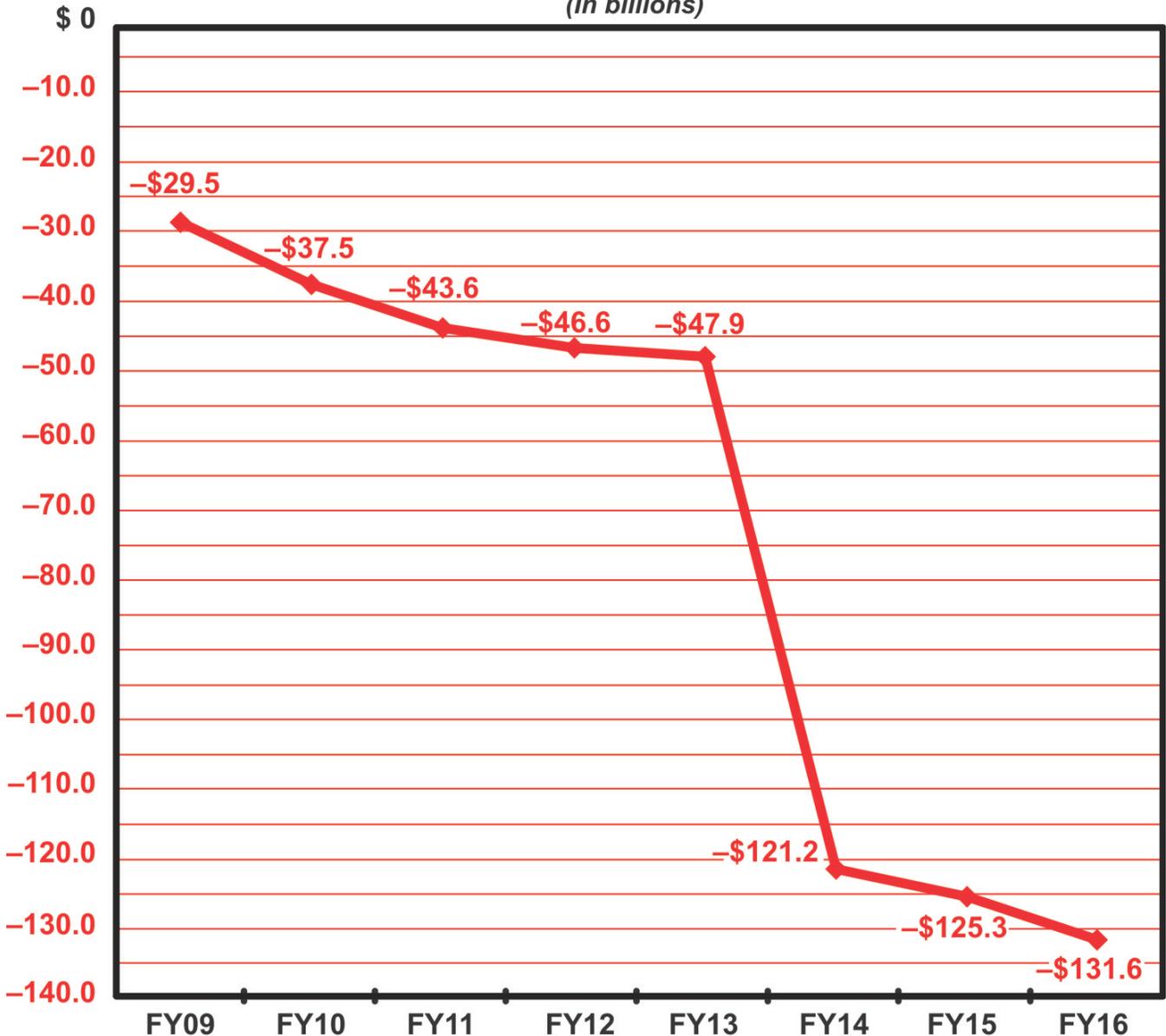
STATE OFFICIALS

Governor	Bruce Rauner
Comptroller	Susana A. Mendoza
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 \$6.262 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 2009 through 2016.

EXHIBIT 1 STATE OF ILLINOIS DEFICITS FOR NET POSITION OF GOVERNMENTAL ACTIVITIES FY09-FY16 (In billions)



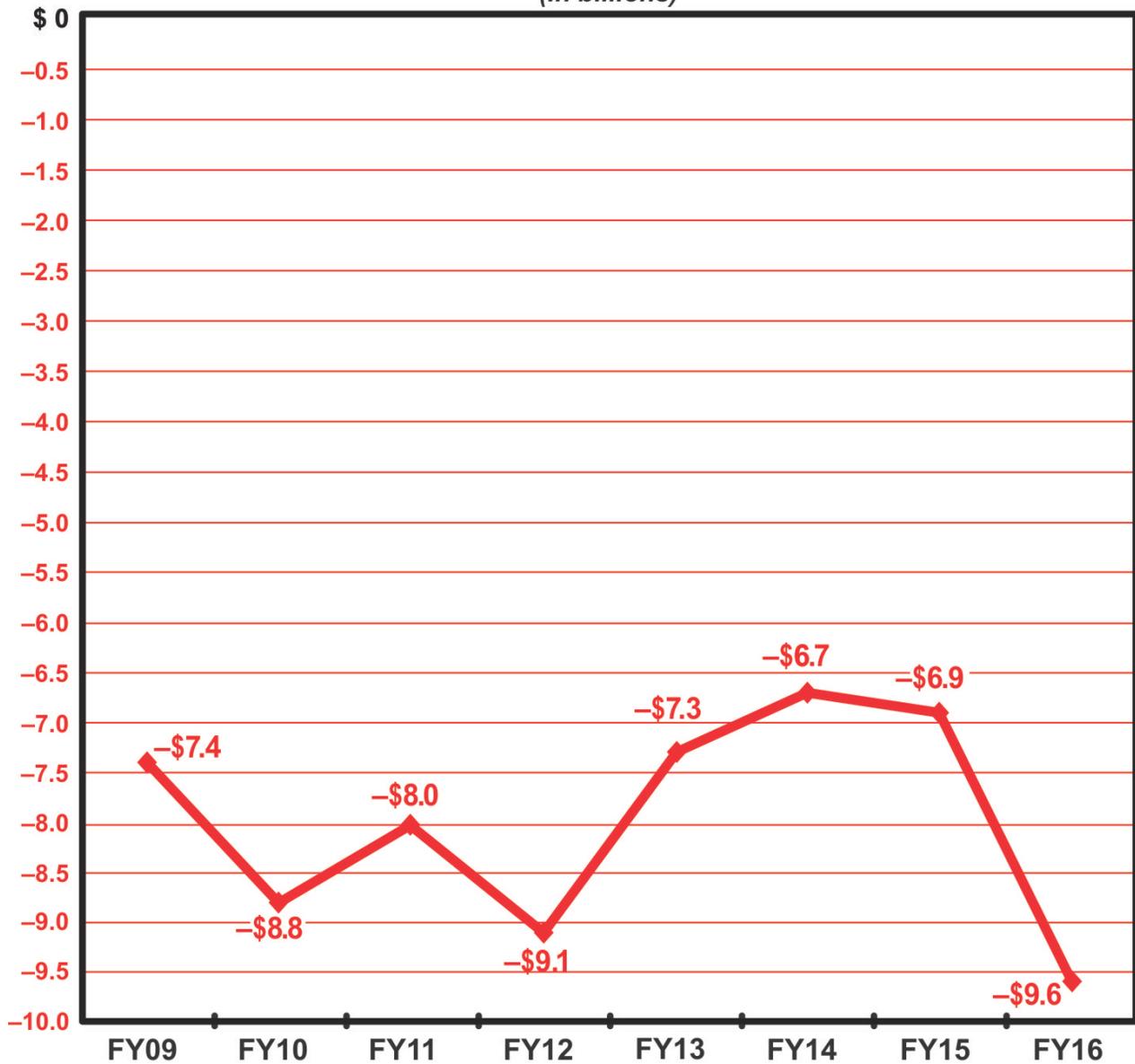
Source: Illinois' Comprehensive Annual Financial Report (2016)
Numbers reflect restatements.

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

GENERAL FUND

Many programs are accounted for in the General Fund. The GAAP basis financial position of the General Fund deficit increased at June 30, 2016 from June 30, 2015. The fund balance deficit in the State's General Fund increased by \$2.737 billion on a GAAP basis. The June 30, 2016 deficit was \$9.6 billion. Exhibit 2 reflects the General Fund deficit for Fiscal Years 2009 through 2016.

EXHIBIT 2
STATE OF ILLINOIS
GENERAL FUND DEFICITS
FY09-FY16
(In billions)

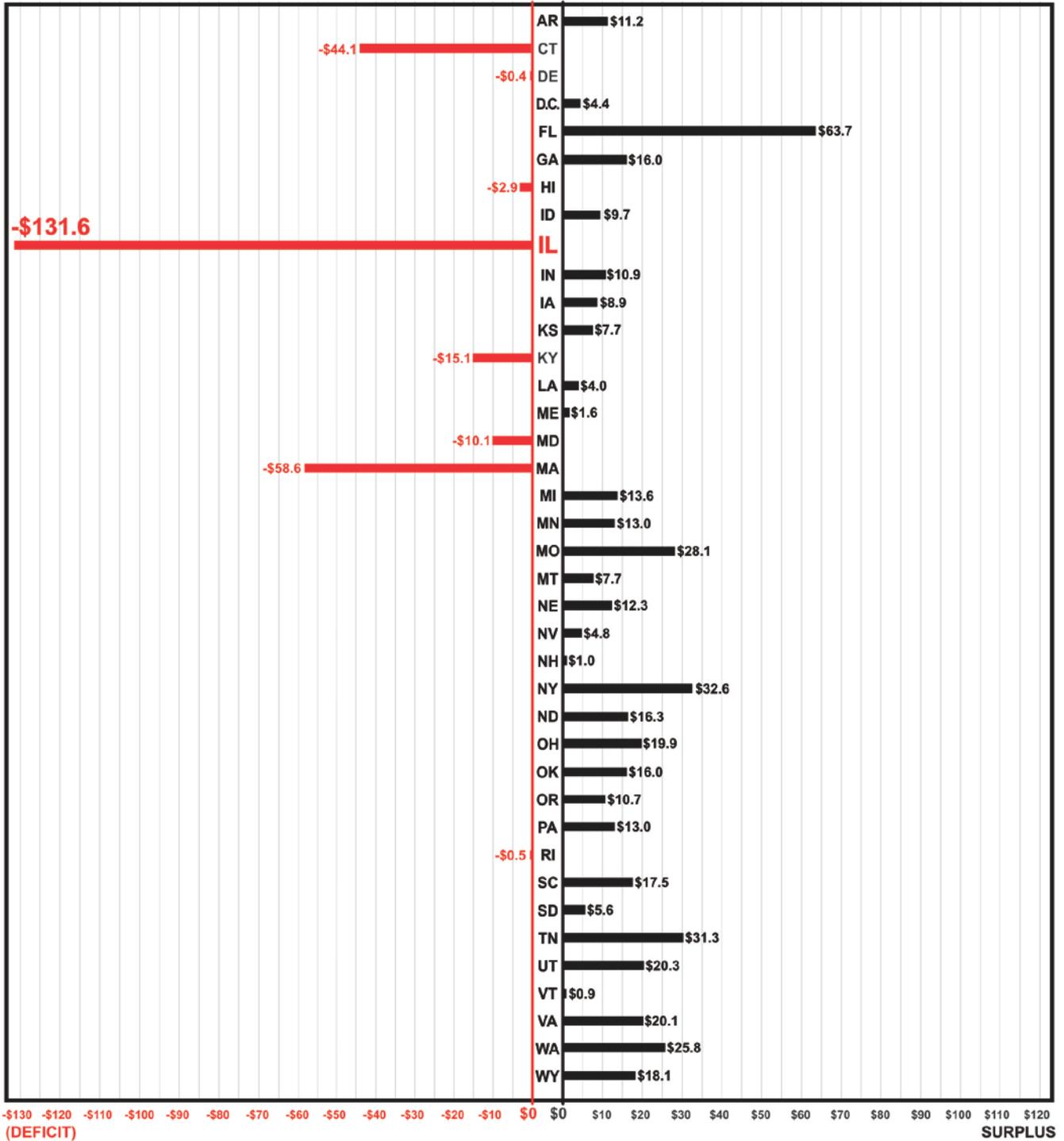


Source: Illinois' Comprehensive Annual Financial Report (2016)
Numbers reflect restatements.

STATE COMPARISON

Exhibit 3 provides an analysis of Illinois' Net Position at June 30, 2016 compared to other States.

EXHIBIT 3
STATE COMPARISON OF NET POSITION OF GOVERNMENTAL ACTIVITIES
FOR FY16
(In billions)



Source: Compiled by Illinois Auditor General's Office from Comprehensive Annual Financial Reports (CAFR) for each state, excluding Alabama, Alaska, Arizona, California, Colorado, Mississippi, New Jersey, New Mexico, North Carolina, Texas, West Virginia, and Wisconsin, which were not available at February 28, 2017.

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) 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 and may adversely affect the State's bond rating.

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

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 even though the Illinois Office of the Auditor General has repeatedly informed State agency officials that the post audit function **is not** a substitute for appropriate internal controls at State agencies.

Financial reporting process dependent on post audits

Only 16% of the 263 different financial reporting systems compliant with GAAP

The State of Illinois has a highly decentralized financial reporting process. It was reported that 88 of 90 primary units of government had 263 different financial reporting systems that are used by primary government agencies and 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.

53% of the 263 different financial reporting systems not interrelated

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. Although these SCO forms are subject to review by the Office of the State Comptroller's financial reporting staff during the CAFR preparation process and the Financial Reporting

Financial reporting process still lacks sufficient internal controls

Standards Board has adopted minimum qualifications for all new GAAP Coordinators who oversee the preparation of the SCO Forms, the current process still lacks sufficient internal controls at individual agencies. (Finding 1, pages 7-9)

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 basis financial information.

Governor's Office agreed with auditors

The Governor's Office agreed with our recommendation and stated that the Governor's Office 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. Both offices have begun a multi-year implementation of an Enterprise Resource Planning (ERP) system to develop an integrated enterprise-wide application system for financials, which will improve the State's control environment and processes to produce accurate financial statements in a timely manner.

Comptroller's Office agreed with auditors

The Comptroller's Office agreed with our recommendation and stated that they will continue to work with the Governor's Office, the Auditor General's Office and agency GAAP Coordinators to improve the timeliness, quality, and processing of financial reporting for the State.

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 (GAAP). The Office of the Auditor General performed audits at 27 agencies of the primary government, including five pension systems and the State Board of Investment. During these audits, we noted at 12 agencies there were a total of 10 material weaknesses and 12 significant deficiencies related to the internal controls over the financial reporting process.

12 of 27 agencies with 22 internal control findings over financial reporting

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.

Internal control deficiencies extend financial reporting timelines

In addition to the deficiencies noted above, material misstatements were identified by the auditors at four agencies. The misstatements ranged from \$522 thousand to \$38.8 million. (Finding 2, pages 10-12)

Material misstatements identified

We recommended the State continue its 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 with auditors

The Governor's Office agreed with our recommendation and stated that 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.

Comptroller's Office agreed with auditors

The Comptroller's Office agreed with our recommendation and stated that the Office will continue to assist the Governor's Office in its efforts to increase the quality of GAAP packages by providing enhanced training and technical assistance to State agencies.

FINANCES INCREASE RISKS

Insufficient controls over the State's finances

The State of Illinois did not have sufficient controls over its finances. This condition increases the risk that liabilities will not be properly recorded. Further, this condition increases risk and diminishes the oversight and authority of the budgeting and appropriation process.

\$5.113 billion of approved payments on hand at June 30, 2016

We noted during our financial audit of the State's financial statements that the State had transactions, totaling \$5.113 billion, on hand at June 30, 2016 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 \$3.181 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 \$23.56 million in interest payments during Fiscal Year 2016, and the State has paid an additional \$86 million during Fiscal Year 2017 as of February 28, 2017.

\$109.56 million paid in interest payments

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 they 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.

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.

This financial audit was conducted by staff of the Office of the Auditor General.

SIGNED ORIGINAL ON FILE

BRUCE L. BULLARD
Division Director

This report is transmitted in accordance with Section 3-14 of the Illinois State Auditing Act.

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

FJM:skm