

State of Illinois

Department of Revenue

Financial Audit
For the Year Ended June 30, 2009
Performed as Special Assistant Auditors
For the Auditor General, State of Illinois

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State of Illinois
Department of Revenue

Agency Officials
For the Year Ended June 30, 2009

Director	Brian A. Hamer
Assistant Director	Vacant (3/13/09 – Current) Pat Welch (7/1/08 – 3/12/09)
Associate Director	Jodie Winnett
Chief of Staff	Lainie Krozel (Acting 7/1/08 – Current)
Chief Fiscal Officer	Mark Lewis
Lottery	Jodie Winnett (Acting)
Liquor Control Commission	Lainie Krozel (7/1/08 – Current)
Gaming Board	Mark Ostrowski
Racing Board	Marc Laino
Program Administrators:	
Administrative Services	Vacant (7/1/08-Current) Stephanie Arkin (07/01/07– 03/21/08)
Account Processing	Wayne Richie (12/1/08 – Current) Wayne Richie (Acting) (10/25/08 – 11/30/08) Carol Davlin (7/1/08 – 10/24/08)
Information Services	Curt Smith
Tax Enforcement	John Chambers (Acting) (3/13/09 – Current) Pat Welch (Acting) (7/1/08 – 3/12/09)
Policy and Communications Office	Mike Klemens
Managers:	
Financial Control Bureau	Larry Lascody, Jr.
Returns and Deposits	Patti Walbaum
General Counsel	John McCaffrey
Administrative and Regulatory Shared Services Center:	
Director	Dave Hunt
Chief Fiscal Officer	Marvin Becker (6/1/09 – Current) Travis March (7/1/08 – 5/15/09)
Customer Service Liaison	Vacant (7/1/08 – Current)
Human Services Director	Vacant (1/1/09 – 6/30/09) Christy Shewmaker (7/1/08 – 12/31/08)
Administrative Director	Angela Oxley (8/21/08 – Current) Vacant (6/1/08 – 8/20/08)

Agency offices are located at:

Willard Ice Building
101 West Jefferson
Springfield, Illinois 62702

James R. Thompson Center
100 West Randolph, Suite 7-500
Chicago, Illinois 60601-3274

Michael A. Bilandic Building
160 N. LaSalle
Chicago, IL 60610

State of Illinois
Department of Revenue

Financial Statement Report

Summary

The audit of the accompanying basic financial statements of the State of Illinois, Department of Revenue (Department), was performed by McGladrey & Pullen, LLP.

Based on their audit, the auditors expressed an unqualified opinion on the Department's basic financial statements.

Summary of Findings

The auditors identified matters involving the Department's internal control over financial reporting that they considered to be significant deficiencies. The significant deficiencies are described in the accompanying Schedule of Findings beginning on page 63 of this report, as findings 09-5 through 09-13. The auditors also consider findings 09-1 through 09-4 to be material weaknesses.

Exit Conference

The findings and recommendations appearing in this report were discussed with Department personnel at an exit conference on April 1, 2010. Attending were:

Department of Revenue

Brian Hamer	Director	Dan Hall	Audit, Program Administrator
Jodie Winnett	Associate Director	Wayne Ritchie	Account Processing, Program Administrator
Jose Borjon	Audit Liaison	Becky Moore	Information Services, Acting Program Administrator
Dave Hunt	Chief Fiscal Officer	Angie Oxley	Administrative Services, Program Administrator
Larry Lascody	Financial Control Bureau Mgr.	Jim Chipman	Assistant General Counsel
Marvin Becker	Shared Services, CFO	Paul Caselton	Deputy General Counsel
Mike Klemens	Policy and Communications Program Administrator		

Office of the Auditor General

Candice Long	Audit Manager
Kathy Lovejoy	Audit Manager
Dan Nugent	Auditor

McGladrey & Pullen, LLP

Linda Abernethy	Partner
William Sarb	Senior

The responses to the recommendations were provided by Brian A. Hamer, Director, in a letter dated April 9, 2010.

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of Illinois, Department of Revenue, as of and for the year ended June 30, 2009, which collectively comprise the State of Illinois, Department of Revenue's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Illinois, Department of Revenue's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 2, the financial statements of the State of Illinois, Department of Revenue are intended to present the financial position and changes in financial position and cash flows, where applicable, of only that portion of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the State of Illinois, Department of Revenue. They do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2009, and its changes in financial position including cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 10, the Department has the following significant fund deficits as of June 30, 2009; General Fund, \$880 million, and Personal Property Tax Replacement Fund (non-major special revenue fund) \$122 million. The Department's plan to eliminate these deficits is highly dependent on the collection of future revenues and increased appropriations of future State revenues.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of Illinois, Department of Revenue, as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 29, 2010 on our consideration of the State of Illinois, Department of Revenue's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The State of Illinois, Department of Revenue has not presented a management's discussion and analysis and budgetary comparison information for the General Fund that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Illinois, Department of Revenue's basic financial statements. The combining statements and schedules listed as supplementary information in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining statements and schedules listed as supplementary information in the table of contents have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, the Comptroller, and Department management, and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey & Pullen, LLP

Schaumburg, Illinois
April 29, 2010

State of Illinois
Department of Revenue

Statement of Net Assets

June 30, 2009 (Expressed in Thousands)

	Governmental Activities	Business-type Activities	Total
ASSETS			
Unexpended appropriations	\$ 18,882	\$ -	\$ 18,882
Cash equity in State Treasury	1,355,006	18,755	1,373,761
Cash and cash equivalents	6	3,922	3,928
Investments	-	966	966
Taxes receivable, net	1,077,404	-	1,077,404
Intergovernmental receivables	471	-	471
Other receivables, net	7,408	21,731	29,139
Due from Department fiduciary funds	-	168	168
Due from Department funds	(69,842)	69,842	-
Due from State funds	22	3	25
Due from State of Illinois component units	340,987	-	340,987
Inventories	429	448	877
Prepaid expenses	-	78	78
Capital assets being depreciated, net	1,597	502	2,099
Total assets	2,732,370	116,415	2,848,785
LIABILITIES			
Accounts payable and accrued liabilities	1,346,999	71,772	1,418,771
Intergovernmental payables	905,348	39	905,387
Due to other Department fiduciary funds	35,528	-	35,528
Due to other State fiduciary funds	2,002	107	2,109
Due to other State funds	248,101	4,237	252,338
Due to State of Illinois component units	66	-	66
Unearned revenue	486,176	3,027	489,203
Long-term obligations:			
Portion due or payable within one year	900	165	1,065
Portion due or payable after one year	15,449	2,165	17,614
Total liabilities	3,040,569	81,512	3,122,081
NET ASSETS			
Invested in capital assets, net of related debt	1,597	502	2,099
Restricted for education	-	34,401	34,401
Unrestricted net assets	(309,796)	-	(309,796)
Total net assets	\$ (308,199)	\$ 34,903	\$ (273,296)

The accompanying notes to the financial statements are an integral part of this statement.

State of Illinois
Department of Revenue
Statement of Activities

For the Year Ended June 30, 2009 (Expressed in Thousands)

Functions/Programs	Program Revenues			Net (Expense) Revenues and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities						
General government	\$ 352,965	\$ 56,638	\$ 5	\$ (296,322)	\$ -	\$ (296,322)
Health and social services	5,243	-	-	(5,243)	-	(5,243)
Employment and economic development	5,000	-	-	(5,000)	-	(5,000)
Environment and business regulation	15,154	-	-	(15,154)	-	(15,154)
Intergovernmental-revenue sharing	4,625,074	-	-	(4,625,074)	-	(4,625,074)
Total governmental activities	5,003,436	56,638	5	(4,946,793)	-	(4,946,793)
Business-type activities						
Lottery	1,443,717	2,082,039	-		638,322	638,322
Total Department	\$ 6,447,153	\$ 2,138,677	\$ 5			
General revenues						
Taxes:						
Income taxes				11,841,966	-	11,841,966
Sales taxes				9,096,580	-	9,096,580
Motor fuel taxes				1,349,275	-	1,349,275
Public utility taxes				1,572,529	-	1,572,529
Other taxes				1,401,653	-	1,401,653
Interest and investment income				3,825	51	3,876
Other revenues				21,314	-	21,314
Appropriations from State Resources				269,980	-	269,980
Lapsed appropriations				(19,613)	-	(19,613)
Receipts collected and transmitted to State Treasury				(20,092,459)	-	(20,092,459)
Amount of SAMS transfers-in				(2,622,422)	-	(2,622,422)
Amount of SAMS transfers-out				1,455,609	-	1,455,609
Capital transfers to/from other State agencies				56	-	56
Transfer of administration of funds to other State agencies				(1,090)	-	(1,090)
Transfers-in				524,055	-	524,055
Transfers-out				(415,768)	(634,664)	(1,050,432)
Total general revenues and transfers				4,385,490	(634,613)	3,750,877
Change in net assets				(561,303)	3,709	(557,594)
Net assets, July 1, 2008				253,104	31,194	284,298
Net assets, June 30, 2009				\$ (308,199)	\$ 34,903	\$ (273,296)

The accompanying notes to the financial statements are an integral part of this statement.

State of Illinois
Department of Revenue

Balance Sheet -
Governmental Funds

June 30, 2009 (Expressed in Thousands)

	<u>General Fund</u>	<u>Nonmajor funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Unexpended appropriations	\$ 8,235	\$ 10,647	\$ 18,882
Cash equity in State Treasury	456,094	898,912	1,355,006
Cash and cash equivalents	-	6	6
Taxes receivables, net	761,204	316,200	1,077,404
Intergovernmental receivables	471	-	471
Other receivables	-	7,408	7,408
Due from other Department funds	15,238	113,926	129,164
Due from other State funds	-	22	22
Due from State of Illinois component units	-	340,987	340,987
Inventories	429	-	429
Total assets	<u>\$1,241,671</u>	<u>\$1,688,108</u>	<u>\$ 2,929,779</u>
LIABILITIES			
Accounts payable and accrued liabilities	\$1,285,878	\$ 61,121	\$ 1,346,999
Intergovernmental payables	823	904,525	905,348
Due to other Department fiduciary funds	9,783	25,745	35,528
Due to other State fiduciary funds	766	1,236	2,002
Due to other Department funds	133,819	65,187	199,006
Due to other State funds	245,153	2,948	248,101
Due to State of Illinois component units	2	64	66
Unavailable revenue	80,951	23,265	104,216
Unearned revenue	364,364	121,812	486,176
Total liabilities	<u>2,121,539</u>	<u>1,205,903</u>	<u>3,327,442</u>
FUND BALANCES (DEFICITS)			
Reserved for:			
Encumbrances	1	1,840	1,841
Inventories	429	-	429
Long-term portion of due from other State of Illinois component units	-	340,987	340,987
Unreserved, undesignated			
General fund	(880,298)	-	(880,298)
Special revenue funds	-	139,378	139,378
Total fund balances (deficits)	<u>(879,868)</u>	<u>482,205</u>	<u>(397,663)</u>
Total liabilities and fund balances (deficits)	<u>\$1,241,671</u>	<u>\$1,688,108</u>	<u>\$ 2,929,779</u>

The accompanying notes to the financial statements are an integral part of this statement.

State of Illinois
Department of Revenue
Reconciliation of Governmental Funds Balance Sheet
to Statement of Net Assets
June 30, 2009
(Expressed in Thousands)

Total fund balances-governmental funds	\$	(397,663)
<p>Amounts reported for governmental activities in the Statement of Net Assets are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.</p>		1,597
<p>Revenues in the Statement of Activities that do not provide current financial resources are deferred in the funds.</p>		104,216
<p>Some liabilities reported in the Statement of Net Assets do not require the use of current financial resources and therefore are not reported as liabilities in governmental funds. These activities consist of:</p>		
Compensated absences		(16,349)
Net assets of governmental activities	\$	(308,199)

The accompanying notes to the financial statements are an integral part of this statement.

State of Illinois
Department of Revenue

**Statement of Revenues, Expenditures
and Changes in Fund Balances - Governmental Funds**

For the Year Ended June 30, 2009 (Expressed in Thousands)

	General Fund	Nonmajor funds	Total Governmental Funds
REVENUES			
Federal operating grants	\$ -	\$ 30	\$ 30
Income taxes	10,801,011	1,055,994	11,857,005
Sales taxes	6,597,788	2,497,650	9,095,438
Motor fuel taxes	-	1,350,032	1,350,032
Public utility taxes	1,158,316	414,503	1,572,819
Other taxes	588,218	804,037	1,392,255
Licenses and fees	6,423	42,192	48,615
Other charges for services	7,631	387	8,018
Interest and other investment income	-	3,825	3,825
Other	3,053	18,261	21,314
Total revenues	<u>19,162,440</u>	<u>6,186,911</u>	<u>25,349,351</u>
EXPENDITURES			
General government	194,553	157,937	352,490
Health and social services	-	5,243	5,243
Employment and economic development	-	5,000	5,000
Environment and business regulation	-	15,154	15,154
Intergovernmental	-	4,625,074	4,625,074
Capital outlays	604	230	834
Total expenditures	<u>195,157</u>	<u>4,808,638</u>	<u>5,003,795</u>
Excess (deficiency) of revenues over (under) expenditures	<u>18,967,283</u>	<u>1,378,273</u>	<u>20,345,556</u>
OTHER SOURCES (USES) OF FINANCIAL RESOURCES			
Appropriations from State resources	164,298	105,682	269,980
Lapsed appropriations	(9,188)	(10,425)	(19,613)
Receipts collected and transmitted to State Treasury	(17,784,650)	(2,307,809)	(20,092,459)
Amount of SAMS Transfers-in	(2,584,622)	(37,800)	(2,622,422)
Amount of SAMS Transfers-out	1,454,349	1,260	1,455,609
Transfer of administration of funds to other State agencies	-	(1,090)	(1,090)
Transfers-in	1,050,320	1,281,907	2,332,227
Transfers-out	(1,583,304)	(640,636)	(2,223,940)
Net other sources (uses) of financial resources	<u>(19,292,797)</u>	<u>(1,608,911)</u>	<u>(20,901,708)</u>
Net change in fund balances	(325,514)	(230,638)	(556,152)
Fund balances (deficits), July 1, 2008	(554,553)	712,843	158,290
Increase for changes in inventories	199	-	199
FUND BALANCES (DEFICITS), JUNE 30, 2009	<u>\$ (879,868)</u>	<u>\$ 482,205</u>	<u>\$ (397,663)</u>

The accompanying notes to the financial statements are an integral part of this statement.

State of Illinois
Department of Revenue
Reconciliation of Statement of Revenues, Expenditures and Changes in
Fund Balances of Governmental Funds to Statement of Activities
For the Year Ended June 30, 2009
(Expressed in Thousands)

Net change in fund balances	\$	(556,152)
Change in inventories		199
		(555,953)
 Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. This is the amount by which capital outlays exceeded depreciation in the current period.		340
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. This amount represents the decrease in unavailable revenue over the prior year.		(5,566)
Some capital assets were transferred in from/out to other State agencies and, therefore, no proceeds were paid/received for the capital asset's value.		56
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. Increase in compensated absences obligation		(180)
		(180)
Change in net assets of governmental activities	\$	(561,303)
		(561,303)

The accompanying notes to the financial statements are an integral part of this statement.

State of Illinois
Department of Revenue

Statement of Net Assets -
Proprietary Funds

June 30, 2009 (Expressed in Thousands)

	Nonmajor Enterprise Fund State Lottery 0711
	<u> </u>
ASSETS	
Cash equity in State Treasury	\$ 18,755
Cash and cash equivalents	3,922
Investments, short-term	96
Other receivables, net	21,731
Due from other Department fiduciary funds	168
Due from other Department funds	69,842
Due from other State Funds	3
Inventories	448
Prepaid expenses	78
Total current assets	<u>115,043</u>
Investments	870
Capital assets being depreciated, net	502
Total assets	<u>116,415</u>
LIABILITIES	
Accounts payable and accrued liabilities	71,772
Intergovernmental payables	39
Due to other State fiduciary funds	107
Due to other State funds	4,237
Unearned revenue	3,027
Current portion of long-term obligations	165
Total current liabilities	<u>79,347</u>
Noncurrent portion of long-term obligations	2,165
Total liabilities	<u>81,512</u>
NET ASSETS	
Invested in capital assets, net of related debt	502
Restricted for education	34,401
Total net assets	<u>\$ 34,903</u>

The accompanying notes to the financial statements are an integral part of this statement.

State of Illinois
Department of Revenue

Statement of Revenues, Expenses and Changes in Fund
Net Assets - Proprietary Funds

For the Year Ended June 30, 2009 (Expressed in Thousands)

	Nonmajor Enterprise Fund State Lottery 0711
	<hr/>
OPERATING REVENUES	
Charges for sales and services	\$ 2,077,166
Other	4,873
Total operating revenues	<hr/> 2,082,039 <hr/>
OPERATING EXPENSES	
Cost of sales and services	152,573
Prizes and claims	1,225,864
General and administrative	65,096
Depreciation	184
Total operating expenses	<hr/> 1,443,717 <hr/>
Operating income (loss)	<hr/> 638,322 <hr/>
NONOPERATING REVENUES (EXPENSES)	
Interest and investment income	51
Income (loss) before transfers	<hr/> 638,373 <hr/>
Transfers-out	(634,664)
Net income (loss)	<hr/> 3,709 <hr/>
Net assets (deficit), July 1, 2008	31,194
NET ASSETS (DEFICIT), JUNE 30, 2009	<hr/> \$ 34,903 <hr/> <hr/>

The accompanying notes to the financial statements are an integral part of this statement.

State of Illinois
Department of Revenue

Statement of Cash Flows -
Proprietary Funds

For the Year Ended June 30, 2009 (Expressed in Thousands)

	Nonmajor Enterprise Fund State Lottery 0711
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from sales and services (net of \$927,976 cash prizes paid by agents and \$104,571 commission retained by agents)	\$ 1,039,536
Cash payments to employees for services	(111,853)
Cash payments for lottery prizes	(293,848)
Cash receipts from other operating activities	4,873
Cash payments for other operating activities	(186)
Net cash provided (used) by operating activities	<u>638,522</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers-out to other funds	(630,199)
Net cash provided (used) by noncapital financing activities	<u>(630,199)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(306)
Net cash (used) by capital and related financing activities	<u>(306)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends on investments	51
Net cash provided by investing activities	<u>51</u>
Net increase (decrease) in cash and cash equivalents	8,068
Cash and cash equivalents, July 1, 2008	<u>14,609</u>
CASH AND CASH EQUIVALENTS, JUNE 30, 2009	<u>\$ 22,677</u>
Reconciliation of cash and cash equivalents to the statement of net assets:	
Total cash and cash equivalents per the statement of net assets	\$ 3,922
Add: Cash equity with State Treasurer	18,755
CASH AND CASH EQUIVALENTS, JUNE 30, 2009	<u>\$ 22,677</u>

The accompanying notes to the financial statements are an integral part of this statement.

State of Illinois
Department of Revenue

Statement of Cash Flows -
Proprietary Funds

For the Year Ended June 30, 2009 (Expressed in Thousands)

	<u>Nonmajor Enterprise Fund State Lottery 0711</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
OPERATING INCOME (LOSS)	<u>\$ 638,322</u>
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	184
Provision for uncollectible accounts	1,349
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(6,212)
(Increase) decrease in due from other funds	168
(Increase) decrease in inventory	(186)
(Increase) decrease in prepaid expenses	26
Increase (decrease) in accounts payable and accrued liabilities	724
Increase (decrease) in intergovernmental payables	39
Increase (decrease) in due to other funds	3,939
Increase (decrease) in due to component units	
Increase (decrease) in unearned revenues	79
Increase (decrease) in other liabilities	90
Total adjustments	<u>200</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u><u>\$ 638,522</u></u>

The accompanying notes to the financial statements are an integral part of this statement.

State of Illinois
Department of Revenue

Statement of Fiduciary Net Assets

June 30, 2009 (Expressed in Thousands)

	<u>Investment Trust Fund</u>		
		<u>Deferred Prize Winners Trust Fund 0978</u>	<u>Agency Funds</u>
ASSETS			
Cash equity in State Treasury	\$	2,099	\$ 452,358
Cash and cash equivalents		-	4,328
Fixed income investments		485,425	-
Taxes receivable, net		-	127,890
Other receivables, net		-	190
Due from other Department funds		-	35,528
Total assets		<u>487,524</u>	<u>\$ 620,294</u>
LIABILITIES			
Accounts payable and accrued liabilities		-	\$ 7,975
Intergovernmental payables		-	607,969
Due to other Department funds		168	-
Other liabilities		1,931	4,350
Total liabilities		<u>2,099</u>	<u>\$ 620,294</u>
NET ASSETS			
Held in trust for prizewinners		<u>485,425</u>	
Total net assets	\$	<u>485,425</u>	

The accompanying notes to the financial statements are an integral part of this statement.

State of Illinois
Department of Revenue

Statement of Changes in Fiduciary Net Assets

For the Year Ended June 30, 2009 (Expressed in Thousands)

	<u>Investment Trust Fund</u>	<u>Deferred Prize Winners Trust Fund 0978</u>
ADDITIONS:		
Investment earnings:		
Interest, dividends and other investment income	\$ 30,288	
Net increase in the fair value of investments		958
Net investment income	<u>31,246</u>	
Individual account transactions:		
Shares sold		15,327
Shares redeemed		<u>(130,651)</u>
Net individual account transactions		<u>(115,324)</u>
Total additions		(84,078)
Net assets, July 1, 2008		<u>569,503</u>
Net assets, JUNE 30, 2009	\$	<u><u>485,425</u></u>

The accompanying notes to the financial statements are an integral part of this statement.

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(1) Organization

The Department of Revenue (the Department) is a part of the executive branch of government of the State of Illinois (State) and operates under the authority of and review by the Illinois General Assembly. The Department operates under a budget approved by the General Assembly in which resources primarily from the General Revenue Fund are appropriated for the use of the Department. Activities of the Department are subject to the authority of the Office of the Governor, the State's chief executive officer, and other departments of the executive and legislative branches of government (such as the Department of Central Management Services, the Governor's Office of Management and Budget, the State Treasurer's Office, and the State Comptroller's Office) as defined by the Illinois General Assembly. All funds appropriated to the Department and all other cash received are under the custody and control of the State Treasurer, with the exception of the Surety Bond Fund, the Lottery Agent Security Deposits Fund, and the Evidence Fund.

The Department is organized to provide for administering, collecting, enforcing and determining distribution of the taxes imposed by the State's major tax acts. The Department also administers and oversees the operations of the Illinois Lottery, the Liquor Control Commission, the Illinois Gaming Board, and the Illinois Racing Board.

(2) Summary of Significant Accounting Policies

The financial statements of the Department have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB). To facilitate the understanding of data included in the financial statements, summarized below are the more significant accounting policies.

(a) Financial Reporting Entity

As defined by GAAP, the financial reporting entity consists of a primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as:

- 1) Appointment of a voting majority of the component unit's board and either (a) the primary government's ability to impose its will, or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or
- 2) Fiscal dependency on the primary government.

Based upon the required criteria, the Department has no component units and is not a component unit of any other entity. However, because the Department is not legally separate from the State of Illinois, the financial statements of the Department are included in the financial statements of the State of Illinois. The State of Illinois' Comprehensive Annual Financial Report may be obtained by writing to the State Comptroller's Office, Division of Financial Reporting, 325 West Adams Street, Springfield, Illinois, 62704-1871.

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(b) Basis of Presentation

The financial statements of the State of Illinois, Department of Revenue, are intended to present the financial position, changes in financial position, and cash flows of only that portion of the governmental activities, each major governmental fund of the State of Illinois, the enterprise fund, and the aggregate remaining fund information of the State of Illinois that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2009 the changes in financial position for the year then ended, and the cash flows in conformity with accounting principles generally accepted in the United States of America.

Government-wide Statements. The government-wide statement of net assets and statement of activities report the overall financial activity of the Department, excluding fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities of the Department. These statements distinguish between the *governmental* and *business-type* activities of the Department. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of net assets presents the assets and liabilities of the Department's governmental and business-type activities with the difference being reported as net assets. The assets and liabilities are presented in order of their relative liquidity by class of asset or liability with liabilities whose average maturities are greater than one year reported in two components - the amount due within one year and the amount due in more than one year.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the Department and for each function of the Department's governmental activities. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges paid by the recipients of goods or services offered by the programs. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements. The fund financial statements provide information about the Department's funds, including fiduciary funds. Separate statements for each fund category - governmental, proprietary, and fiduciary - are presented. The emphasis on fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal value. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The Department administers the following major governmental funds (or portions thereof in the case of shared funds – see note 2(d)) of the State:

General – This is the State's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The

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services which are administered by the Department and accounted for in the general fund include, among others, general government services.

Additionally, the Office administers the following fund types:

Governmental Fund Types:

Special Revenue – These funds account for resources obtained from specific revenue sources that are legally restricted to expenditures for specified purposes. Special revenue funds account for, among other things, federal grant programs, taxes levied with statutorily defined distributions and other resources restricted as to purpose.

Proprietary Fund Types:

Enterprise – The State Lottery Fund accounts for operations of the State Lottery in which the net proceeds are used for the support of the State’s Common School Fund.

Fiduciary Fund Types:

Investment Trust – The Deferred Lottery Prizewinners Trust Fund accounts for the external portion of investment pools made on behalf of Lottery prizewinners.

Agency – These funds account for assets held by the Department, acting in the capacity of an agent, for distribution to other governmental units or designated beneficiaries.

(c) *Measurement Focus and Basis of Accounting*

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place. Nonexchange transactions, in which the Department gives (or receives) value without directly receiving (or giving) equal value in exchange, include income and replacement, sales, motor fuel, and excise taxes. On an accrual basis, revenues from these taxes are recognized in the fiscal year in which the underlying exchange transaction occurs. Revenue from grants, entitlements, and similar items are recognized in the fiscal year in which all eligibility requirements imposed by the provider have been met.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Expenditures generally are recorded when the liability is incurred, as under accrual accounting. However, principal and interest on formal debt issues, claims and judgments, and compensated absences are recorded only when payment is due.

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Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Significant revenue sources which are susceptible to accrual include income taxes, sales taxes, public utility taxes, motor fuel taxes, other taxes, tax penalties, and interest. The tax revenues are recorded by the State as taxpayers earn income (personal income tax, corporate income tax, and other taxes), as sales are made (sales taxes, public utility taxes, motor fuel taxes, and other taxes), or as the taxable event occurs (other taxes) net of estimated overpayments and amounts not expected to be collected. All other revenue sources including fines, licenses, and other miscellaneous revenues are considered to be measurable and available only when cash is received. Estimates are used to assign estimated tax payments received or refunds applied to future tax periods for individual and corporate income taxes to the proper fiscal year.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The State also has the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The State has elected not to follow subsequent private-sector guidance as it relates to the Department's operations.

(d) Shared Fund Presentation

The financial statement presentation for the General Revenue Fund, Education Assistance Fund, Motor Fuel Tax Fund, Public Utility Fund, Underground Storage Tank Fund, Illinois Gaming Law Enforcement Fund, Used Tire Management Fund, Natural Areas Acquisition Fund, Open Space Lands Acquisition and Development Fund, Common School Fund, Drycleaner Environment Response Trust Fund, Supplemental Low Income Energy Assistance Fund, Renewable Energy Resources Trust Fund, School Infrastructure Fund, Petroleum Resources Revolving Fund, International Tourism Fund, Tobacco Settlement Recovery Fund, Emergency Public Health Fund, Build Illinois Fund, and Local Tourism Fund represent only the portion of the shared fund that can be directly attributed to the operations of the Department. Financial statements for total fund operations of the shared State funds are presented in the State of Illinois' Comprehensive Annual Financial Report.

In presenting these financial statements, certain unique accounts are used for the presentation of shared funds. The following accounts are used in these financial statements to present the Department's portion of shared funds:

Unexpended Appropriations

This "asset" account represents lapse period warrants issued between July and August annually in accordance with the Statewide Accounting Management System (SAMS) records plus any liabilities relating to obligations re-appropriated to the subsequent fiscal year.

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Appropriations from State Resources

This “other financing source” account represents the final legally adopted appropriation according to SAMS records.

Lapsed Appropriations

Lapsed appropriations are the legally adopted appropriations less net warrants issued for the 14 month period from July to August of the following year and re-appropriations to subsequent years according to SAMS records.

Receipts Collected and Transmitted to State Treasury

This “other financing use” account represents all cash receipts received during the fiscal year from SAMS records.

Amount of SAMS Transfers-In

This “other financing use” account represents cash transfers made by the Office of the Comptroller in accordance with statutory provisions to the corresponding fund during the fiscal year per SAMS records in which the Department did not make a deposit into the State Treasury.

Amount of SAMS Transfers-Out

This “other financing source” account represents cash transfers made by the Office of the Comptroller in accordance with statutory provision from the corresponding fund during the fiscal year per SAMS records in which a legally adopted appropriation was not charged.

(e) Eliminations

Eliminations have been made in the government-wide statement of net assets to minimize the “grossing-up” effect on assets and liabilities within the governmental activities column of the Department. As a result, amounts reported in the governmental funds balance sheet as interdepartmental interfund receivables and payables have been eliminated in the government-wide statement of net assets. Amounts reported in the governmental funds balance sheet and proprietary statement of net assets as receivable from or payable to fiduciary funds have been included in the government-wide statement of net assets as receivable from and payable to external parties, rather than as internal balances.

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(f) Cash and Cash Equivalents

Cash equivalents are defined as short-term, highly liquid investments readily convertible to cash with maturities of less than 90 days at time of purchase. Cash and cash equivalents include cash on hand and cash in banks for locally held funds.

(g) Investments

Investments are reported at fair value.

(h) Inventories

Inventories, consisting primarily of lottery tickets and postage and printing supplies, are valued at cost, principally on the first-in, first-out (FIFO) method. Significant inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

(i) Prepaid items

Payments made to vendors for services that will benefit periods beyond the date of this report are recorded as prepaid items on the government-wide statement of net assets.

(j) Interfund Transactions

The Department has the following types of interfund transactions between Department funds and funds of other State agencies:

Services provided and used—sales and purchases of goods and services between funds for a price approximating their external exchange value. Interfund services provided and used are reported as revenues in seller funds and expenditures or expenses in purchaser funds. Unpaid amounts are reported as interfund receivables and payables in the governmental funds balance sheet or the government-wide and proprietary fund statements of net assets.

Reimbursements—repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them. Reimbursements are reported as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund.

Transfers—flows of assets (such as cash or goods) without equivalent flows of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing uses in the funds making transfers and as other financing sources in the funds receiving transfers. In proprietary funds, transfers are reported after nonoperating revenues and expenses.

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(k) Capital Assets

Capital assets, which consist of equipment and automobiles, are reported at cost. Contributed assets are reported at estimated fair value at the time received. Capital assets are depreciated using the straight-line method.

The capitalization threshold for equipment and automobiles is \$5,000 and the estimated useful life is 3-15 years.

(l) Compensated Absences

The liability for compensated absences reported in the government-wide and proprietary fund statements of net assets consists of unpaid, accumulated vacation and sick leave balances for Department employees. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. The liability has been calculated based on the employees' current salary level and includes salary related costs (e.g., social security and Medicare tax).

Legislation that became effective January 1, 1998 capped the paid sick leave for all State Employees' Retirement System members at December 31, 1997. Employees continue to accrue twelve sick days per year, but will not receive monetary compensation for any additional time earned after December 31, 1997. Sick days earned between January 1, 1984 and December 31, 1997 (with a 50% cash value) would only be used after all days with no cash value are depleted. Any sick days earned and unused after December 31, 1997 will be converted to service time for purposes of calculating employee pension benefits.

(m) Fund Balances

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties as to use for specific purposes. Designations of fund balances represent tentative State plans that are subject to change.

(n) Net Assets

In the government-wide and proprietary fund statements of net assets, equity is displayed in three components as follows:

Invested in Capital Assets, Net of Related Debt – This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – This consists of net assets that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and

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unrestricted resources are available for use, generally it is the State's policy to use restricted resources first, then unrestricted resources when they are needed.

Unrestricted – This consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

(o) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(p) Future Adoption of GASB Statements

Effective for the year ending June 30, 2010 the Department will adopt GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which establishes guidance for recognition and amortization of intangible assets in the financial statements of governments. The Department has not yet determined the impact of the Department's financial statements as a result of adopting this statement.

(3) Deposits and Investments

(a) Deposits

The State Treasurer is the custodian of the Department's deposits and investments for funds maintained in the State Treasury. The Department independently manages deposits and investments maintained outside the State Treasury.

Deposits in the custody of the State Treasurer are pooled and invested with other State funds in accordance with the Deposit of State Moneys Act of the Illinois Compiled Statutes (15 ILCS 520/11). Funds held by the State Treasurer have not been categorized as to credit risk because the Department does not own individual securities. Detail on the nature of these deposits and investments is available within the State of Illinois' Comprehensive Annual Financial Report.

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(b) Investments

As of June 30, 2009, the Department had the following investments outside of the State Treasury:

	Fair Value (Thousands)	Weighted Average Maturity (Years)
<i>Enterprise Funds</i>		
Annuities	966	6.748
<i>Fiduciary Funds</i>		
U.S. Treasury bonds	\$ 485,425	4.519

Interest Rate Risk: The Department does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk: Prior to July 30, 1985, the Department did not have a formal investment policy that limited investment choices. Subsequent to July 30, 1985, the Department is limited to investing in direct obligations of the United States of America or backed by the full faith and credit of the United States of America. The Department's investments in annuities are not rated.

(4) Taxes Receivable

Taxes receivable (amounts expressed in thousands) at June 30, 2009 are as follows:

	General Fund	Nonmajor Governmental Funds	Fiduciary Funds
Taxes receivable:			
Income	\$ 669,561	\$ 66,839	\$ -
Sales	575,824	183,051	150,831
Motor fuel tax	-	142,446	-
Public utility	10,817	17,842	18,737
Other	44,232	19,203	1,867
Total taxes receivable	1,300,434	429,381	171,435
Less: allowance for uncollectible taxes	539,230	113,181	43,545
Taxes receivable, net	\$ 761,204	\$ 316,200	\$ 127,890

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(5) Interfund Balances and Activity

(a) Balances Due from/to Other Funds

The following balances (amounts expressed in thousands) at June 30, 2009 represent amounts due from other Department and other State funds.

<u>Fund</u>	<u>Due from</u>			<u>Description/Purpose</u>
	<u>Other Department Funds</u>	<u>Other State Funds</u>	<u>Other Department Fiduciary Funds</u>	
General	\$ 15,238	\$ -	\$ -	Due from other Department funds pursuant to statutory tax allocations and for administrative cost reimbursements.
Nonmajor governmental funds	113,926	22	-	Due from other Department funds pursuant to statutory tax allocations, administrative cost reimbursements, and allocation of lottery proceeds and from other State fund for advances of services purchased.
Lottery	69,842	3	168	Due from General Fund for cumulative overpayment of lottery profits, other State funds for overallocation of lottery proceeds, and from other Department fiduciary funds for unclaimed lottery prizes.
Fiduciary Funds	35,528	-	-	Due from other Department funds pursuant to statutory tax allocations.
	<u>\$ 234,534</u>	<u>\$ 25</u>	<u>\$ 168</u>	

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The following balances (amounts expressed in thousands) at June 30, 2009 represent amounts due to other Department and other State funds.

<u>Fund</u>	<u>Due to</u>				<u>Description/Purpose</u>
	<u>Other Department Funds</u>	<u>Other State Funds</u>	<u>Other Department Fiduciary Funds</u>	<u>Other State Fiduciary Funds</u>	
General	\$ 133,819	\$ 245,153	\$ 9,783	\$ 766	Due to other Department funds pursuant to statutory tax allocations and cumulative overpayment of lottery profits, to other State funds for administrative expenses, and to other State fiduciary funds for payment of retirement benefits.
Nonmajor governmental funds	65,187	2,948	25,745	1,236	Due to other Department funds and other State funds pursuant to statutory tax and fee allocations, for administrative cost reimbursements, and for administrative expenses, other Department fiduciary funds pursuant to statutory tax allocations, and to other State fiduciary funds for payment of retirement benefits.
Lottery	-	4,237	-	107	Due to other State for allocation of lottery proceeds and other State fiduciary funds for retirement benefits.
Fiduciary Funds	168	-	-	-	Due to Lottery Fund for unclaimed lottery prizes.
	<u>\$ 199,174</u>	<u>\$ 252,338</u>	<u>\$ 35,528</u>	<u>\$ 2,109</u>	

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(b) Transfers from/to Other Funds

Interfund transfers in (amounts expressed in thousands) for the year ended June 30, 2009, were as follows:

<u>Fund</u>	<u>Transfers in from</u>		<u>Description/Purpose</u>
	<u>Other Department Funds</u>	<u>Other State Funds</u>	
General	\$ 1,050,320	\$ -	Transfers from Lottery Fund for lottery profits and other Department funds pursuant to statutory tax allocations.
Nonmajor governmental funds	1,281,768	139	Transfers from other Department funds and other State funds pursuant to statutory tax allocations.
	<u>\$ 2,332,088</u>	<u>\$ 139</u>	

Interfund transfers out (amounts expressed in thousands) for the year ended June 30, 2009, were as follows:

<u>Fund</u>	<u>Transfers out to</u>		<u>Description/Purpose</u>
	<u>Other Department Funds</u>	<u>Other State Funds</u>	
General	\$ 1,066,108	\$ 517,196	Transfers to other Department funds and other State funds pursuant to statutory tax allocations.
Nonmajor governmental funds	636,468	4,168	Transfers to other Department funds and other State funds pursuant to statutory tax allocations and to other State funds for budget shortfalls.
Lottery Fund	629,512	5,152	Transfers to General Fund for lottery profits and to other State funds for budget shortfalls.
	<u>\$ 2,332,088</u>	<u>\$ 526,516</u>	

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(c) Balances Due from/ to State of Illinois Component Units

The Illinois Housing Development Authority owes the Department's nonmajor governmental funds \$340.987 million at June 30, 2009 for advances on loan programs.

The following balances (amounts expressed in thousands) at June 30, 2009 represent amounts due to State of Illinois Component Units for reimbursements for expenses incurred.

<u>Due To</u>	<u>General Fund</u>	<u>Nonmajor Governmental Fund</u>
Illinois Toll Highway	\$ -	\$ 3
University of Illinois	2	61
	<u>\$ 2</u>	<u>\$ 64</u>

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(6) Capital Assets

Capital asset activity (amounts expressed in thousands) for the year ended June 30, 2009 was as follows:

	<u>Balance July 1, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Net Transfers</u>	<u>Balance June 30, 2009</u>
Governmental activities:					
Capital assets being depreciated:					
Equipment	\$ 5,963	\$ 834	\$ 5	\$ (368)	\$ 6,424
Less accumulated depreciation:					
Equipment	<u>4,762</u>	<u>494</u>	<u>5</u>	<u>(424)</u>	<u>4,827</u>
Governmental activity capital assets, net	<u>\$ 1,201</u>	<u>\$ 340</u>	<u>\$ -</u>	<u>\$ 56</u>	<u>\$ 1,597</u>

Depreciation expense for governmental activities (amounts expressed in thousands) for the year ended June 30, 2009 was charged to functions as follows:

General government \$ 494

	<u>Balance July 1, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Net Transfers</u>	<u>Balance June 30, 2009</u>
Business-type activities:					
Capital assets being depreciated:					
Equipment	\$ 2,081	\$ 306	\$ -	\$ (60)	\$ 2,327
Less accumulated depreciation:					
Equipment	<u>1,701</u>	<u>184</u>	<u>-</u>	<u>(60)</u>	<u>1,825</u>
Business-type activity capital assets, net	<u>\$ 380</u>	<u>\$ 122</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 502</u>

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(7) Long-Term Obligations

(a) Changes in Long-Term Obligations

Changes in long-term obligations (amounts expressed in thousands) for the year ended June 30, 2009 were as follows:

	Balance July 1, 2008	Additions	Deletions	Balance June 30, 2009	Amounts Due Within One Year
Governmental activities:					
Compensated Absences	\$ 16,169	\$ 9,899	\$ 9,719	\$16,349	\$ 900
Total governmental activities	\$ 16,169	\$ 9,899	\$ 9,719	\$16,349	\$ 900
Business-type activities:					
Compensated Absences	\$ 1,274	\$ 799	\$ 709	\$ 1,364	\$ 69
Obligations to Lottery prizewinners	1,010	-	44	966	96
Total business-type activities	\$ 2,284	\$ 799	\$ 753	\$ 2,330	\$ 165

Compensated absences have been liquidated by the applicable governmental funds that account for the salaries and wages of the related employees.

(b) Obligations to Lottery Prize Winners

The State has obligations to certain lottery prize winners for awards payable in annual installments ranging from nineteen years to the life of the prize winner, with the first payment being made after the claim is presented for payment. In addition, the State has fulfilled its obligations for certain other prize winners through the purchase of annuities under group contracts.

For certain prize winners, annuities were purchased in the name of the State for which the State has retained the rights of ownership. Effective July 30, 1985, State law provides that the State Treasurer, with the consent of the Director of Revenue, may contract to invest in securities, which provide payments corresponding to the Lottery's obligation to these winners. The present value of these annuities and the related liabilities owed to prize winners, \$966 thousand, have been reported in the financial statements of the State Lottery Fund, a nonmajor enterprise fund.

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In addition to the prize obligations discussed above, the State has provided for other payments corresponding to the Lottery's obligation to prize winners through the purchase of direct obligations of the federal government, primarily in the form of United States Treasury zero coupon bonds. As established by State law, such securities shall be maintained in the Deferred Lottery Prize Winners Trust Fund, a special trust fund separate and apart from all public money or funds of the State. These investments are purchased in amounts to provide for annual annuity payments to the prize winner(s) of each qualifying individual drawing. Since these monies are invested by the State on behalf of external legally separate entities (the prize winners), with specific investments being acquired for these individual entities for which the income from and changes in the value of the investments affect only the prize winners for whom they were acquired, in accordance with the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, the Deferred Lottery Prize Winners Trust Fund is reported as an investment trust fund. The investments of the fund were \$485.425 million at June 30, 2009, and the net assets are reported as held in trust for prizewinners.

(8) Pension Plan

Substantially all of the Department's full-time employees who are not eligible for participation in another state-sponsored retirement plan participate in the State Employees' Retirement System (SERS), which is a pension trust fund in the State of Illinois reporting entity. The SERS is a single-employer defined benefit public employee retirement system (PERS) in which State employees participate, except those covered by the State Universities, Teachers', General Assembly, and Judges' Retirement Systems. The financial position and results of operations of the SERS for fiscal year 2009 are included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2009. The SERS issues a separate CAFR that may be obtained by writing to the SERS, 2101 South Veterans Parkway, Springfield, Illinois, 62794-9255.

A summary of SERS benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the SERS' CAFR. Also included is a discussion of employer and employee obligations to contribute and the authority under which those obligations are established.

The Department pays employer retirement contributions based upon an actuarially determined percentage of their payrolls. For fiscal year 2009, the employer contribution rate was 21.049%. Effective for pay periods beginning after December 31, 1991, the State opted to pay the employee portion of retirement for most State agencies (including the Department) with employees covered by the State Employees' and Teachers' Retirement Systems. However, effective with the fiscal year 2004 budget, the State opted to stop paying the portion or a part of the portion of retirement for many State agencies (including the Department) for certain classes of employees covered by the State Employees' and Teachers' Retirement Systems. The pickup, when applicable, is subject to sufficient annual appropriations and those employees covered may vary across employee groups and State agencies.

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June 30, 2009

(9) Post-employment Benefits

The State provides health, dental, vision, and life insurance benefits for retirees and their dependents in a program administered by the Department of Healthcare and Family Services along with the Department of Central Management Services. Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State sponsored pension plans. Health, dental, and vision benefits include basic benefits for annuitants and dependents under the State's self-insurance plan and insurance contracts currently in force. Annuitants may be required to contribute towards health, dental, and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants who retired prior to January 1, 1998, and who are vested in the State Employee's Retirement System do not contribute towards health, dental, and vision benefits. For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced five percent for each year of credited service with the State allowing those annuitants with twenty or more years of credited service to not have to contribute towards health, dental, and vision benefits. Annuitants also receive life insurance coverage equal to the annual salary of the last day of employment until age 60, at which time the benefit becomes \$5,000.

The total cost of the State's portion of health, dental, vision, and life insurance benefits of all members, including post-employment health, dental, vision, and life insurance benefits, is recognized as an expense by the State in the Illinois Comprehensive Annual Financial Report. The State finances the costs on a pay-as-you-go basis. The total costs incurred for health, dental, vision, and life insurance benefits are not separated by department or component unit for annuitants and their dependents nor active employees and their dependents.

A summary of post-employment benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the financial statements of the Department of Healthcare and Family Services. A copy of the financial statements of the Department of Healthcare and Family Services may be obtained by writing to the Department of Healthcare and Family Services, 201 South Grand Ave., Springfield, Illinois, 62763-3838.

(10) Fund Deficits

The General Fund (\$879.868 million) and the Illinois Gaming Law Enforcement (\$486 thousand), State & Local Sales Tax Reform (\$1.028 million), County & Mass Transit (\$1.051 million), Local Government Tax (\$4.377 million), Illinois Racing Board Grant (\$44 thousand), Illinois Tax Increment (\$806 thousand), Horse Racing (\$969 thousand), and Personal Property Tax Replacement Fund (\$121.812 million), nonmajor governmental funds, had fund balance deficits at June 30, 2009. The fund deficits in the General Fund will be eliminated through the collection and allocation of future State revenues to the Department. The fund deficits in the State & Local Sales Tax Reform, County & Mass Transit, and the Local Government Tax funds will be eliminated by future recognition of earned but unavailable revenues. The fund deficit of the Illinois Gaming Law Enforcement, Illinois Racing Board Grant, Illinois Tax Increment, Horse Racing, and the Personal Property Tax Replacement funds will be eliminated through future revenues earned.

**STATE OF ILLINOIS
DEPARTMENT OF REVENUE**

Notes to Financial Statements

June 30, 2009

(11) Risk Management

The Department is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; workers compensation and natural disasters. The State retains the risk of loss (i.e. self insured) for these risks.

The Department's risk management activities are financed through appropriations to the Illinois Department of Central Management Services and are accounted for in the general fund of the State. The claims are not considered to be a liability of the Department; and accordingly, have not been reported in the Department's financial statements for the year ended June 30, 2009.

(12) Commitments and Contingencies

(a) Operating leases

The Department leases certain office space under annual agreements which require the Department to make minimum lease payments. Rent expense under operating leases was \$12.077 million for the year ended June 30, 2009.

(b) Litigation

The Department is routinely involved in a number of legal proceedings and claims that cover a wide range of matters. In the opinion of management, the outcome of these matters is not expected to have any material adverse effect on the financial position or results of operations of the Department.

State of Illinois
Department of Revenue
Combining Schedule of Accounts
General Fund

June 30, 2009 (Expressed in Thousands)

	General Revenue Account 0001	Common School Special 0005	Education Assistance 0007	Income Tax Refund 0278	Common School 0412	Eliminations	Total
ASSETS							
Unexpended appropriation	\$ 8,235	\$ -	\$ -	\$ -	\$ -	-	8,235
Cash equity in State Treasury	167,070	207,509	3,947	61,135	16,433	-	456,094
Taxes receivable, net	603,724	88,054	22,683	45,174	1,569	-	761,204
Intergovernmental receivables	-	-	-	471	-	-	471
Due from other Department funds	1,854	-	13,384	-	-	-	15,238
Inventories	429	-	-	-	-	-	429
Total assets	\$ 781,312	\$ 295,563	\$ 40,014	\$ 106,780	\$ 18,002	\$ -	\$ 1,241,671

LIABILITIES							
Accounts payable and accrued liabilities	\$ 242,931	\$ 70,398	\$ -	\$ 969,078	\$ 3,471	\$ -	\$ 1,285,878
Intergovernmental payables	823	-	-	-	-	-	823
Due to other Department fiduciary funds	9,783	-	-	-	-	-	9,783
Due to other State fiduciary funds	766	-	-	-	-	-	766
Due to other Department funds	62,579	-	-	1,398	69,842	-	133,819
Due to other State funds	245,153	-	-	-	-	-	245,153
Due to State of Illinois Component Units	2	-	-	-	-	-	2
Unavailable revenue	65,749	6,458	3,525	4,632	587	-	80,951
Unearned revenue	262,625	-	20,681	81,058	-	-	364,364
Total liabilities	\$ 890,411	\$ 76,856	\$ 24,206	\$ 1,056,166	\$ 73,900	\$ -	\$ 2,121,539

FUND BALANCES (DEFICITS)							
Reserved for:							
Encumbrances	1	-	-	-	-	-	1
Inventories	429	-	-	-	-	-	429
Unreserved, undesignated	(109,529)	218,707	15,808	(949,386)	(55,898)	-	(880,298)
Total fund balances (deficits)	(109,099)	218,707	15,808	(949,386)	(55,898)	-	(879,868)
Total liabilities and fund balances (deficits)	\$ 781,312	\$ 295,563	\$ 40,014	\$ 106,780	\$ 18,002	\$ -	\$ 1,241,671

State of Illinois
Department of Revenue

**Combining Schedule of Revenues,
Expenditures and Changes in Fund Balance -
General Fund**

For the Year Ended June 30, 2009 (Expressed in Thousands)

	General Revenue Account 0001	Common School Special 0005	Education Assistance 0007	Income Tax Refund 0278	Common School 0412	Eliminations	Total
REVENUES							
Income taxes	\$ 10,050,415	\$ -	\$ 808,342	\$ (57,746)	\$ -	\$ -	\$ 10,801,011
Sales taxes	4,939,767	1,658,021	-	-	-	-	6,597,788
Public utility taxes	1,040,840	-	-	-	117,476	-	1,158,316
Other taxes	412,097	-	-	-	176,121	-	588,218
Licenses and fees	6,183	-	-	-	240	-	6,423
Other charges for services	7,600	-	31	-	-	-	7,631
Interest and investment income	-	-	-	-	-	-	-
Other	3,053	-	-	-	-	-	3,053
Total revenues	16,459,955	1,658,021	808,373	(57,746)	293,837	-	19,162,440
EXPENDITURES							
General government	159,666	-	-	34,887	-	-	194,553
Capital outlay	604	-	-	-	-	-	604
Total expenditures	160,270	-	-	34,887	-	-	195,157
Excess (deficiency) of revenues over (under) expenditures	16,299,685	1,658,021	808,373	(92,633)	293,837	-	18,967,283
OTHER SOURCES (USES) OF FINANCIAL RESOURCES							
Appropriations from State resources	164,298	-	-	-	-	-	164,298
Lapsed appropriations	(9,188)	-	-	-	-	-	(9,188)
Receipts collected and transmitted to State Treasury	(16,696,969)	-	(798,129)	-	(289,552)	-	(17,784,650)
Amount of SAMS transfers-in	(3,186)	-	(430,000)	-	(2,151,436)	-	(2,584,622)
Amount of SAMS transfers-out	1,454,349	-	-	-	-	-	1,454,349
Transfers-in	2,424	-	418,384	-	2,155,948	(1,526,436)	1,050,320
Transfers-out	(1,580,239)	(1,527,577)	-	(1,924)	-	1,526,436	(1,583,304)
Net other sources (uses) of financial resources	(16,668,511)	(1,527,577)	(809,745)	(1,924)	(285,040)	-	(19,292,797)
Net change in fund balances	(368,826)	130,444	(1,372)	(94,557)	8,797	-	(325,514)
Fund balances (deficits), July 1, 2008	259,528	88,263	17,180	(854,829)	(64,695)	-	(554,553)
Increase for changes in inventories	199	-	-	-	-	-	199
FUND BALANCES (DEFICITS), JUNE 30, 2009	\$ (109,099)	\$ 218,707	\$ 15,808	\$ (949,386)	\$ (55,898)	\$ -	\$ (879,868)

State of Illinois
Department of Revenue
Combining Balance Sheet -
Nonmajor Governmental Funds
 June 30, 2009 (Expressed in Thousands)

		Special Revenue									
Motor Fuel Tax	Public Utility	Underground Storage Tank	Illinois Gaming Law Enforcement	State Gaming	IDOR Federal Trust	Rental Housing Support Program	State & Local Sales Tax Reform	RTA Occupation and Use Tax Replacement			
0012	0059	0072	0085	0129	0140	0150	0186	0187			
\$ 10,506	\$ -	\$ 42	\$ 99	\$ -	\$ -	\$ -	\$ -	\$ -			
10,293	1,561	453	34	21,919	33	17,637	45,655	1			
-	-	-	-	-	-	-	-	-			
117,072	1	6,438	597	2,041	-	-	12,234	-			
-	-	-	-	-	-	-	-	-			
3	3,939	-	-	-	-	-	-	-			
-	-	-	-	-	-	-	-	-			
-	-	-	-	-	-	-	-	-			
-	-	-	-	-	-	-	-	-			
\$ 137,874	\$ 5,501	\$ 6,933	\$ 730	\$ 23,960	\$ 33	\$ 17,637	\$ 57,889	\$ 6,226			
\$ 13,717	\$ -	\$ 100	\$ 125	\$ 636	\$ -	\$ 12,526	\$ -	\$ -			
10,457	-	31	1,070	9,333	-	-	8,565	6,226			
-	-	-	-	-	-	-	-	-			
339	-	11	20	118	-	-	-	-			
-	-	-	-	13,384	-	-	49,324	-			
2,288	-	-	-	428	-	-	-	-			
-	-	-	-	61	-	-	-	-			
9,611	1	341	1	-	-	-	1,028	-			
-	-	-	-	-	-	-	-	-			
\$ 36,412	\$ 1	\$ 483	\$ 1,216	\$ 23,960	\$ -	\$ 12,526	\$ 58,917	\$ 6,226			

\$ 10,506	\$ -	\$ 42	\$ 99	\$ -	\$ -	\$ -	\$ -	\$ -		
10,293	1,561	453	34	21,919	33	17,637	45,655	1		
-	-	-	-	-	-	-	-	-		
117,072	1	6,438	597	2,041	-	-	12,234	-		
-	-	-	-	-	-	-	-	-		
3	3,939	-	-	-	-	-	-	-		
-	-	-	-	-	-	-	-	-		
-	-	-	-	-	-	-	-	-		
-	-	-	-	-	-	-	-	-		
\$ 137,874	\$ 5,501	\$ 6,933	\$ 730	\$ 23,960	\$ 33	\$ 17,637	\$ 57,889	\$ 6,226		

ASSETS

Unexpended appropriations
 Cash equity in State Treasury
 Cash and cash equivalents
 Taxes receivable, net
 Intergovernmental receivables
 Other receivables, net
 Due from other Department funds
 Due from other State funds
 Due from State of Illinois component units
Total assets

LIABILITIES

Accounts payable and accrued liabilities
 Intergovernmental payables
 Due to other Department fiduciary funds
 Due to other State fiduciary funds
 Due to other Department funds
 Due to other State funds
 Due to State of Illinois component units
 Unavailable revenue
 Unearned revenue
Total liabilities

FUND BALANCES (DEFICITS)

Reserved for:
 Encumbrances
 Long-term portion of due from State of Illinois component units
 Unreserved, undesignated
 Total fund balances (deficits)
Total liabilities and fund balances (deficits)

State of Illinois
Department of Revenue
Combining Balance Sheet -
Nonmajor Governmental Funds
 June 30, 2009 (Expressed in Thousands)

	Special Revenue										
	County & Mass Transit 0188	Local Government Tax 0189	Illinois Sports Facility 0225	Emergency Public Health 0240	Racing Board Fingerprnt License 0248	Illinois Racing Board Charity 0271	Debt Collection 0279	Illinois Racing Board Grant 0280	Illinois Tax Increment 0281		
ASSETS											
Unexpended appropriations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cash equity in State Treasury	61,744	242,458	1,987	1	107	27	46	20	2,746		
Cash and cash equivalents	-	-	-	-	-	-	-	-	-	-	-
Taxes receivable, net	16,266	77,504	3,938	-	-	-	-	-	1,008		
Intergovernmental receivables	-	-	-	-	-	-	-	-	-	-	-
Other receivables, net	-	-	625	604	-	-	-	-	1		
Due from other Department funds	-	-	-	-	-	-	-	-	-	-	-
Due from other State funds	-	-	-	-	-	-	-	-	-	-	-
Due from State of Illinois component units	-	-	-	-	-	-	-	-	-	-	-
Total assets	\$ 78,010	\$ 319,962	\$ 6,550	\$ 605	\$ 107	\$ 27	\$ 46	\$ 20	\$ 3,755		
LIABILITIES											
Accounts payable and accrued liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 816
Intergovernmental payables	52,265	319,962	6,550	-	-	-	-	64	3,669		
Due to other Department fiduciary funds	25,745	-	-	-	-	-	-	-	-	-	-
Due to other State fiduciary funds	-	-	-	-	-	-	-	-	-	-	3
Due to other Department funds	-	-	-	-	-	-	-	-	-	-	-
Due to other State funds	-	-	-	-	15	-	-	-	-	-	-
Due to State of Illinois component units	-	-	-	-	-	-	-	-	-	-	-
Unavailable revenue	1,051	4,377	-	12	-	-	-	-	-	-	73
Unearned revenue	-	-	-	-	-	-	-	-	-	-	-
Total liabilities	\$ 79,061	\$ 324,339	\$ 6,550	\$ 12	\$ 15	\$ -	\$ -	\$ 64	\$ 4,561		
FUND BALANCES (DEFICITS)											
Reserved for:											
Encumbrances	-	-	-	-	-	-	-	-	-	-	2
Long-term portion of due from State of Illinois component units	-	-	-	-	-	-	-	-	-	-	-
Unreserved, undesignated	(1,051)	(4,377)	-	593	92	27	46	(44)	(808)		
Total fund balances (deficits)	(1,051)	(4,377)	-	593	92	27	46	(44)	(808)		
Total liabilities and fund balances (deficits)	\$ 78,010	\$ 319,962	\$ 6,550	\$ 605	\$ 107	\$ 27	\$ 46	\$ 20	\$ 3,755		

State of Illinois
Department of Revenue
Combining Balance Sheet -
Nonmajor Governmental Funds
 June 30, 2009 (Expressed in Thousands)

	Special Revenue												
	Illinois Affordable Housing Trust		Used Tire Management		Natural Areas Acquisition		Open Space Lands Acquisition & Development		Horse Racing Equity Trust		Tax Compliance and Administration		Quality of Life Endowment
	286	0294	0298	0299	0313	0384	0437						
ASSETS													
Unexpended appropriations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cash equity in State Treasury	9,506	2	356	831	91,129	1,123	-	-	-	-	-	-	-
Cash and cash equivalents	-	-	-	-	-	-	-	-	-	-	-	-	-
Taxes receivable, net	-	-	-	-	-	964	-	-	-	-	-	-	-
Intergovernmental receivables	-	-	-	-	-	-	-	-	-	-	-	-	-
Other receivables, net	4	2,296	-	-	-	39	-	-	-	-	-	-	-
Due from other Department funds	22	-	-	-	-	-	-	-	-	-	-	-	-
Due from other State funds	340,987	-	-	-	-	-	-	-	-	-	-	-	-
Due from State of Illinois component units	-	-	-	-	-	-	-	-	-	-	-	-	-
Total assets	\$ 350,519	\$ 2,298	\$ 356	\$ 831	\$ 91,129	\$ 2,126	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
LIABILITIES													
Accounts payable and accrued liabilities	\$ 6,620	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental payables	-	-	-	-	-	-	-	-	-	-	-	-	-
Due to other Department fiduciary funds	-	-	-	-	-	-	-	-	-	-	-	-	-
Due to other State fiduciary funds	-	-	-	-	-	-	-	-	-	-	-	-	-
Due to other Department funds	-	354	-	-	-	-	-	-	-	-	-	-	-
Due to other State funds	-	-	-	-	-	-	-	-	-	-	-	-	-
Due to State of Illinois component units	-	-	-	-	-	-	-	-	-	-	-	-	-
Unavailable revenue	-	-	-	-	-	-	-	-	-	-	-	-	-
Unearned revenue	-	47	-	-	-	-	-	-	-	-	-	-	-
Total liabilities	\$ 6,620	\$ 401	\$ -	\$ -	\$ -	\$ 405	\$ 2	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
FUND BALANCES (DEFICITS)													
Reserved for:													
Encumbrances	-	-	-	-	-	-	-	-	-	-	-	-	-
Long-term portion of due from State of Illinois component units	340,987	-	-	-	-	-	-	-	-	-	-	-	-
Unreserved, undesignated	2,912	1,897	356	831	91,129	1,029	-	-	-	-	-	-	-
Total fund balances (deficits)	\$ 343,899	\$ 1,897	\$ 356	\$ 831	\$ 91,129	\$ 1,029	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total liabilities and fund balances (deficits)	\$ 350,519	\$ 2,298	\$ 356	\$ 831	\$ 91,129	\$ 2,126	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

State of Illinois
Department of Revenue
Combining Balance Sheet -
Nonmajor Governmental Funds
 June 30, 2009 (Expressed in Thousands)

	Special Revenue									
	Predatory Lending Database Program 0478	Local Government Distributive 0515	Drycleaner Environmental Response 0548	Supplemental Low Income Energy Assistance 0550	Renewable Energy Resource 0564	School Infrastructure 0568	Petroleum Resources 0573	International Tourism 0621		
ASSETS										
Unexpended appropriations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cash equity in State Treasury	2,050	84,436	1	3,467	217	3,666	-	-	-	660
Cash and cash equivalents	-	-	-	-	-	-	-	-	-	-
Taxes receivable, net	-	-	126	7,002	-	726	-	-	-	852
Intergovernmental receivables	-	-	-	-	-	-	-	-	-	-
Other receivables, net	-	-	-	-	437	-	-	-	-	-
Due from other Department funds	-	96,228	-	-	-	-	-	-	-	-
Due from other State funds	-	-	-	-	-	-	-	-	-	-
Due from State of Illinois component units	-	-	-	-	-	-	-	-	-	-
Total assets	\$ 2,050	\$ 180,664	\$ 127	\$ 10,469	\$ 654	\$ 4,392	\$ -	\$ -	\$ -	\$ 1,512
LIABILITIES										
Accounts payable and accrued liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,346	\$ -	\$ -	\$ -	\$ 28
Intergovernmental payables	-	180,039	-	-	-	-	-	-	-	-
Due to other Department fiduciary funds	-	-	-	-	-	-	-	-	-	-
Due to other State fiduciary funds	-	-	-	-	-	-	-	-	-	-
Due to other Department funds	-	625	-	-	-	-	-	-	-	-
Due to other State funds	-	-	-	-	-	-	-	-	-	-
Due to State of Illinois component units	-	-	-	-	-	-	-	-	-	-
Unavailable revenue	-	-	-	-	-	-	-	-	-	18
Unearned revenue	-	-	-	-	-	621	-	-	-	-
Total liabilities	\$ -	\$ 180,664	\$ -	\$ -	\$ -	\$ 3,967	\$ -	\$ -	\$ -	\$ 46
FUND BALANCES (DEFICITS)										
Reserved for:										
Encumbrances	-	792	-	-	-	-	-	-	-	-
Long-term portion of due from State of Illinois component units	-	-	-	-	-	-	-	-	-	-
Unreserved, undesignated	2,050	(792)	127	10,469	654	425	-	-	-	1,466
Total fund balances (deficits)	\$ 2,050	\$ 180,664	\$ 127	\$ 10,469	\$ 654	\$ 425	\$ -	\$ -	\$ -	\$ 1,466
Total liabilities and fund balances (deficits)	\$ 2,050	\$ 180,664	\$ 127	\$ 10,469	\$ 654	\$ 4,392	\$ -	\$ -	\$ -	\$ 1,512

State of Illinois
Department of Revenue
Combining Balance Sheet -
Nonmajor Governmental Funds
 June 30, 2009 (Expressed in Thousands)

		Special Revenue										
		Municipal Economic Development	Horse Racing	Tobacco Settlement Recovery	Personal Property Tax Replacement	Dram Shop	Citizen Real Estate	Senior Deferred Tax	Build Illinois	Local Tourism	Evidence Fund	Total
		0650	0632	0733	0802	0821	0930	0960	0969	1389		
ASSETS												
Unexpended appropriations			\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,647
Cash equity in State Treasury	927	1	-	-	276,537	2,875	244	12,991	1,171	-	-	898,912
Cash and cash equivalents	-	-	-	-	-	-	-	-	-	6	-	6
Taxes receivable, net	18	-	-	-	38,118	-	-	29,802	1,493	-	-	316,200
Intergovernmental receivables	-	-	-	-	-	-	-	-	-	-	-	-
Other receivables, net	-	-	-	-	85	-	-	-	-	-	-	7,408
Due from other Department funds	-	-	-	-	1,398	-	-	9,450	-	-	-	113,926
Due from other State funds	-	-	-	-	-	-	-	-	-	-	-	22
Due from State of Illinois component units	-	-	-	-	-	-	-	-	-	-	-	340,987
Total assets	\$ 945	\$ 1	\$ -	\$ -	\$ 316,138	\$ 2,875	\$ 244	\$ 52,243	\$ 2,664	\$ 6	\$ -	\$ 1,688,108
LIABILITIES												
Accounts payable and accrued liabilities	\$ 335	\$ -	\$ -	\$ -	\$ 5,440	\$ 71	\$ -	\$ 16,906	\$ 50	\$ -	\$ -	\$ 61,121
Intergovernmental payables	11	1	-	-	306,038	2	240	-	-	-	-	904,525
Due to other Department fiduciary funds	-	-	-	-	-	-	-	-	-	-	-	25,745
Due to other State fiduciary funds	6	-	-	-	622	82	-	-	-	-	-	1,236
Due to other Department funds	1,500	-	-	-	-	-	-	-	-	-	-	65,187
Due to other State funds	59	-	-	-	83	15	-	-	-	-	-	2,948
Due to State of Illinois component units	3	-	-	-	3,955	-	-	1,524	-	-	-	64
Unavailable revenue	-	-	-	-	121,812	-	-	-	-	10	-	23,265
Unearned revenue	-	-	-	-	-	-	-	-	-	-	-	121,812
Total liabilities	1,914	1	-	-	437,950	170	240	18,430	60	-	-	1,205,903
FUND BALANCES (DEFICITS)												
Reserved for:												
Encumbrances	169	-	-	-	406	9	159	-	-	-	-	1,840
Long-term portion of due from State of Illinois component units	-	-	-	-	-	-	-	-	-	-	-	340,987
Unreserved, undesignated	(1,138)	-	-	-	(122,218)	2,696	(155)	33,813	2,604	6	-	139,378
Total fund balances (deficits)	(969)	-	-	-	(121,812)	2,705	4	33,813	2,604	6	-	482,205
Total liabilities and fund balances (deficits)	\$ 945	\$ 1	\$ -	\$ -	\$ 316,138	\$ 2,875	\$ 244	\$ 52,243	\$ 2,664	\$ 6	\$ -	\$ 1,688,108

**State of Illinois
Department of Revenue**

**Combining Statement of Revenues,
Expenditures and Changes in Fund Balance -
Nonmajor Governmental Funds**

For the Year Ended June 30, 2009 (Expressed in Thousands)

	Special Revenue									
	Motor Fuel Tax 0012	Public Utility 0059	Underground Storage Tank 0072	Illinois Gaming Law Enforcement 0085	State Gaming 0129	IDOR Federal Trust 0140	Rental Housing Support Program 0150	State & Local Sales Tax Reform 0186	RTA Occupation and Use Tax Replacement 0187	
REVENUES										
Federal operating grants	\$ 30	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Income taxes	-	-	-	-	-	-	-	-	-	-
Sales taxes	-	-	-	-	-	-	-	252,789	-	-
Motor fuel taxes	1,280,486	-	69,546	-	-	-	-	-	-	-
Public utility taxes	-	6,996	-	-	-	-	-	-	-	-
Other taxes	5	-	-	2,812	533,271	-	17,507	-	-	-
License and fees	698	5,500	-	310	3,290	-	-	-	-	-
Other charges for services	-	-	-	-	-	-	-	-	-	-
Interest and other investment income	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Total revenues	1,281,219	12,496	69,546	3,122	536,561	-	17,507	252,789	-	-
EXPENDITURES										
General government	81,118	-	1,147	-	-	8	33,184	1	-	-
Health and social services	-	-	-	-	630	-	-	-	-	-
Employment and economic development	-	-	-	-	-	-	-	-	-	-
Environment and business regulation	-	-	-	-	1,288	-	-	-	-	-
Intergovernmental	-	-	-	2,314	106,919	-	-	40,199	-	26,752
Capital outlay	230	-	-	-	-	-	-	-	-	-
Total expenditures	81,348	-	1,147	2,314	108,837	8	33,184	40,200	-	26,752
Excess (deficiency) of revenues over (under) expenditures	1,199,871	12,496	68,399	808	427,724	(8)	(15,677)	212,589	(26,752)	(26,752)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES										
Appropriations from State resources	101,651	-	1,207	2,824	-	-	-	-	-	-
Lapsed appropriations	(8,786)	-	(61)	(1,578)	-	-	-	-	-	-
Receipts collected and transmitted to State Treasury	(1,393,467)	(12,500)	(74,779)	(3,204)	-	-	-	-	-	-
Amount of SAMS transfers-in	-	-	-	-	-	-	-	-	-	-
Amount of SAMS transfers-out	-	-	-	-	-	-	-	-	-	-
Transfer of administration of funds to other State agencies	-	-	-	-	-	-	-	-	-	-
Transfers-in	-	-	-	-	-	-	-	-	-	-
Transfers-out	-	-	-	-	(418,384)	-	-	(211,828)	-	26,752
Net other sources (uses) of financial resources	(1,300,602)	(12,500)	(73,633)	(1,958)	(418,384)	-	-	(211,828)	-	26,752
Net change in fund balances	(100,731)	(4)	(5,234)	(1,150)	9,340	(8)	(15,677)	761	-	-
Fund balances (deficits), July 1, 2008	202,193	5,504	11,684	664	(9,340)	41	20,788	(1,789)	-	-
FUND BALANCES (DEFICITS), JUNE 30, 2009	\$ 101,462	\$ 5,500	\$ 6,450	\$ (486)	\$ -	\$ 33	\$ 5,111	\$ (1,028)	\$ -	\$ -

**State of Illinois
Department of Revenue**

**Combining Statement of Revenues,
Expenditures and Changes in Fund Balance -
Nonmajor Governmental Funds**

For the Year Ended June 30, 2009 (Expressed in Thousands)

	Special Revenue						
	Illinois Affordable Housing Trust 286	Used Tire Management 0294	Natural Areas Acquisition 0298	Open Space Lands Acquisition & Development 0299	Horse Racing Equity Trust 0313	Tax Compliance and Administration 0384	Quality of Life Endowment 0437
REVENUES							
Federal operating grants	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Income taxes	-	-	-	-	-	-	-
Sales taxes	-	-	-	-	-	203	-
Motor fuel taxes	-	-	-	-	-	-	-
Public utility taxes	-	-	-	-	-	1,471	-
Other taxes	20,501	-	6,150	14,351	14,640	5	-
License and fees	22	13,398	-	-	-	913	-
Other charges for services	-	-	-	-	-	387	-
Interest and other investment income	2,158	-	-	-	-	-	-
Other	14,287	-	-	-	-	-	-
Total revenues	36,968	13,398	6,150	14,351	14,640	2,979	-
EXPENDITURES							
General government	33,531	-	-	-	-	3,613	-
Health and social services	4,613	-	-	-	-	-	-
Employment and economic development	-	-	-	-	-	-	-
Environment and business regulation	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Total expenditures	38,144	-	-	-	-	3,613	-
Excess (deficiency) of revenues over (under) expenditures	(1,176)	13,398	6,150	14,351	14,640	(634)	-
OTHER SOURCES (USES) OF FINANCIAL RESOURCES							
Appropriations from State resources	-	-	-	-	-	-	-
Lapsed appropriations	-	-	-	-	-	-	-
Receipts collected and transmitted to State Treasury	-	(12,991)	(6,096)	(14,224)	-	-	-
Amount of SAMS transfers-in	-	-	-	-	-	-	-
Amount of SAMS transfers-out	-	1,260	-	-	-	-	-
Transfer of administration of funds to other State agencies	-	-	-	-	-	-	(1,090)
Transfers-in	-	-	-	-	-	-	-
Transfers-out	(2,000)	(1,251)	-	-	-	(250)	-
Net other sources (uses) of financial resources	(2,000)	(12,982)	(6,096)	(14,224)	-	(250)	(1,090)
Net change in fund balances	(3,176)	416	54	127	14,640	(884)	(1,090)
Fund balances (deficits), July 1, 2008	347,075	1,481	302	704	76,489	1,913	1,090
FUND BALANCES (DEFICITS), JUNE 30, 2009	\$ 343,899	\$ 1,897	\$ 356	\$ 831	\$ 91,129	\$ 1,029	\$ -

**State of Illinois
Department of Revenue**

**Combining Statement of Revenues,
Expenditures and Changes in Fund Balance -
Nonmajor Governmental Funds**

For the Year Ended June 30, 2009 (Expressed in Thousands)

	Special Revenue									
	Predatory Lending Database Program 0478	Local Government Distributive 0515	Drycleaner Environmental Response 0548	Supplemental Low Income Energy Assistance 0550	Renewable Energy Resource 0564	School Infrastructure 0568	Petroleum Resources 0573	International Tourism 0621		
REVENUES										
Federal operating grants	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		
Income taxes	-	-	-	-	-	-	-	-		
Sales taxes	-	-	-	-	-	-	-	-		
Motor fuel taxes	-	-	-	-	-	-	-	-		
Public utility taxes	-	-	-	83,734	-	100,100	-	-		
Other taxes	-	-	709	-	-	60,000	-	-		8,742
License and fees	-	-	2,219	-	5,234	-	-	-		
Other charges for services	-	-	-	-	-	-	-	-		
Interest and other investment income	-	-	-	-	-	-	-	-		
Other	-	-	-	-	-	-	-	-		
Total revenues	-	-	2,928	83,734	5,234	160,100	-	-		8,742
EXPENDITURES										
General government	1,450	-	-	-	-	-	-	-		
Health and social services	-	-	-	-	-	-	-	-		
Employment and economic development	-	-	-	-	-	-	-	-		
Environment and business regulation	-	-	-	-	-	-	-	-		
Intergovernmental	-	1,205,818	-	-	-	-	-	-		
Capital outlay	-	-	-	-	-	-	-	-		
Total expenditures	1,450	1,205,818	-	-	-	-	-	-		
Excess (deficiency) of revenues over (under) expenditures	(1,450)	(1,205,818)	2,928	83,734	5,234	160,100	-	-		8,742
OTHER SOURCES (USES) OF FINANCIAL RESOURCES										
Appropriations from State resources	-	-	-	-	-	-	-	-		
Lapsed appropriations	-	-	-	-	-	-	-	-		
Receipts collected and transmitted to State Treasury	-	-	(2,953)	(85,423)	(5,339)	(160,619)	-	-		(9,150)
Amount of SAMS transfers-in	-	-	-	-	-	-	-	-		
Amount of SAMS transfers-out	-	-	-	-	-	-	-	-		
Transfer of administration of funds to other State agencies	-	-	-	-	-	-	-	-		
Transfers-in	-	1,210,818	-	-	-	-	-	-		
Transfers-out	-	(5,000)	-	-	-	-	-	-		
Net other sources (uses) of financial resources	-	1,205,818	(2,953)	(85,423)	(5,339)	(160,619)	-	-		(9,150)
Net change in fund balances	(1,450)	-	(25)	(1,689)	(105)	(519)	-	-		(409)
Fund balances (deficits), July 1, 2008	3,500	-	152	12,158	759	944	-	-		1,874
FUND BALANCES (DEFICITS), JUNE 30, 2009	\$ 2,050	\$ -	\$ 127	\$ 10,469	\$ 654	\$ 425	\$ -	\$ -		\$ 1,466

**State of Illinois
Department of Revenue**

**Combining Statement of Revenues,
Expenditures and Changes in Fund Balance -
Nonmajor Governmental Funds**

For the Year Ended June 30, 2009 (Expressed in Thousands)

	Special Revenue											Total
	Horse Racing 0632	Municipal Economic Development 0650	Tobacco Settlement Recovery 0733	Personal Property Tax Replacement 0802	Dram Shop 0821	Citizen Real Estate Deferred Tax 0930	Build Illinois 0960	Local Tourism 0969	Evidence Fund 1369			
REVENUES												
Federal operating grants	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 30
Income taxes	-	-	-	1,055,994	-	-	-	-	-	-	-	1,055,994
Sales taxes	-	-	-	-	-	-	390,777	-	-	-	-	2,497,650
Motor fuel taxes	-	-	-	-	-	-	-	-	-	-	-	1,350,032
Public utility taxes	-	33	-	222,169	-	-	-	-	-	-	-	414,503
Other taxes	6,812	-	-	-	-	-	102,182	15,540	-	-	-	804,037
License and fees	-	-	-	-	6,221	-	-	-	-	-	-	42,192
Other charges for services	-	-	-	-	-	-	-	-	-	-	-	387
Interest and other investment income	-	1	-	1,617	-	-	-	-	-	-	-	3,825
Other	-	-	-	-	240	3,703	-	-	-	-	11	18,261
Total revenues	6,812	34	-	1,279,780	6,461	3,703	492,959	15,540	-	11	11	6,186,911
EXPENDITURES												
General government	117	173	-	51	-	3,531	-	-	-	9	-	157,937
Health and social services	-	-	-	-	-	-	-	-	-	-	-	5,243
Employment and economic development	-	-	-	-	-	-	-	-	-	-	-	5,000
Environment and business regulation	6,630	-	-	-	5,566	-	-	-	-	-	-	15,154
Intergovernmental	-	-	-	1,387,636	-	-	-	-	-	-	-	4,625,074
Capital outlay	-	-	-	-	-	-	-	-	-	-	-	230
Total expenditures	6,747	173	-	1,387,687	5,566	3,531	-	-	-	9	-	4,808,638
Excess (deficiency) of revenues over (under) expenditures	65	(139)	-	(107,907)	895	172	492,959	15,540	-	2	2	1,378,273
OTHER SOURCES (USES) OF FINANCIAL RESOURCES												
Appropriations from State resources	-	-	-	-	-	-	-	-	-	-	-	105,682
Lapsed appropriations	-	-	-	-	-	-	-	-	-	-	-	(10,425)
Receipts collected and transmitted to State Treasury	-	-	-	-	-	(507,381)	(16,267)	-	-	-	-	(2,307,809)
Amount of SAMS transfers-in	-	-	-	-	-	(37,800)	-	-	-	-	-	(37,800)
Amount of SAMS transfers-out	-	-	-	-	-	-	-	-	-	-	-	1,260
Transfer of administration of funds to other State agencies	-	-	-	-	-	-	-	-	-	-	-	(1,090)
Transfers-in	-	139	-	1,398	-	-	37,800	-	-	-	-	1,281,907
Transfers-out	(1,173)	-	-	-	(500)	-	-	-	-	-	-	(640,636)
Net other sources (uses) of financial resources	(1,173)	139	-	1,398	(500)	-	(507,381)	(16,267)	-	-	-	(1,608,911)
Net change in fund balances	(1,108)	-	-	(106,509)	395	172	(14,422)	(727)	-	2	2	(230,638)
Fund balances (deficits), July 1, 2008	139	-	-	(15,303)	2,310	(168)	48,235	3,331	-	4	4	712,843
FUND BALANCES (DEFICITS), JUNE 30, 2009	\$ (969)	\$ -	\$ -	(121,812)	\$ 2,705	\$ 4	\$ 33,813	\$ 2,604	\$ -	\$ 6	\$ 6	\$ 482,205

State of Illinois
Department of Revenue
Combining Statement of Fiduciary Net Assets
Agency Funds

June 30, 2009 (Expressed in Thousands)

	Agency					
	County Water Commission Tax 0084	Non-Home Rule Municipal ROT 0088	Home Rule Municipal Soft Drink ROT 0097	Home Rule Municipal ROT 0138	Home Rule County ROT 0139	
ASSETS						
Cash equity in State Treasury	\$ 7,834	\$ 15,453	\$ 1,474	\$ 91,813	\$ 116,796	
Cash and cash equivalents	-	-	-	-	-	
Taxes receivable, net	1,694	3,965	706	36,655	18,853	
Other receivables, net	5	8	-	43	59	
Due from other Department funds	-	-	-	-	-	
Total assets	\$ 9,533	\$ 19,426	\$ 2,180	\$ 128,511	\$ 135,708	
LIABILITIES						
Accounts payable and accrued liabilities	-	-	-	1,165	-	
Intergovernmental payables	9,533	19,426	2,180	127,346	135,708	
Other liabilities	-	-	-	-	-	
Total liabilities	\$ 9,533	\$ 19,426	\$ 2,180	\$ 128,511	\$ 135,708	

State of Illinois
Department of Revenue
Combining Statement of Fiduciary Net Assets
Agency Funds

June 30, 2009 (Expressed in Thousands)

	Agency						
	Business District Retailers' Occupation Tax 0160	County Option Motor Fuel Tax 0190	County Public Safety ROT 0219	Sports Facility Tax Trust 0229	Metropolitan Pier & Expo. Auth. Trust 0337		
ASSETS							
Cash equity in State Treasury	\$ 594	\$ 5,880	\$ 11,551	\$ -	\$ -	\$ 6,796	
Cash and cash equivalents	-	-	-	-	-	-	
Taxes receivable, net	288	2,701	3,579	72	7,622	4	
Other receivables, net	-	3	-	-	-	-	
Due from other Department funds	-	-	-	-	-	-	
Total assets	\$ 882	\$ 8,584	\$ 15,130	\$ 72	\$ 14,422		
LIABILITIES							
Accounts payable and accrued liabilities	-	171	-	50	-	-	
Intergovernmental payables	882	8,413	15,130	22	14,422	-	
Other liabilities	-	-	-	-	-	-	
Total liabilities	\$ 882	\$ 8,584	\$ 15,130	\$ 72	\$ 14,422		

State of Illinois
Department of Revenue
Combining Statement of Fiduciary Net Assets
Agency Funds

June 30, 2009 (Expressed in Thousands)

	Agency					
	Illinois Tourism Tax 0452	School Facility Occupation Tax 498	Flood Prevention Occupation Tax 0558	Tax Suspense Trust 0583	Metro East Park & Recreation 0717	
ASSETS						
Cash equity in State Treasury	\$ 1,602	\$ 20	\$ -	\$ -	\$ 22	\$ 682
Cash and cash equivalents	-	-	-	-	-	-
Taxes receivable, net	1,466	13	13	-	-	173
Other receivables, net	-	-	-	-	-	-
Due from other Department funds	-	-	-	-	-	-
Total assets	\$ 3,068	\$ 33	\$ 13	\$ 13	\$ 22	\$ 855
LIABILITIES						
Accounts payable and accrued liabilities	\$ 28	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental payables	3,040	33	13	-	-	855
Other liabilities	-	-	-	22	-	-
Total liabilities	\$ 3,068	\$ 33	\$ 13	\$ 22	\$ 22	\$ 855

State of Illinois
Department of Revenue
Combining Statement of Fiduciary Net Assets
Agency Funds

June 30, 2009 (Expressed in Thousands)

	Agency				
	Municipal Telecommunications 0719	RTA Public Transportation Tax 0741	RTA Sales Tax Trust 0812	Metro East Mass Transit District Tax 0841	
ASSETS					
Cash equity in State Treasury	\$ 53,044	\$ 5	\$ 132,259	\$ 5,425	
Cash and cash equivalents	-	-	-	-	
Taxes receivable, net	18,737	-	29,539	1,320	
Other receivables, net	-	-	64	3	
Due from other Department funds	9,783	-	25,745	-	
Total assets	\$ 81,564	\$ 5	\$ 187,607	\$ 6,748	
LIABILITIES					
Accounts payable and accrued liabilities	\$ 6,561	\$ -	\$ -	\$ -	
Intergovernmental payables	75,003	5	187,607	6,748	
Other liabilities	-	-	-	-	
Total liabilities	\$ 81,564	\$ 5	\$ 187,607	\$ 6,748	

State of Illinois
Department of Revenue
Combining Statement of Fiduciary Net Assets
Agency Funds

June 30, 2009 (Expressed in Thousands)

	Agency						Total
	Tennessee Valley Authority Trust 0861	Municipal Automobile Renting Tax 0868	County Automobile Renting Tax 0869	Surety Bond 1151	Lottery Agent Security Deposit 1309		
ASSETS							
Cash equity in State Treasury	\$ 22	\$ 1,067	\$ 19	\$ -	\$ -	\$ -	\$ 452,358
Cash and cash equivalents	-	-	-	3,158	1,170	-	4,328
Taxes receivable, net	-	490	4	-	-	-	127,890
Other receivables, net	-	1	-	-	-	-	190
Due from other Department funds	-	-	-	-	-	-	35,528
Total assets	\$ 22	\$ 1,558	\$ 23	\$ 3,158	\$ 1,170	\$ 1,170	\$ 620,294
LIABILITIES							
Accounts payable and accrued liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,975
Intergovernmental payables	22	1,558	23	-	-	-	607,969
Other liabilities	-	-	-	3,158	1,170	-	4,350
Total liabilities	\$ 22	\$ 1,558	\$ 23	\$ 3,158	\$ 1,170	\$ 1,170	\$ 620,294

State of Illinois
Department of Revenue

Combining Statement of Changes in Assets and Liabilities
Agency Funds

For the Year Ended June 30, 2009 (Expressed in Thousands)

	Balance at July 1, 2008	Additions	Deletions	Balance at June 30, 2009
County Water Commission Tax (0084)				
ASSETS				
Cash equity in State Treasury	\$ 9,969	\$ 29,660	\$ 31,795	\$ 7,834
Taxes receivable, net	1,925	29,213	29,444	1,694
Other receivables, net	17	204	216	5
Total assets	\$ 11,911	\$ 59,077	\$ 61,455	\$ 9,533
LIABILITIES				
Intergovernmental payables	\$ 11,911	\$ 29,417	\$ 31,795	\$ 9,533
Total liabilities	\$ 11,911	\$ 29,417	\$ 31,795	\$ 9,533
Non-Home Rule Municipal ROT (0088)				
ASSETS				
Cash equity in State Treasury	\$ 15,655	\$ 89,760	\$ 89,962	\$ 15,453
Taxes receivable, net	3,980	89,419	89,434	3,965
Other receivables, net	25	309	326	8
Total assets	\$ 19,660	\$ 179,488	\$ 179,722	\$ 19,426
LIABILITIES				
Intergovernmental payables	\$ 19,660	\$ 89,728	\$ 89,962	\$ 19,426
Total liabilities	\$ 19,660	\$ 89,728	\$ 89,962	\$ 19,426
Home Rule Municipal Soft Drink ROT (0097)				
ASSETS				
Cash equity in State Treasury	\$ 1,580	\$ 8,388	\$ 8,494	\$ 1,474
Taxes receivable, net	805	8,289	8,388	706
Total assets	\$ 2,385	\$ 16,677	\$ 16,882	\$ 2,180
LIABILITIES				
Intergovernmental payables	\$ 2,385	\$ 8,289	\$ 8,494	\$ 2,180
Total liabilities	\$ 2,385	\$ 8,289	\$ 8,494	\$ 2,180

State of Illinois
Department of Revenue

Combining Statement of Changes in Assets and Liabilities
Agency Funds

For the Year Ended June 30, 2009 (Expressed in Thousands)

	Balance at July 1, 2008	Additions	Deletions	Balance at June 30, 2009
Home Rule Municipal ROT (0138)				
ASSETS				
Cash equity in State Treasury	\$ 106,776	\$ 717,127	\$ 732,090	\$ 91,813
Taxes receivable, net	39,661	712,178	715,184	36,655
Other receivables, net	155	1,831	1,943	43
Total assets	\$ 146,592	\$ 1,431,136	\$ 1,449,217	\$ 128,511
LIABILITIES				
Accounts payable and accrued liabilities	\$ 1,556	\$ 549	\$ 940	\$ 1,165
Intergovernmental payables	145,036	713,460	731,150	127,346
Total liabilities	\$ 146,592	\$ 714,009	\$ 732,090	\$ 128,511
Home Rule County ROT (0139)				
ASSETS				
Cash equity in State Treasury	\$ 42,913	\$ 663,305	\$ 589,422	\$ 116,796
Taxes receivable, net	17,163	663,057	661,367	18,853
Other receivables, net	65	1,932	1,938	59
Total assets	\$ 60,141	\$ 1,328,294	\$ 1,252,727	\$ 135,708
LIABILITIES				
Intergovernmental payables	\$ 60,141	\$ 664,989	\$ 589,422	\$ 135,708
Total liabilities	\$ 60,141	\$ 664,989	\$ 589,422	\$ 135,708
Business District ROT (0160)				
ASSETS				
Cash equity in State Treasury	\$ 307	\$ 6,674	\$ 6,387	\$ 594
Taxes receivable, net	129	6,833	6,674	288
Total assets	\$ 436	\$ 13,507	\$ 13,061	\$ 882
LIABILITIES				
Intergovernmental payables	\$ 436	\$ 6,833	\$ 6,387	\$ 882
Total liabilities	\$ 436	\$ 6,833	\$ 6,387	\$ 882

State of Illinois
Department of Revenue

Combining Statement of Changes in Assets and Liabilities
Agency Funds

For the Year Ended June 30, 2009 (Expressed in Thousands)

	Balance at July 1, 2008	Additions	Deletions	Balance at June 30, 2009
County Option Motor Fuel Tax (0190)				
ASSETS				
Cash equity in State Treasury	\$ 6,312	\$ 31,349	\$ 31,781	\$ 5,880
Taxes receivable, net	2,672	31,253	31,224	2,701
Other receivables, net	10	118	125	3
Total assets	\$ 8,994	\$ 62,720	\$ 63,130	\$ 8,584
LIABILITIES				
Accounts payable and accrued liabilities	\$ 172	\$ 724	\$ 725	\$ 171
Intergovernmental payables	8,822	30,647	31,056	8,413
Total liabilities	\$ 8,994	\$ 31,371	\$ 31,781	\$ 8,584
County Public Safety ROT (0219)				
ASSETS				
Cash equity in State Treasury	\$ 13,478	\$ 76,956	\$ 78,883	\$ 11,551
Taxes receivable, net	4,107	76,428	76,956	3,579
Total assets	\$ 17,585	\$ 153,384	\$ 155,839	\$ 15,130
LIABILITIES				
Intergovernmental payables	\$ 17,585	\$ 76,428	\$ 78,883	\$ 15,130
Total liabilities	\$ 17,585	\$ 76,428	\$ 78,883	\$ 15,130
Sports Facility Tax Trust (0229)				
ASSETS				
Cash equity in State Treasury	\$ 2,595	\$ 6,017	\$ 8,612	\$ -
Taxes receivable, net	-	6,089	6,017	72
Total assets	\$ 2,595	\$ 12,106	\$ 14,629	\$ 72
LIABILITIES				
Accounts payable and accrued liabilities	\$ 2,595	\$ 50	\$ 2,595	\$ 50
Intergovernmental payables	-	6,039	6,017	22
Total liabilities	\$ 2,595	\$ 6,089	\$ 8,612	\$ 72

State of Illinois
Department of Revenue

Combining Statement of Changes in Assets and Liabilities
Agency Funds

For the Year Ended June 30, 2009 (Expressed in Thousands)

	Balance at July 1, 2008	Additions	Deletions	Balance at June 30, 2009
Metro Pier & Exposition Authority Trust (0337)				
ASSETS				
Cash equity in State Treasury	\$ 8,918	\$ 106,459	\$ 108,581	\$ 6,796
Taxes receivable, net	8,683	105,226	106,287	7,622
Other receivables, net	15	161	172	4
Total assets	\$ 17,616	\$ 211,846	\$ 215,040	\$ 14,422
LIABILITIES				
Accounts payable and accrued liabilities	\$ -	\$ -	\$ -	\$ -
Intergovernmental payables	17,616	105,387	108,581	14,422
Total liabilities	\$ 17,616	\$ 105,387	\$ 108,581	\$ 14,422
Illinois Tourism Tax (0452)				
ASSETS				
Cash equity in State Treasury	\$ 4,755	\$ 15,690	\$ 18,843	\$ 1,602
Taxes receivable, net	1,812	15,344	15,690	1,466
Total assets	\$ 6,567	\$ 31,034	\$ 34,533	\$ 3,068
LIABILITIES				
Accounts payable and accrued liabilities	\$ 35	\$ 160	\$ 167	\$ 28
Intergovernmental payables	6,532	15,184	18,676	3,040
Total liabilities	\$ 6,567	\$ 15,344	\$ 18,843	\$ 3,068
School Facility Occupation Tax (498)				
ASSETS				
Cash equity in State Treasury	\$ -	\$ 4,474	\$ 4,454	\$ 20
Taxes receivable, net	-	4,487	4,474	13
Total assets	\$ -	\$ 8,961	\$ 8,928	\$ 33
LIABILITIES				
Intergovernmental payables	\$ -	\$ 4,487	\$ 4,454	\$ 33
Total liabilities	\$ -	\$ 4,487	\$ 4,454	\$ 33
Flood Prevention Occupation Tax (558)				
ASSETS				
Cash equity in State Treasury	\$ -	\$ 2,284	\$ 2,284	\$ -
Taxes receivable, net	-	2,297	2,284	13
Total assets	\$ -	\$ 4,581	\$ 4,568	\$ 13
LIABILITIES				
Intergovernmental payables	\$ -	\$ 2,297	\$ 2,284	\$ 13
Total liabilities	\$ -	\$ 2,297	\$ 2,284	\$ 13

State of Illinois
Department of Revenue

Combining Statement of Changes in Assets and Liabilities
Agency Funds

For the Year Ended June 30, 2009 (Expressed in Thousands)

	Balance at July 1, 2008	Additions	Deletions	Balance at June 30, 2009
Tax Suspense Trust (0583)				
ASSETS				
Cash equity in State Treasury	\$ 12	\$ 10	\$ -	\$ 22
Total assets	\$ 12	\$ 10	\$ -	\$ 22
LIABILITIES				
Other liabilities	\$ 12	\$ 10	\$ -	\$ 22
Total liabilities	\$ 12	\$ 10	\$ -	\$ 22
Metro East Park and Recreation (0717)				
ASSETS				
Cash equity in State Treasury	\$ 1,102	\$ 3,777	\$ 4,197	\$ 682
Taxes receivable, net	257	3,693	3,777	173
Total assets	\$ 1,359	\$ 7,470	\$ 7,974	\$ 855
LIABILITIES				
Intergovernmental payables	\$ 1,359	\$ 3,693	\$ 4,197	\$ 855
Total liabilities	\$ 1,359	\$ 3,693	\$ 4,197	\$ 855
Municipal Telecommunications Fund (0719)				
ASSETS				
Cash equity in State Treasury	\$ 49,034	\$ 300,689	\$ 296,679	\$ 53,044
Taxes receivable, net	24,780	294,646	300,689	18,737
Due from other Department funds	-	9,783	-	9,783
Total assets	\$ 73,814	\$ 605,118	\$ 597,368	\$ 81,564
LIABILITIES				
Accounts payable and accrued liabilities	\$ -	\$ 80,110	\$ 73,549	\$ 6,561
Intergovernmental payables	73,814	224,319	223,130	75,003
Total liabilities	\$ 73,814	\$ 304,429	\$ 296,679	\$ 81,564
RTA Public Transportation Tax (0741)				
ASSETS				
Cash equity in State Treasury	\$ 5	\$ -	\$ -	\$ 5
Total assets	\$ 5	\$ -	\$ -	\$ 5
LIABILITIES				
Intergovernmental payables	\$ 5	\$ -	\$ -	\$ 5
Total liabilities	\$ 5	\$ -	\$ -	\$ 5

State of Illinois
Department of Revenue

Combining Statement of Changes in Assets and Liabilities
Agency Funds

For the Year Ended June 30, 2009 (Expressed in Thousands)

	Balance at July 1, 2008	Additions	Deletions	Balance at June 30, 2009
RTA Sales Tax Trust (0812)				
ASSETS				
Cash equity in State Treasury	\$ 154,855	\$ 1,018,246	\$ 1,040,842	\$ 132,259
Taxes receivable, net	34,277	895,265	900,003	29,539
Other receivables, net	204	2,841	2,981	64
Due from other Department funds	30,937	110,070	115,262	25,745
Total assets	\$ 220,273	\$ 2,026,422	\$ 2,059,088	\$ 187,607
LIABILITIES				
Intergovernmental payables	\$ 220,273	\$ 1,008,176	\$ 1,040,842	\$ 187,607
Total liabilities	\$ 220,273	\$ 1,008,176	\$ 1,040,842	\$ 187,607
Metro East Mass Transit Dist. Tax (0841)				
ASSETS				
Cash equity in State Treasury	\$ 7,245	\$ 26,623	\$ 28,443	\$ 5,425
Taxes receivable, net	1,541	26,251	26,472	1,320
Other receivables, net	12	142	151	3
Total assets	\$ 8,798	\$ 53,016	\$ 55,066	\$ 6,748
LIABILITIES				
Intergovernmental payables	\$ 8,798	\$ 26,393	\$ 28,443	\$ 6,748
Total liabilities	\$ 8,798	\$ 26,393	\$ 28,443	\$ 6,748
Tennessee Valley Authority Local Trust (0861)				
ASSETS				
Cash equity in State Treasury	\$ -	\$ 260	\$ 238	\$ 22
Total assets	\$ -	\$ 260	\$ 238	\$ 22
LIABILITIES				
Intergovernmental payables	\$ -	\$ 260	\$ 238	\$ 22
Total liabilities	\$ -	\$ 260	\$ 238	\$ 22

State of Illinois
Department of Revenue

Combining Statement of Changes in Assets and Liabilities
Agency Funds

For the Year Ended June 30, 2009 (Expressed in Thousands)

	Balance at July 1, 2008	Additions	Deletions	Balance at June 30, 2009
Municipal Automobile Renting Tax (0868)				
ASSETS				
Cash equity in State Treasury	\$ 1,048	\$ 5,599	\$ 5,580	\$ 1,067
Taxes receivable, net	544	5,523	5,577	490
Other receivables, net	1	22	22	1
Total assets	\$ 1,593	\$ 11,144	\$ 11,179	\$ 1,558
LIABILITIES				
Intergovernmental payables	\$ 1,593	\$ 5,545	\$ 5,580	\$ 1,558
Total liabilities	\$ 1,593	\$ 5,545	\$ 5,580	\$ 1,558
County Automobile Renting Tax (0869)				
ASSETS				
Cash equity in State Treasury	\$ 6	\$ 62	\$ 49	\$ 19
Taxes receivable, net	5	61	62	4
Total assets	\$ 11	\$ 123	\$ 111	\$ 23
LIABILITIES				
Intergovernmental payables	\$ 11	\$ 61	\$ 49	\$ 23
Total liabilities	\$ 11	\$ 61	\$ 49	\$ 23
Surety Bond (1151)				
ASSETS				
Cash and cash equivalents	\$ 2,848	\$ 709	\$ 399	\$ 3,158
Total assets	\$ 2,848	\$ 709	\$ 399	\$ 3,158
LIABILITIES				
Other liabilities	\$ 2,848	\$ 709	\$ 399	\$ 3,158
Total liabilities	\$ 2,848	\$ 709	\$ 399	\$ 3,158
Lottery Agent Security Deposit (1309)				
ASSETS				
Cash and cash equivalents	\$ 640	\$ 822	\$ 292	\$ 1,170
Total assets	\$ 640	\$ 822	\$ 292	\$ 1,170
LIABILITIES				
Other liabilities	\$ 640	\$ 822	\$ 292	\$ 1,170
Total liabilities	\$ 640	\$ 822	\$ 292	\$ 1,170

State of Illinois
Department of Revenue

Combining Statement of Changes in Assets and Liabilities
Agency Funds

For the Year Ended June 30, 2009 (Expressed in Thousands)

	Balance at July 1, 2008	Additions	Deletions	Balance at June 30, 2009
Total - All Agency Funds				
ASSETS				
Cash equity in State Treasury	\$ 426,565	\$ 3,113,409	\$ 3,087,616	\$ 452,358
Cash and cash equivalents	3,488	1,531	691	4,328
Taxes receivable, net	142,341	2,975,552	2,990,003	127,890
Other receivables, net	504	7,560	7,874	190
Due from other Department funds	30,937	119,853	115,262	35,528
Total assets	\$ 603,835	\$ 6,217,905	\$ 6,201,446	\$ 620,294
LIABILITIES				
Accounts payable and accrued liabilities	\$ 4,358	\$ 81,593	\$ 77,976	\$ 7,975
Intergovernmental payables	595,977	3,021,632	3,009,640	607,969
Other liabilities	3,500	1,541	691	4,350
Total liabilities	\$ 603,835	\$ 3,104,766	\$ 3,088,307	\$ 620,294

McGladrey & Pullen

Certified Public Accountants

Independent Auditors' 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 William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of Illinois, Department of Revenue (Department), as of and for the year ended June 30, 2009, which collectively comprise the Department's basic financial statements and have issued our report thereon dated April 29, 2010. We conducted our audit in accordance with 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However as described in the accompanying schedule of findings, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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 Department's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies described in the accompanying schedule of findings to be material weaknesses: Findings 09-1 through 09-4.

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. We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies: Findings 09-5 through 09-13.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free of 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Department in a separate letter dated April 29, 2010.

The State of Illinois, Department of Revenue's responses to the findings identified in our audit are described in the accompanying schedule of Findings. We did not audit the Department's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, State of Illinois, Department of Revenue management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey & Pullen, LLP

Schaumburg, Illinois
April 29, 2010

State of Illinois
Department of Revenue
Schedule of Findings
For the Year Ended June 30, 2009

Finding 09-1. Inaccurate Calculation of Year-End Liability

During our testing of the draft financial statements, we noted that the Department of Revenue (Department) overstated its liability to local governments for personal property replacement tax collections that were received and deposited, but not earned as of year-end.

At year end, the Department recorded a transfer of \$85 million from the Income Tax Refund Fund #278 to the Personal Property Replacement Tax Fund #802. These amounts were determined by the Department to be transferrable amounts as defined by the statute cited below, and were recorded as a transfer and a liability to the 802 fund at year-end. Additionally, the 802 Fund reported this amount as a receivable from the 278 Fund, a transfer in from the 278 Fund, a liability to the local governments and intergovernmental expenditures (all entries were for \$85 million). The end result in the Department's financial statements was to overstate expenditures, overstate the liability to local governments, and understate fund balance by approximately \$84 million. The amount of the overstatement pertained to approved refunds that were being held at year end due to cash shortages in the 278 Fund.

The Illinois Income Tax Act (35 ILCS 5/201) gave the Department statutory authority to administer and collect personal property replacement taxes (PPRT). The State Revenue Sharing Act (30 ILCS 115/12(a)) directs that a portion of the PPRT tax collections be deposited in the 278 Fund, with the remainder deposited into the 802 Fund. The Illinois Income Tax Act (35 ILCS 5/901(d)(3)) requires as soon as possible after the end of each fiscal year, the Director shall order transferred and the State Treasurer and State Comptroller shall transfer from the Income Tax Refund Fund to the Personal Property Tax Replacement Fund an amount, certified by the Director to the Comptroller, equal to the excess of the amount collected and deposited into the Income Tax Refund Fund during the fiscal year over the amount of refunds resulting from the overpayment of tax liability paid from the Income Tax Refund Fund during the fiscal year. The Department held approximately \$84 million in approved personal Property Replacement Tax Refunds and the related interest (recorded as liabilities in fund 278) at year end. These refunds were approved to be paid to taxpayers but were not released for payment and remained unpaid at June 30, 2009 due to cash shortages in the 278 Fund.

In determining the amount to be reported as a transfer at June 30, 2009 from the Income Tax Refund Fund #278 to the Personal Property Replacement Tax Fund #802, the Department did not initially include the refunds approved for payment but held at year end in the calculation. Once the overstatement was discovered during the audit process, the Department recorded adjustments to correct both funds. The corrected amounts are reflected in the June 30, 2009 final financial statements.

Accounting guidance pertaining to the reporting of non-exchange transactions requires that amounts be recorded net of refunds. For derived tax revenues, which includes personal property replacement taxes, revenues are recorded when the underlying exchange transaction occurs. This amount is determined by the Department when the return is received from the taxpayer and perfected. Although the personal property replacement tax (PPRT) was created under the authority and legislative powers of the State of Illinois, the legislation requires that tax amounts are remitted to various local governments based on an approved apportionment formula. Under GASB Statement No. 33, the PPRT qualifies as a derived tax revenue. The legislation which determines that it is to be apportioned to the local governments qualifies the local government distribution as a voluntary non-exchange transaction. When there is a voluntary non-exchange transaction that is based on a derived tax revenue, the accounting treatment for the derived tax revenue is followed. Based on this guidance, the Department would be liable to the local government only for tax revenues recorded net of refunds.

State of Illinois
Department of Revenue
Schedule of Findings
For the Year Ended June 30, 2009

Finding 09-1. Inaccurate Calculation of Year-End Liability (Continued)

Department personnel stated that the Department consistently reported the year end mandatory transfers between the Income Tax Refund (#278) Fund and the Personal Property Tax Replacement (#802) Fund on a cash basis since the inception of the statute to reflect the actual transfers that we made on the statutorily required cash basis. The Department recorded the amount owed for replacement taxes to business taxpayers at June 30 as 'accounts payable' in the #278 fund (a part of the General Fund). Because replacement tax deposits into the refund fund exceeded refunds paid during the year by \$85 million, the Department also recorded that amount as 'due to other governments-local' in the #802 fund-in a separate and distinct fund (a special revenue fund) and in a separate and distinct liability account from accounts payable. The Department believed this reflected the appropriate substance of the transactions.

Failure to properly reflect the underlying substance of the transactions occurring between the 278 Fund and the 802 Fund resulted in an initial \$84 million overstatement of expenditures and liabilities to local governments, and an \$84 million understatement of net assets in the draft financial statements. (Finding Code No. 09-1)

Recommendation

We recommend the Department update its policies for measuring and recording transfers between the 278 and the 802 Fund, at year end. Additionally, the Department may want to pursue changing the legislation which governs the transfer of amounts between the 278 Fund and the 802 Fund to bring it in-line with accrual basis accounting.

Department Response

The Department has made the associated accounting liability entries on the accrual basis instead of the cash basis as has been presented in the past. While we agree that the accounting liability should be based on accrual accounting, the mandatory transfer is computed and then completed on the cash basis as required by statute.

Each year the statute designates the percentage of income tax collections that should be deposited into the Income Tax Refund Fund. For fiscal year 2009, the associated deposits based on the percentages have resulted in an insufficient cash balance to pay all income tax refunds by June 30th. Therefore, liability entries have been made. In addition, the statute requires a transfer to the Personal Property Tax Replacement Fund in circumstances where replacement tax receipts to the Income Tax Refund Fund exceed replacement tax refunds paid from the Income Tax Refund Fund. The required statutory cash basis calculation and associated transfer is retained. Pursuant to the auditors' recommendation for financial reporting we have reversed the effect of this cash basis transfer in the Income Tax Refund Fund by reducing the associated liability and increasing the fund balance.

State of Illinois
Department of Revenue
Schedule of Findings
For the Year Ended June 30, 2009

Finding 09-2. Inaccurate Accounts Receivable Balances at Year-End

The Department of Revenue's (Department) Withholding Income Tax (WIT), Business Income Tax (BIT), and Individual Income Tax (IIT) accounts included in the Department's accounts receivable calculation at June 30, 2009 were not accurate.

The Department has implemented new tax processing software (GenTax), in a series of stages, over the past few years. Beginning with fiscal year 2009, substantially all income and sales tax returns are maintained using the GenTax system. GenTax was initially developed to maintain detailed taxpayer information which would enable the Department to monitor individual taxpayers and help ensure all valid tax, penalty, and interest amounts were assessed and collected. GenTax was not specifically developed to serve the needs of a financial reporting system. Several features that would be standard in a typical financial reporting software product are not contained in GenTax including the ability to post entries to a prior reporting period. As such, entries for items like interest are captured on each date the account is worked, but not necessarily at June 30. Taxpayer information pertaining to a June 30 existing account balance that is worked after June 30, cannot be posted to the prior fiscal year using the automated system. In order to mitigate this issue, the Department performs a self audit of the largest returns contained in the GenTax system at year-end for financial reporting purposes. From its own analysis, the Department determined the correct tax due (or owed) for these large taxpayers and manually adjusts the recorded amounts generated from GenTax accordingly. For June 30, 2009, approximately \$600 million (gross) was eliminated from the GenTax amount recorded as taxes receivable at year end for these large taxpayers.

In testing accounts receivable, the Auditors and the Department agreed upon assumptions that would make an account an **invalid** accounts receivable, based on informal criteria used by the Department. An invalid accounts receivable is an account where the Department does not expect to collect any additional cash in the future.

During our testing, we reviewed samples of WIT, BIT, and IIT account detail from the financial reporting accounts receivable data file to ensure the accuracy and existence of the Department's June 30, 2009 accounts receivable information. The results of this testing are detailed below:

21 of 102 (21%) accounts tested had a receivable balance, or portion of the balance that was invalid. \$311,448 of the \$28,435,481 (1%) tested were invalid.

- \$144,305 of the \$311,448 (46%) invalid amount shown above or 2 of the 21 (10%) accounts were invalid due to a legal settlement being finalized prior to June 30, 2009, but not being posted to the account until after June 30, 2009.
- \$81,138 of the \$311,448 (26%) invalid amount shown above or 5 of the 21 (24%) accounts were invalid due to a misapplied payment posted in error or a payment being placed on hold in error.
- \$55,771 of the \$311,448 (18%) invalid amount shown above or 8 of the 21 (38%) accounts were invalid due to the Department not processing original, additional, or corrected information as of June 30, 2009 that was received from the taxpayer prior to June 30, 2009. The information was processed between 18 and 126 days from the date received by the Department.
- \$25,508 of the 311,448 (8%) invalid amount shown above or 3 of the 21 (14%) accounts were invalid due to the taxpayer filing an annual withholding return instead of a quarterly return. There are no edits in place to prevent a taxpayer from making this mistake.

State of Illinois
Department of Revenue
Schedule of Findings
For the Year Ended June 30, 2009

Finding 09-2. Inaccurate Accounts Receivable Balances at Year-End (Continued)

- \$4,726 of the \$311,448 (2%) invalid amount shown above or 3 of the 21 (14%) accounts were invalid due to a missing schedule or withholding amount being provided to the Department after June 30, 2009.

The valid/invalid amounts above do not include any billable interest or penalty differences noted in Finding 09-5.

The errors detected in the sample were projected to the population as a whole. The projected overstatement of the accounts receivable misstatement was approximately \$23 million, net of the allowance for doubtful accounts. This amount was deemed to be immaterial and an adjustment was not made to the financial statements to record this amount.

Additionally, during our testing of taxes receivable we discovered the Department is not recording receivables pertaining to "Notices of Deficiencies" (NOD) for certain tax types. When the Department audits a taxpayer and determines that an additional amount of tax is due, the Department calculates the penalties and interest on the additional tax amount, from the due date of the original return. The amount of the additional tax, the penalties and the interest are sent to the taxpayer in the form of a notice (aka Notice of Deficiency). Currently, taxpayer notices for business income tax, and individual income tax, are not prepared using the Gen Tax system. Instead, these notices are prepared manually as Microsoft word documents. Per instructions included in the Notice, the taxpayer has 60 days to respond. The taxpayer may 1) pay the amount due without filing a protest, 2) send new information clearing the additional assessment, or 3) request a hearing (the taxpayer can elect to pay the amount "under protest" and request a hearing, or go directly to court without paying the notice amount).

Under the current process, different tax types are being treated differently and not all taxes receivable and interest are accrued upon completion of the taxpayer audit, and not all penalty amounts are accrued after the 60 day notice period has lapsed. Additionally, under the present system, unpaid protested amounts for which the taxpayer has requested a hearing are not recorded as a receivable. The amount of such protested taxes receivable as of June 30, 2009 is approximately \$62 million gross and approximately \$6 million, net of the estimated allowance for doubtful accounts. The vast majority of these amounts are for business income tax.

Additionally, there is poor communication between the audit division, legal division, account processing division and individuals responsible for financial reporting. Timely documentation and communication of the status of all taxpayer information has to be communicated between these groups to enable them to maintain current taxpayer records and record all material balances and transactions in accordance with GAAP.

In accordance with GASB Statement No. 33, Paragraph 16, *Accounting and Financial Reporting for Nonexchange Transactions*, governments should recognize assets from derived tax revenue transactions in the period when the exchange transaction on which the tax is imposed occurs or when the resources are received, whichever occurs first. Revenues should be recognized, net of estimated refunds and estimated uncollectible amounts, in the same period that the assets are recognized, provided that the underlying exchange transaction has occurred. Resources received in advance should be reported as deferred revenues (liabilities) until the period of the exchange. In accordance with this guidance, the amount of any tax assessment and accrued penalties and interest should be recorded by the Department as a receivable, net of an allowance for uncollectable amounts. Further, there is no provision in the standard to delay recognition of these types of transactions until the accounts are fully processed.

Further, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies to establish and maintain a system, or systems, of internal fiscal and administrative controls, which shall provide assurance that revenues applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

State of Illinois
Department of Revenue
Schedule of Findings
For the Year Ended June 30, 2009

Finding 09-2. Inaccurate Accounts Receivable Balances at Year-End (Continued)

Department personnel stated it is not economically feasible to have enough staff and resources for all taxpayer accounts and payments to be applied and finalized prior to each fiscal year end (June 30). As with all State agencies, the Department functions on a cash basis the entire fiscal year until the lapse period when GAAP financial statements are prepared. The Department has adapted to a semi-manual process for calculating accounts receivable in order to facilitate materially correct GAAP financial statements at fiscal year end (June 30). Returns/payments that are not "perfected" which are reported as a "tax receivable" by GenTax are manually excluded when applicable from accounts receivable in the June 30 financial statements based on predefined criteria as well as some judgment by the accounts receivable reporting manager. These unperfected returns/payments have been historically "invalid" accounts receivable and therefore would materially misstate our financial statements.

Without reliable, accurate data and timely processing of important taxpayer information regarding payments, returns, and other taxpayer information, the individual taxpayer accounts and the amounts reported as accounts receivable in the financial statements could be materially misstated. (Finding Code No. 09-2, 08-2)

Recommendation

We recommend the Department evaluate the controls over taxes receivable and implement the necessary edits and controls to better identify valid accounts receivables to report in the financial statements. In addition, we recommend the Department take action to ensure taxpayer information is timely considered or processed to ensure taxpayer's records and financial statement information reflect accurate information.

Department Response

The Department will continue to review its controls over tax processing both procedurally and systemically to implement edits and controls as necessary to create accurate taxpayer accounts for collection and compliance purposes. The Department will also continue to focus on tax administration and determine the most cost efficient way to account for and record accounts receivable generated from our tax administration system in order to continue producing materially correct financial statements.

In addition, the Department:

- has begun issuing Notice of Deficiencies for all tax types through Gen tax and will review Notices of Deficiencies during the annual financial reporting process to determine the impact on Accounts Receivable.
- will work towards integrating additional "case management" software into our Gen Tax system which will enhance communication and tracking of tax payer accounts among Audit, Legal, Administrative Hearings, Account Processing Administration and Revenue Accounting. We have already implemented a short term solution.

State of Illinois
Department of Revenue
Schedule of Findings
For the Year Ended June 30, 2009

Finding 09-3. Inadequate Controls over Refunds

The Department of Revenue (Department) failed to exercise adequate controls over recording, reporting, and distributing income tax refunds due to taxpayers. During testing, we noted the following:

- Three of 13 (23%) refund liability accounts tested were understated by \$1,284,209. In these cases, the additional liability was a result of an unapplied credit-carry forward to a future tax period. Based on the errors detected in the sample, the error was projected to the total population. The total projected understatement of refunds payable at June 30, 2009 was approximately \$13.5 million. This amount was deemed immaterial and was not recorded by the Department. Department personnel stated that the underlying cause of the understatement of the refund liabilities was due to the credit-carry forward process being linked to the refund release. This issue was discovered by Department employees, who initiated action in February 2009 and implemented a correction in October 2009.
- Two of 41 (5%) refund expenditure accounts tested, totaling \$6,271,995, included erroneously issued refunds. The Auditors noted that one of the erroneously issued refunds was due to a problem with foreign insurers. If a converted foreign insurer return was changed for any reason, the tax lines would not compute the correct tax and the GenTax system did not indicate that the return information showing on the system was incorrect. Department personnel stated that the underlying cause of the erroneously issued refund to a foreign insurer was due to a problem with converted Foreign Insurers. The Department stated the remaining refund, totaling \$1,088,156, was issued as a refund for the tax overpayment instead of crediting the taxpayers estimated payments as a credit-carry forward in the next tax year. The Department stated that the taxpayer was owed the refund and human error caused the refund to be issued rather than applied as a credit-carry forward to the next tax year.
- One of 41 (2%) refund expenditure accounts tested, totaling \$2,815,471, contained a "Money Saved" indicator. The indicator shown indicates the amount denied for refund; however, the refund was paid and the indicator was not removed. Department personnel stated that failure to remove the indicator was an oversight.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires State agencies to establish a system of fiscal and administrative controls to provide assurance that:

- 1) resources are utilized efficiently, effectively, and in compliance with applicable law;
- 2) obligations and costs are in compliance with applicable law;
- 3) funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use, and misappropriation; and,
- 4) revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

Additionally, in accordance with GASB Statement No. 33, Paragraph 16, *Accounting and Financial Reporting for Nonexchange Transactions*, governments should recognize assets from derived tax revenue transactions in the period when the exchange transaction on which the tax is imposed occurs or when the resources are received, whichever occurs first. Revenues should be recognized, net of estimated refunds and estimated uncollectible amounts, in the same period that the assets are recognized, provided that the underlying exchange transaction has occurred.

State of Illinois
Department of Revenue
Schedule of Findings
For the Year Ended June 30, 2009

Finding 09-3. Inadequate Controls over Refunds (Continued)

The lack of adequate controls resulted in refund liabilities being understated at fiscal year-end for financial reporting purposes. Additionally, the lack of controls resulted in refunds being improperly paid to taxpayers. This could result in the Department's inability to recoup the inappropriate amounts and make payment on legitimate refunds. (Finding Code No. 09-3)

Recommendation

We recommend the Department implement controls over refunds to prevent unnecessary or unintended refunds. Further, we recommend the Department review and approve refunds for accuracy and appropriateness.

Department Response

We agree that the Department have adequate controls and to prevent unnecessary refunds and to emphasize to appropriate personnel the need to adequately review and approve refunds that are due to taxpayers.

The Department had already identified the erroneous refund in this finding, which the taxpayer returned to the Department. The Department's internal controls and segregation of duties for Income Tax refund processing include systemic edit checks and various reviews and approvals to the extent possible given the available resources. The Department also completed various System Requests (SQR's) to make changes to Gen Tax which will assist in identifying special tax cases such as noted in the audit. The "Money Saved" indicator had no effect on the financial statements nor did it result in an erroneous refund.

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Finding 09-4. Lack of Formal Business Rules

The Department of Revenue (Department) lacked established, formal business rules relating to certain accounting practices. The Department had no formal policies or procedures in place relating to certain accounting practices. Furthermore, the Department's criteria regarding accounting practices were inconsistent throughout the different financial areas of the Department.

Due to the overall lack of formal policies and procedures, we noted the following:

- During our testing of accounts receivable, we noted that the Department did not always require supervisory approval for large adjustments made to taxpayer accounts. Four of 102 (4%) accounts tested lacked supervisory approval for large adjustments totaling \$35,197,972, ranging from \$900,000 to \$16,754,956.
- Department personnel stated that the adjustments made to these accounts were the disallowance of the Net Loss Deduction which is part of the Unitary and Non-Unitary tracking inventory. Each adjustment was performed by a certified Revenue Tax Specialist (RTS) and adjustments of these and other matters fall within the authority of certified RTSs and are reviewed at the required quality review rate.
- In testing the Department's accounts receivable, the Auditors noted that the Department used **informal criteria** based on historical trends to determine if an account is invalid for financial reporting purposes. An invalid accounts receivable is an account where the Department does not expect to collect on the account.
- During our testing of written-off accounts receivable, we noted that 12 of 30 (40%) written-off accounts tested included lien fees, totaling \$670, that were not written off. These lien fees were collectible before the account's write-off date, but were excluded from the written-off amount. Department personnel stated that the lien fees were recorded in a separate legacy system and were not attached to the tax type in which they were associated. With the implementation of GenTax and the conversion of these legacy systems, the lien fees are now attached to the tax type for which they are associated, but the tax had been previously written-off.
- During our testing of Business Income Tax accounts, we noted that two of 40 (5%) accounts tested had misleading transaction displays in GenTax. The display showed "Rtn-Amended Tax" as the transaction when no amended return was received, but merely a correction or adjustment made by the Department. Department personnel stated that for 2008 returns and prior returns, GenTax will display all return changes as "Rtn-Amended Tax".

In accordance with GASB Statement 33, Paragraph 16, *Accounting and Financial Reporting for Nonexchange Transactions*, governments should recognize assets from derived tax revenue transactions in the period when the exchange transaction on which the tax is imposed occurs or when the resources are received, whichever occurs first. Revenues should be recognized, net of estimated refunds and estimated uncollectible amounts, in the same period that the assets are recognized, provided that the underlying exchange transaction has occurred. Resources received in advance should be reported as deferred revenues (liabilities) until the period of the exchange. In accordance with this guidance, the Department should establish procedures and controls that govern which taxpayer balances as reported in Gen Tax, are included or excluded from accounts receivable for financial reporting purposes.

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Finding 09-4. Lack of Formal Business Rules (Continued)

Additionally, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies to establish and maintain a system, or systems, of internal fiscal and administrative controls, which shall provide assurance that revenues applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

The establishment of formal business rules provides a basis for the proper and consistent accounting of the essential transactions of the Department. Failure to establish appropriate rules could result in material financial reporting errors and limits the ability of the Department's management to monitor the Department's activities. (Finding Code No. 09-4)

Recommendation

We recommend the Department implement business rules relating to accounting practices, including:

- establishing and formalizing approval requirements for adjustments to taxpayer accounts that exceed a certain threshold;
- formalizing the Department's informal criteria for determining whether a taxpayer's account showing a receivable balance should be included in financial reporting;
- establishing and formalizing procedures to ensure that all components of written-off accounts residing in multiple tax systems and divisions are written-off; and,
- establishing and formalizing written procedures explaining the proper use and coding for recording adjustments arising from Department-initiated adjustments verses adjustments arising from taxpayer correspondence.

Department Response

The Department will explore adopting additional business rules relating to accounting practices. The Department currently has many formal business rules and accounting practices and those business rules and practices are consistent with our tax administration functions. Gen Tax is not an accounting general ledger or financial reporting system; it is a detailed taxpayer information, return tracking, and collection system. As such, GenTax was developed with embedded transaction codes and business rules for processing, adjustments and supervisory review of taxpayer returns and accounts. The goal of the Department's financial statement account receivable balance is to be materially correct and submitted within the stringent timeframes required by the Comptroller's Office to prepare GAAP financial statements. While we have formal accounts receivable business rules, the Department also relies on its management personnel to make judgment decisions on an account by account basis where necessary to ensure our financial statements are materially correct. Because of the volume of tax returns and the volume of taxpayer/human errors related to those returns, it is not practical for the Department to develop a business rule for every scenario ahead of time and management needs to make judgment decisions on the validity of accounts.

Finding 09-5. Unrecorded Interest Amounts

The Department of Revenue (Department) did not properly post and record interest calculations for financial reporting purposes as of June 30, 2009. During testing, we noted:

- 30 of 102 (29%) Business Income Tax, Individual Income Tax, and Withholding Income Tax accounts tested did not reflect all accrued interest through June 30, 2009. Department officials stated that due to a system deficiency, the interest was not accurately reflected in the accounts receivable balance at June 30, 2009.
- Two of 40 (5%) Business Income Tax accounts tested had correct interest amounts applied and then reversed prior to June 30, 2009, only to be reapplied after June 30, 2009. Department personnel stated that this exception was due to human error.
- 22 of 30 (73%) written-off accounts tested, totaling \$2,215,472, had interest inconsistently applied to the accounts. Specifically, we noted accounts where interest ceased before the write-off date, while other accounts which had been written-off still had interest accruing. The Department did not have procedures in place to ensure the consistent application of interest.
- One of 30 (3%) Sales Tax accounts tested had interest improperly accrued, totaling \$266,000, against a protested penalty that was subsequently included in the June 30, 2009 accounts receivable balance. As a result of this error, receivables are overstated by approximately \$266,000. Department personnel stated that interest accruing on protested penalties within the sales tax software does so during the course of the protest so it can be easily retrieved upon closure of the Administrative Hearing or Court/Litigation case. The fact that the protested Late Pay Penalty did not show as a receivable and the interest on the Late Pay Penalty did show as a receivable was a systemic mistake that should not have occurred. Neither should be included as a receivable until the protest is resolved.
- One of 30 (3%) Sales Tax accounts tested applied the wrong interest tax rate to the account. The return sampled incorrectly applied a lower short-term interest rate to the balance due when a higher long-term rate should have been applied. The resulting interest assessed to the account was understated by \$28,188 for this account. Department personnel stated GenTax was set up originally with an incorrect date for configuring the short-term and long-term interest, resulting in this error.
- Six of 43 (14%) accounts receivable exclusion accounts tested did not have interest, totaling \$434,790, appropriately recorded to the account. Department personnel stated that this exception was due to a system error.
- The daily interest rate used to compute accrued interest on taxpayer accounts is not calculated using 366 days to account for leap years. Department personnel stated this was a system issue and a system change should be in place for leap year 2012 and forward.

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Finding 09-5. Unrecorded Interest Amounts (Continued)

In accordance with GASB Statement 33, Paragraph 16, *Accounting and Financial Reporting for Nonexchange Transactions*, governments should recognize assets from derived tax revenue transactions in the period when the exchange transaction on which the tax is imposed occurs or when the resources are received, whichever occurs first. Revenues should be recognized, net of estimated refunds and estimated uncollectible amounts, in the same period that the assets are recognized, provided that the underlying exchange transaction has occurred. There is no provision in the standard to delay recognition of these types of transactions until the accounts are fully processed. Further, interest should not be accrued on penalties that are currently under protest. Once the protest is resolved through an administrative hearing, the interest corresponding to the penalty should be calculated against the agreed upon penalty resulting from the hearing.

The Department's Publication 103, *Penalties and Interest for Illinois Taxes*, states interest is to accrue on a daily basis, including using 366 days during a leap year.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies to establish and maintain a system, or systems, of internal fiscal and administrative controls, which shall provide assurance that revenues applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

Failure to establish appropriate rules could result in material financial reporting errors and limits the ability of the Department's management to monitor the Department's activities. (Finding Code No. 09-5, 08-6)

Recommendation

We recommend the Department implement controls to ensure interest calculations and interest on protested penalties are properly and accurately reflected in both taxpayer accounts and year-end financial reporting.

Department Response

The Department agrees that interest calculations should be accurate. We have both initiated and completed various SQR's to make changes to Gen Tax which will correct the interest calculations identified as inaccurate. With respect to year-end financial reporting, it is important to note that Gen Tax is a detailed taxpayer information and return tracking system, not a general ledger financial reporting system. The system is programmed to calculate interest daily but was not programmed to "post" interest daily or specifically at 6/30 of each year. The Department will research the cost-benefit of calculating interest up to date for 6/30 each fiscal year.

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Finding 09-6. Deficiencies in GenTax

The Department of Revenue (Department) did not have sufficient internal controls over the tax system (GenTax) functions, which affect the integrity of processing taxpayer information, financial data, and financial reporting.

In October 2006, the Department entered into a contract with a vendor for the development of an integrated tax system named GenTax. The contract continues through June 2012. The contract maximum is approximately \$52.1 million and through fiscal year 2009, the Department had paid approximately \$27.7 million.

In December of 2007, the Business Income Tax, Withholding Income Tax, and Sales Tax systems went into production and replaced the applicable legacy systems. Additionally, in December 2008, the Individual Income Tax system went into production. For the fiscal year ended June 30, 2009, GenTax processed over \$24.9 billion of tax collections, as well as other transactions.

During our review, we identified numerous deficiencies in the production modules of GenTax which affected the integrity of financial data and financial reporting. The following GenTax deficiencies are highlighted as they directly led to other specific reportable deficiencies.

- The capability to properly calculate penalty and interest on audit liability and generate taxpayer notices was a system requirement; however, GenTax was unable to perform these functions. As a result, penalties and interest had to be calculated, and notices prepared manually leading to delays in the posting of information to GenTax. The amount of such receivables as of June 30, 2009 was approximately \$62 million gross and approximately \$6 million, net of the estimated allowance for doubtful accounts. (see Finding 09-2 for additional information)
- Foreign insurers' accounts were not calculated properly in GenTax leading to the payment of \$5,183,839 in erroneous refunds. (see Finding 09-3 for additional information)
- GenTax did not have sufficient edit checks to ensure proper posting of payments. For example, GenTax accepted 1969, 2028, and 9999 as valid dates. We found three accounts with \$1,745,160 in misapplied payments resulting from edit check deficiencies.
- Interest and penalties were not calculated properly. Interest accruing in 2008, was based on 365 days instead of 366 days (due to leap year) as required by the Department's Publication 103. In addition, GenTax was unable to calculate penalty and interest correctly on certain accounts resulting in the reliance on legacy systems (projected to be discontinued) to perform the calculations. (see Finding 09-5 for additional information)

Generally Accepted Information Technology standards require that systems have adequate written policies and procedures, adequate written system documentation, and adequate input, processing, and output controls. IT general and application controls are necessary to preserve the integrity of the system, to provide reliance on the results produced by the system, and to ensure that the processing of transactions is performed in accordance with laws and regulations and with management's design and intent.

Department personnel stated that, as noted above, the Department's new tax system is processing over \$24.9 billion and millions of transactions and there will always be the need for fine tuning and adjustment.

Finding 09-6. Deficiencies in GenTax (Continued)

The system deficiencies and lack of sufficient internal control over GenTax could affect the integrity of processing taxpayer information, financial data, and financial reporting. (Finding Code No. 09-6, 08-9)

Recommendation

The Department should perform a thorough review of the production modules of GenTax. From a general perspective, the Department must ensure the system provides the required functionality, integrity, and accuracy to support taxpayer information, financial data and reporting. Specifically, the Department should:

- Integrate the capability to calculate penalties and interest on audit liabilities and generate taxpayer notices within GenTax.
- Ensure foreign insurer's accounts properly reflect the tax liability or refund.
- Add sufficient edit checks in GenTax to ensure the proper placement of payments.
- Ensure GenTax has the capability to calculate interest and penalties in accordance with Department policy.

Department Response

The Department will continue to monitor Gen Tax in production to ensure the system provides the required functionality, integrity, and accuracy to support taxpayer information, financial data and reporting.

- The finding overstates the inability to systemically calculate penalty and interest on audit liabilities. Only the rarest and most complex accounts required manual intervention. Further with regard to the delay in posting, it was not that the system did not or could not post these accounts, rather due to an assessment of business needs it had not been programmed to do so. The Department has now enhanced the capability to calculate penalties and interest on audit liabilities and generate taxpayer notices within GenTax.
- Issues with Foreign Insurer account information have been corrected; the system correctly calculates liabilities and refunds correctly.
- We have implemented an edit to suspend any payment posted to a period greater than the current date plus twelve months. We also implemented a Withholding Income Tax (WIT) edit to suspend a return for physical review by a Revenue Tax Specialist if the balance due is greater than certain dollar amounts.
- The system is now programmed to calculate interest on the basis of 366 days for future leap years.

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Finding 09-7. Weakness in the Development of GenTax

The Department of Revenue (Department) had not ensured the development process and project management of the enterprise wide tax system (GenTax) was properly controlled and documented.

In October 2006, the Department entered into a contract with a vendor for the development of an integrated tax system named GenTax. The contract continues through June 2012. The contract maximum is approximately \$52.1 million and through fiscal year 2009, the Department had paid approximately \$27.7 million.

In December 2007, the Business Income Tax, Withholding Income Tax, and Sales Tax systems went into production and replaced the applicable legacy systems. Additionally, in December 2008, the Individual Income Tax system went into production. For the fiscal year ended June 30, 2009, GenTax processed over \$24.9 billion of tax collections, as well as other transactions.

During our review, we noted:

- The Department had not received six of the 13 (46%) deliverables outlined in the vendor's contract. In addition, of the six deliverables received, one was indicated as draft and none had been reviewed and approved by the Department.
- The vendor had supplied a development methodology which outlined artifacts to be developed. However, our review indicated eight of 27 (30%) artifacts had not been developed or were in draft form. In addition, there was no indication of review or approval from the Department.
- The Department had conducted system testing; however, testing documentation indicated:
 - There were noted problems; however, no resolution was indicated.
 - Testing documentation was incomplete.
 - Individual testing scenarios were indicated as N/A or deleted; however, no reason was indicated.
 - Problem requests were indicated; however, no resolution was noted.
 - Problem requests could not be traced to the problem tracking database.
 - There were 660 test scenarios which were indicated as N/A, in-progress, or not started.
- The Department "purified" the legacy data in order to convert to GenTax. However, our review of the "purification" documentation indicated 56 issues remained opened at the date of conversion; December 5, 2008. Additionally, as of October 13, 2009, 49 issues remained opened, effecting 95,545 taxpayer accounts.
- The Department conducted a reconciliation of data between the legacy system and GenTax; however, our review indicated:
 - Documentation was not maintained to support the GenTax conversion numbers.
 - Differences were noted between the legacy system and GenTax; however, no resolution was indicated.
 - The reconciliation document did not indicate a review or approval by the Department.

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Finding 09-7. Weakness in the Development of GenTax (Continued)

We also found that the Department did not perform parallel testing with GenTax and the legacy system to ensure processing accuracy prior to the implementation of the GenTax Individual Income Tax subsystem on December 5, 2008.

Generally Accepted Information Technology (IT) guidance requires systems have adequate written system documentation and adequate input, processing and output controls. IT general and application controls are necessary to preserve the integrity of the system, to provide reliance on the results produced by the system and to ensure that the processing of transactions is performed in accordance with laws and regulations and with management's design and intent.

Department management stated the noted deficiencies were known to management and were not deemed to be detrimental to the progress of the project or to the success of the implementation. In management's opinion, sufficient controls were in place to mitigate risks. Management found many of the noted deficiencies to be minor to a project of this scale with many dedicated personnel and monitoring resources in place. Through its Steering Committee and regular meetings between the Project Manager and the Director, senior management was kept abreast of issues and management feels that continued progress on the project is evidence of implicit approval where explicit approval does not exist.

The lack of an effective and controlled system development process may lead to excessive expenditures, over-reliance on contractors, and a system that does not meet the needs of the Department. In addition, an inadequate development process increases the risk that the system will not have the required accuracy, integrity, availability, and security. (Finding Code 09-7, 08-8)

Recommendation

The Department should ensure the development process is adequately controlled and documented. Specifically, the Department should:

- Ensure all required documentation is developed, reviewed, and approved by the Department prior to system implementation.
- Ensure the accuracy of data when converting from the legacy system to GenTax, and ensuring the conversion process is monitored, reviewed, approved, and documented.
- Ensure all system and user testing is properly conducted, reviewed, approved and documented prior to system implementation.
- Ensure all changes are adequately reviewed, tested, approved and documented prior to system implementation.

Department Response

The Department agrees that the development process should be controlled and documented. In the fourth year of implementations the project remains on time and on budget, meeting or exceeding the needs of the agency to administer taxes. Throughout the project, the Department has worked to improve development, testing and documentation processes.

Finding 09-7. Weakness in the Development of GenTax (Continued)

The "deliverables" discussed above are documents or reports on various aspects of the 5-year project;. Some are not due until the completion of the project; some documents will be created only once, rather than for each milestone; and others have been deemed to be unnecessary. The true "deliverable" for the project is the processing functionality for the various tax types that the department has received.

The Project Team kept a detailed progress report of 8,600 test scenarios for Roll Out 2. Test scenarios marked "NA," were, in the course of testing, determined to be duplicates or in some other way not relevant. It is important to note that these scenarios were not simply deleted; they continued to be tracked in one of 118 specific categories. All scenarios critical to implementation were completed.

The Purification Team prepared reports that identified account conditions requiring purification that, because of the volume, time frame and resources, could not be completed prior to conversion and implementation of Roll-Out 2. In each case the team identified issues, proposed corrective action and identified the consequences of converting "as-is," and presented this information to senior management. Post conversion "purification" efforts are continuing and will be an ongoing effort.

The Conversion & Reconciliation Team, with the assistance of the vendor, successfully met the challenge of reconciled and converted 40-year old legacy data into the new system. The step-by-step reconciliation process was documented and made part of the over-all conversion planning document.

The total receivables balance and the number of active debt periods between the two systems were reconciled. In some instances, pieces of active, but very old, debt may not have been converted, because they were not purified in time for conversion. A report of these instances was produced from the extract program so they can be addressed as time and resources become available.

Finally, running parallel systems was not called for in the contract or the project methodology, and was impractical if not impossible. The agency conducted sufficient system, end-to-end and regression testing with live data to ensure that the major components of the system are functioning as required. We also conduct load and performance testing to ensure that the system will not crash or run inordinately slow.

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Finding 09-8. Inadequate Change Control Process

The Department of Revenue (Department) had not ensured the change management process for the Enterprise wide tax system (GenTax) was properly controlled and documented.

In October 2006, the Department entered into a contract with a vendor for the development of an integrated tax system named GenTax. The contract continues through June 2012. The contract maximum is approximately \$52.1 million and through fiscal year 2009, the Department had paid approximately \$27.7 million.

In December of 2007, the Business Income Tax, Withholding Income Tax, and Sales Tax systems went into production and replaced the applicable legacy systems. Additionally, in December 2008, the Individual Income Tax system went into production and replaced the legacy Individual Income Tax system. For the fiscal year ended June 30, 2009, GenTax processed over \$24.9 billion of tax collections, as well as other transactions.

During our review of the change control process, we noted the Department had a change management process; however, it was not always followed. During our detailed review of 26 completed change requests, we found no evidence of testing or management approval before being moved into the production environment.

Modifications and upgrades to GenTax are ongoing, as of June 30, 2009 the Department had 464 change requests open, of which 18 requests were considered a priority.

Generally Accepted Information Technology guidance endorses the implementation of change management standards requiring modifications to existing systems be properly approved, thoroughly tested, and consistently documented.

The Department stated that senior managers designate staff from their areas who are authorized to submit change requests. Those designees are responsible for working with the computer programmers, testing solutions, and ultimately approving the change to be added to the production system.

Without effective change management standards, poorly designed and tested developments and/or unauthorized changes could be implemented, which could result in data integrity problems and additional demands on staff and limited IT resources. In addition, a change management process increases the risk that the system will not have the required accuracy, integrity, availability, and security. (Finding Code 09-8, 08-8)

Recommendation

The Department should ensure the change management process for the critically important GenTax system is effectively controlled and documented. In particular, the Department should ensure all changes adhere to the change management process, and are adequately reviewed, tested, approved, and documented prior to system implementation.

Department Response

The official Change Management standard kept by Information Technology was updated to include the GenTax Change Procedures in September 2009. The Change Management document for GenTax went through several iterations and includes all the processes and documentation needed for a complete change management standard. Both programmers and designated "change request users," have received instructions on the Change Procedure and proper documentation

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Finding 09-9. Inaccurate Cigarette Tax Allocations

During our testing of the cigarette tax allocations, we noted that the Department of Revenue (Department) did not allocate cigarette tax collections pursuant to statute.

Beginning with FY07, the Department adopted a new cigarette tax allocation methodology to reflect statutory changes to the Cigarette Tax Act. The Department allocates cigarette tax collections on a weekly basis using a percentage formula; however, the Department did not reconcile the monthly deposits to determine if the amounts deposited to the General Revenue Fund (GRF), Long-Term Care Provider Fund (L-TCPF), and Common School Fund (CSF) were in compliance with the statutory formula.

The Department's failure to reconcile the cigarette tax allocations led to the following cumulative allocation errors:

Year	GRF Underallocation	L-TCPF Overallocation	CSF Overallocation
FY07	(48,115,524)	5,044,387	43,071,137
FY08	(53,018,212)	4,864,059	48,154,152
FY09	(58,699,299)	4,694,165	54,005,135
	(159,833,035)	14,602,611	145,230,424

These misallocations caused the Department's General Fund to be understated as follows; assets (\$14.6 million), beginning fund balance (\$9.9 million) and revenues (\$4.7 million). These understatements were deemed immaterial and were not recorded by the Department.

The Cigarette Tax Act (35 ILCS 130/2) requires the Department to allocate cigarette tax collections from the Cigarette Tax Act (35 ILCS 130) and Cigarette Use Tax Act (35 ILCS 135) pursuant to the following monthly methodology:

- 1/98 of the total revenue derived from the Cigarette Tax Act to the General Revenue Fund;
- 4/49 or \$9 million, whichever is less, of the total revenue derived from the Cigarette Tax Act to the Common School Fund;
- 7/49 of the total revenue derived from both the Cigarette Tax Act and the Cigarette Use Tax Act to the Common School Fund;
- \$29.2 million less the previous amounts allocated to the Common School Fund to the General Revenue Fund;
- \$5 million to the School Infrastructure Fund; and,
- any remaining unallocated amount to the Long-Term Care Provider Fund.

Department personnel stated that the allocation errors arose from the Department's acceptance of the misinterpretation of the statute that the deposit percentages in 2006 were *fixed* and that no reconciliation to actual was necessary. That is, 24 mills/cigarette tax for the Common School Fund (CSF) divided by 49 mills/cigarette total tax = 49% deposited into the CSF; 25 mills/cigarette tax for the GRF divided by 49 mills/cigarette total tax = 51% deposited into the GRF.

Failure to properly allocate cigarette tax collections between the General Revenue Fund, the Long-Term Care Provider Fund, and the Common School Fund is noncompliance with the Cigarette Tax Act. In addition, failure to properly allocate cigarette tax collections could result in a misstatement of financial statement amounts. (Finding Code No. 09-9)

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Finding 09-9. Inaccurate Cigarette Tax Allocations (Continued)

Recommendation

We recommend the Department develop an allocation and reconciliation methodology in accordance with the Cigarette Tax Act.

Department Response

The Department concurs that the percentage allocation between the Common School Fund (CSF) and the General Revenue Fund (GRF) was not correct. The CSF and GRF are subaccounts of the General Fund, therefore, the Department will not make any financial statement adjustments for FY09. The Department has adjusted procedures to reflect the appropriate allocation and reconciliation methodology and has made receipt transfers to correct FY10 - July through December 2009. Additional transfers to finalize corrections based on IDOR's legal interpretation are currently in process.

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Finding 09-10. Inadequate Controls over Local Government Tax Collections

The Department of Revenue (Department) did not exercise adequate controls over local government tax collections, statutory allocations, disbursements, or related financial reporting. During testing, we noted the following:

- The Department began collecting two new locally-imposed retailers' occupation taxes during FY09, the Flood Prevention Retailers' Occupation Tax (FPROT) and the School Facility Retailers' Occupation Tax (SFROT) and did not properly accrue the taxes received into the required funds. The Flood Prevention District Act (70 ILCS 750/25(f)) requires the Department to "immediately pay over to the State Treasurer, ex officio, as trustee, all taxes and penalties collected under this Section to be deposited into the Flood Prevention Occupation Tax Fund." The Counties Code (55 ILCS 5/5-1006.7(d)) requires the Department to "immediately pay over to the State Treasurer, ex officio, as trustee, all taxes and penalties collected under this Section to be deposited into the School Facility Occupation Tax Fund."

The Department's policy is to deposit into the State Treasury's sales tax clearing accounts for the first year of the tax's existence and not immediately into the respective funds. Two months after depositing the taxes collected into the sales tax clearing accounts, the Department deposits only the exact amount due to local governments into the respective funds in order to issue payment to local governments.

This led to the following financial reporting errors:

Flood Prevention Occupation Tax Fund - Fund #558		
Unrecorded Transaction	Unrecorded Assets	Unrecorded Liabilities
Due from General Revenue Fund for April, May, and June Taxes	\$2,599,820	
Due to Local Governments for April, May, and June Taxes		\$2,599,820
	\$2,599,820	\$2,599,820

School Facility Occupation Tax Fund - Fund #498		
Unrecorded Transaction	Unrecorded Assets	Unrecorded Liabilities
Due from General Revenue Fund for April, May, and June Taxes	\$1,559,013	
Due to Local Governments, June Liability, Paid in September		\$1,559,013
Adjustment for Erroneous Deposit	(\$20,208)	(\$20,208)
	\$1,538,805	\$1,538,805

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Finding 09-10. Inadequate Controls over Local Government Tax Collections (Continued)

These amounts were deemed immaterial by the Department and not corrected in the final financial statements.

- The Department did not exercise adequate control over allocations due to the Tax Compliance and Administration Fund (TCAF) (Fund 384) from the FPROT and SFROT. The Department's methodology called for directly depositing the TCAF's 2% share when the Department deposited cash into the FPROT and SFROT two months after collection. During testing, we noted the following:
 - For SFROT cash collections from September 2008 through January 2009 and June 2009, the Department did not deposit a net total of \$18,783 to TCAF. The Department attempted to correct this under-allocation in March and April 2009; however, the Department did not correct \$8,553 of the error.
 - The Department erroneously deposited the amount due to the TCAF from SFROT cash collections in November and December 2008, totaling \$20,208, into the School Facility Occupation Tax Fund.
 - For FPROT cash collections in February 2009 and June 2009, the Department did not deposit \$31,967 to the TCAF.

The Flood Prevention District Act (70 ILCS 750/25(f)) and the Counties Code (55 ILCS 5/5-1006.7(d)) requires the Department to transfer 2% of cash collections from both the FPROT and SFROT into the Tax Compliance and Administration Fund for the Department to use in administering and enforcing both taxes.

This lead to the following financial reporting errors:

Tax Compliance and Administration Fund - Fund #384		
Unrecorded Transaction	Unrecorded Assets	Tax Type
Due from General Revenue Fund for January, April, May, and June Taxes	\$67,171	FPROT
Due from General Revenue Fund for April, May, and June Taxes	\$40,369	SFROT
	\$107,540	

These amounts were deemed immaterial by the Department and not corrected in the final financial statements.

- During our testing, we noted a lack of controls over Home Rule Municipal Soft Drink Retailers' Occupation Tax payments and reporting. The Municipal Code (Code) (65 ILCS 5/8-11-6b(b)) requires the Department to certify to the Office of the State Comptroller 98% of soft drink taxes collected during the second preceding calendar month for distribution to the local government by the 25th day of the month. The remaining 2% of soft drink taxes collected are transferred to the TCAF for the Department to use in administering and enforcing the tax. We noted the following:
 - 2 of 12 (17%) distributions to the Local government for taxes collected were not paid by the Department within statutory timeframes noted above. The distributions occurred one and six days late.

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Finding 09-10. Inadequate Controls over Local Government Tax Collections (Continued)

- The Department's \$11,996 statutory transfer for June 2008's 2% administration fee to the TCAF was not received or processed by the Office of the State Comptroller during June 2008. The Department discovered this error when they reconciled the monthly cash balancing report in October 2008. The Statewide Accounting Management System (SAMS) (Procedure 09.40.30) requires State agencies to reconcile the cash balancing report on a monthly basis.

In accordance with Generally Accepted Accounting Principles (GAAP), all assets, liabilities, revenues and expenses should be recorded in the financial statements. The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires State agencies to establish a system of fiscal and administrative controls to provide assurance that revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

Failure to exercise adequate control over local government tax collections led to incorrect statutory allocations, disbursements, and financial reporting. (Finding Code No. 09-10)

Recommendation

We recommend the following:

- The Department should ensure that the Flood Prevention Occupation Tax Fund and School Facility Occupation Tax Fund are properly accrued for financial reporting at year-end.
- The Department should ensure that allocations and/or statutory transfers to the TCAF from the various locally-imposed taxes are performed.
- The Department should review, monitor, and adjust unusual fund balances to ensure complete financial reporting.
- The Department should implement controls to ensure that distributions of taxes collected for local governments are correct and timely.

Department Response

The Department agrees that allocations and statutory transfers, and adjustments to fund balances for financial reporting should be reviewed, monitored and performed in an accurate and timely fashion.

The Department agrees that it made errors in deposits into the Tax Compliance and Administration Fund and made the appropriate correction after fiscal year end. The correction was deemed immaterial for financial statement reporting purposes and the issue had no impact to local governments. In addition, twice the Department was late making allocations from the Soft Drink Tax, by one day on one occasion and by six days on the other occasion. The mistake was a human error and the process has been enhanced, effective April 5, 2010, by automating the allocation in Gen Tax along with all other Sales Tax distributions.

The Department agrees to review new funds each year and determine if an accrual is appropriate for financial reporting purposes.

Finding 09-11. Payments to County Officials

The Department of Revenue (Department) was unable to comply with statutory requirements regarding payments to certain county officials due to insufficient appropriations and did not report the corresponding liabilities to the State Comptroller for the year-end financial reporting. During our testing, we noted the following:

- The Department did not timely pay fifty-one counties \$582,566 as reimbursement for the June 2009 compensation paid by the counties to State's Attorneys. The Counties Code (Code) (55 ILCS 5/4-2001(a) and 55 ILCS 5/4-3001(a)) requires the State to furnish 66 2/3% of the total annual compensation to be paid to State's Attorneys. The Department receives the annual appropriation to make these payments. These payments were due in June 2009 and paid in July 2009 out of the next fiscal year's appropriation, as allowed.

Department personnel stated that the Department lacked sufficient appropriation authority to cover all of the reimbursable compensation costs associated with State's Attorneys in fiscal year 2009.

- The Department did not record the corresponding liability, totaling \$582,566, for the State's Attorneys' payments in the Department's June 30, 2009 General Revenue Fund financial statements or provide other notification to the Office of the State Comptroller regarding the unpaid liability. This auditor adjustment was deemed immaterial and not corrected on the Department's final financial statements.

GASB Statement No. 33, Paragraph 74 of the Basis of Conclusions states, "There may be cases when a government has not made payments to other governments for a particular period, as required by enabling legislation and the related appropriation. In those cases, the provider government should inform recipients whether the omitted payments for that period have been postponed and will be made in the next period or periods, or whether no further payments will be made at any time for the period of the shortfall. If the omitted payments have been postponed, the provider should report a liability and the recipients should report receivables for the amounts postponed. If the omission is not a postponement, no liability or receivable should be reported." These payments were paid by the Department in fiscal year 2010.

Department personnel stated that the Department did not record the liability because the Department considered the matter to be a liability of the State of Illinois, but not a liability of the Department. By paying the States Attorneys out of the next fiscal year's appropriation, the auditors believed that the State was merely postponing the payment and a liability should be recorded.

- The Department did not pay fifty counties \$264,147 as reimbursement for June 2009 compensation paid by the counties to Public Defenders. The Code (55 ILCS 5/3-4007(b)) requires the State to pay 66 2/3% of a Public Defender's annual salary, payable monthly from the State Treasury. The Department receives the annual appropriation to make these payments.

Department personnel stated that the Department lacked sufficient appropriation authority to cover all of the reimbursable compensation costs associated with Public Defenders. The Department notified the affected counties that they do not intend to pay this liability and directed counties to the Court of Claims. In accordance with GASB Statement No. 33, Paragraph 74 of the Basis of Conclusions, the Department did not record a liability for the unpaid amount of Public Defender reimbursements due to the notification.

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Finding 09-11. Payments to County Officials (Continued)

Failure to reimburse counties for compensation paid to State's Attorneys and Public Defenders is non-compliant with the Counties Code. Failure to record all liabilities arising from government-mandated nonexchange transactions reduces the reliability of Statewide financial information. (Finding Code No. 09-11)

Recommendation

We recommend that the Department comply with the Counties Code or seek legislative assistance regarding the compensation and reimbursement of county officials. Further, we recommend that the Department implement controls to ensure that all liabilities arising from government-mandated nonexchange transactions are recorded in accordance with GASB Statement 33.

Department Response

The Department agrees that we should comply with the Counties Code, however, due to the State's constrained fiscal environment, via the state appropriation process, it was determined that the state could not afford the total cost of payments to local government officials and the approved spending authority was limited accordingly. Article VIII, Section 2. (a), State Finance of the State of Illinois Constitution provides that "Proposed expenditures shall not exceed funds estimated to be available for a fiscal year as shown in the budget." And Section 2. (b) states "The General Assembly by law shall make appropriations for all expenditures of public funds of the State. Appropriations for a fiscal year shall not exceed funds estimated by the General Assembly to be available during that year."

The Department agrees to record future liabilities arising from government-mandated non-exchange transactions in accordance with GASB 33 and SAMS.

Finding 09-12. The Department Did Not Ensure GAAP Packages and Draft Financial Statements Were Complete and Accurate

There were numerous errors in accounting reports submitted to the Office of the State Comptroller (Generally Accepted Accounting Principles (GAAP) package forms) and draft financial statements that were given to the auditors.

During our audit, we noted several errors that were made in compiling the GAAP package forms. The GAAP package forms are required accounting reports that are submitted to the Office of the State Comptroller for State-wide financial reporting. These GAAP package forms are also provided to the auditors where they function as a trial balance for the financial statement audit portion of the engagement.

During our audit we noted that supervisory review of GAAP basis adjustments is occurring. However, the review does not appear to be sufficiently detailed to detect errors and omissions from using inappropriate underlying data. During our audit of the GAAP basis adjustments and financial statements we noted the following errors made to the GAAP basis accruals:

- Balances held in the Department of Revenue's (Department) "Remittance Clearing Accounts" were not properly recorded as of June 30, 2009. These accounts are used to hold initial deposits and are temporary until the cash is transferred to the appropriate account based on the tax type to which it applies. The unrecorded amount of cash, approximately \$8 million, represented individual accounts with balances under \$1 million, which the Department did not record in the GAAP packages or financial statements, as well as reconciliation differences that were not identified prior to submitting GAAP packages to the State Comptroller. These amounts were deemed immaterial and were not recorded by the Department. Per Department management, the agency modified the allocation of clearing accounts for GAAP in 2009. The prior agency procedure determined that any clearing accounts that were "allocated" to multiple taxes were immaterial. The procedure was modified for FY 09 so that any clearing account balance greater than \$1 million would be included and allocated and anything less than \$1 million would be treated on a cash basis which accounts for part of the difference.

In addition, some of the clearing account reconciliations were not finalized at the time GAAP forms were prepared. Preliminary numbers were used that were modified after the GAAP workpapers were prepared. This caused the "estimated" amounts to change when comparing to the actual amounts.

- The Department used incorrect account numbers on the report to accrue Motor Fuel Tax receivables which occurred during the lapse period (July and August 2009). This resulted in the overstatement of Motor Fuel Tax Fund receivables and revenue by approximately \$8.4 million. This error was corrected for the final financial statements. Department management stated that the incorrect account was used in compiling the accrual information.
- A year-end accrual to transfer tax revenue from the State Gaming Fund to the Education Assistance Fund (part of the General Fund) was not accrued properly resulting in an excess transfer of \$22 million reported in both funds. This error was corrected for the final financial statements. Department management stated that a report was used to create the accrual entry that contained both FY09 and FY10 activity, and the FY10 amounts should have been excluded from the accrual amount.

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Finding 09-12. The Department Did Not Ensure GAAP Packages and Draft Financial Statements Were Complete and Accurate (Continued)

- A year-end accrual to transfer tax revenue from the Horse Racing Fund to the General Revenue Fund was not accrued properly resulting in an excess transfer of \$1.160 million in both funds. This error was deemed immaterial by the Department and was not corrected in the final financial statements. Department management stated that an incorrect calculation of yearly expenditures was used.

In accordance with GAAP, all assets, liabilities, revenues and expenditures/expenses should be recorded in the Department's financial statements.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) states, "All State agencies shall establish and maintain a system, or systems, of internal fiscal and administrative controls, which shall provide assurance that: ... 4) revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources."

Due to the inadequate review procedures for GAAP reporting, there were errors in the amounts reported in the GAAP package forms as detailed above. In addition, under the present system, additional errors could be made in preparing the GAAP package forms and financial statements of future periods and not be detected by Department employees in the course of performing their assigned duties. (Finding Code No. 09-12, 08-3)

Recommendation

We recommend the following:

- The Department should revise procedures for preparing the GAAP package forms which includes supervisory review of all supporting schedules and reports used in the formation of accruals and adjustments, as well as supervisory review of the completed GAAP packages, prior to submitting them to the Office of the State Comptroller.
- All cash accounts should be reviewed to ensure they are properly recorded in the GAAP package forms.
- Reports used for recording accruals should be reviewed to ensure the proper reports are used.

Department Response

The Department concurs with the recommendation. We have added additional review procedures prior to submission to assist with identifying potential errors. However, with the numerous estimates and very tight submission timeframes of over 80 GAAP packages, all potential errors, as opposed to immaterial estimate variances, will be difficult to identify.

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Finding 09-13. Service Organization (SAS 70) Reports not Obtained

The Department of Revenue (Department) did not obtain SAS 70 reports for the service organizations used to process certain of its tax returns. Without these reports, the Department did not have adequate assurance that the tax processing controls necessary to prevent errors or irregularities from occurring were established and operating effectively throughout the year for returns handled by these organizations.

Statement on Auditing Standards (SAS) No. 70, *Service Organizations*, is a widely recognized auditing standard developed by the American Institute of Certified Public Accountants (AICPA). SAS No. 70 is the authoritative guidance that allows service organizations to disclose their control activities and processes to their customers and their customers' auditors in a uniform reporting format. The issuance of a service auditor's report prepared in accordance with SAS No. 70 signifies that a service organization has had its control objectives and control activities examined by an independent accounting and auditing firm. The service auditor's report, which includes the service auditor's opinion, is issued to the service organization at the conclusion of a SAS 70 examination.

The Department uses five external service providers that provide data entry services for many sales tax and business, individual and withholding income tax returns. The Department did not obtain SAS 70 reports from any of these service providers. Of the total returns processed by the Department, approximately 79% of the volume is processed by these five third party service providers.

It is important to obtain and analyze an independent review of each service provider's tax processing systems environment. Independent reviews provide a method of evaluating the systems in place at each service provider and helps the Department develop internal control processes that would complement those at the service providers. Based on the review, the Department would have better assurance that the internal controls are adequate to ensure the taxpayer account balances and revenue recorded from such returns are accurate and reliable, and that confidential information is safeguarded.

Per Department management, there was no procedure in place to request SAS 70 reports from vendors who perform data processing services for the Department. The Department follows the Central Management Service's Procurement Guidelines to secure services from vendors. Those guidelines do not require the Department to secure SAS 70 reports from vendors that provide data entry services. The Department requires vendors to meet specific specifications and provides specific instructions, formats, and passwords/controls for vendors when transmitting data files to the Department. In addition, the Department has batch controls and quality review processes that ensure the total return values going to data entry vendors equal what is being returned.

Under the present system, tax returns could be processed inaccurately resulting in misstatement of the financial statements. (Finding Code No. 09-13)

Recommendation

We recommend the Department obtain and adequately review copies of the independent reviews (SAS 70 reports) for tax processing services provided by all third-party service providers on an annual basis. User controls delineated in these reports should be implemented and monitored by the Department.

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Finding 09-13. Service Organization (SAS 70) Reports not Obtained (Continued)

Department Response

The Department has since obtained SAS70 audit reports from all but one vendor. The fifth vendor provided an internal control report but it was not in accordance with SAS70.

The Department agrees with this recommendation, when feasible, for future development of RFP requirements in order to request SAS70 audit reports; however the Department must also comply with the Small Business and Business Enterprise Program goals set forth by CMS. It is likely that some qualified providers that meet these program criteria will not currently have SAS70 audits performed as it is not cost effective for Small Businesses. The Department of Revenue does have batch controls and quality review processes that ensure that the total return values going to data entry vendors equal what is being returned.

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Prior Findings Not Repeated

- A. **FINDING** (The Department did not Ensure Revenue Recognition Relating to Credit-carry Forward Amounts was Proper)

During the prior examination period, the Department of Revenue (Department) did not have sufficient processes and controls in place to ensure revenue recognition related to the credit-carry forward was proper. Specifically, the examination of Individual Income Tax (IIT) and Business Income Tax (BIT) returns for taxpayers with credit-carry forward amounts revealed deferred revenues were not properly accrued.

In the current examination period, the Department has implemented processes and controls to ensure proper revenue recognition related to the credit-carry forward. (Finding Code 08-1)

- B. **FINDING** (Taxpayer Information that was Material to the Financial Statements was not Considered or Processed Timely)

During the prior examination period, the Department of Revenue (Department) did not consider or process taxpayer information received by the Department by June 30, 2008 that resulted in auditor adjustments to the financial statements.

In the current examination period, the Department improved controls over processing taxpayer information. (Finding Code 08-4)

- C. **FINDING** (Inadequate Controls over Data Reconciliations)

During the prior engagement, the Department of Revenue (Department) had not developed, implemented, or documented procedures to reconcile records between the new enterprise-wide tax system (Gen Tax) and the Department's other systems.

In the current examination period, the Department developed, implemented, documented, and reconciled records between GenTax and the Department's other systems. (Finding Code 08-5)

- D. **FINDING** (Lack of Supervisory Approval of Large Adjustments and Monitoring of Tax Accounts)

During the prior engagement, the Department of Revenue (Department) lacked adequate supervisory approval of large adjustments and did not have an adequate procedure in place to monitor and investigate unusual balances. Material adjustments and issues were not effectively communicated between the Business Processing Division and the Financial Control Bureau.

In the current examination period, the Department used informal criteria to identify accounts with likely data entry errors from their accounts receivable calculation, improved controls to reduce the total number of unusual pending payments, and implemented procedures for a secondary review for some tax processing functions, but lacked adequate supervisory approval of large adjustments that is addressed in Finding No. 98-3. (Finding Code 08-7)

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Prior Findings Not Repeated (Continued)

E. FINDING (Need to Enhance Controls over Confidential Information)

During the prior examination period, the Department of Revenue (Department) did not maintain adequate safeguards when handling confidential information.

In the current examination period, the auditors uncovered smaller, immaterial conditions of noncompliance. This condition is described in our Letter of Immaterial Findings. (Finding Code 08-12)

F. FINDING (Noncompliance with the State Records Act)

During the prior examination period, the Department of Revenue (Department) did not maintain adequate supporting documentation in taxpayer files to protect the legal and financial rights of the State in accordance with the State Records Act (5 ILCS 160/8). The Department was unable to locate and provide the original return filed by the taxpayer in a timely manner for 23 of 439 (5%) accounts tested. The Department was able to eventually locate 15 of the original returns, but the remaining 8 of 439 (2%) tested accounts were not located.

In the current examination period, the Department did maintain supporting documentation in taxpayer files according to our sample test results. Specifically, the Department was able to locate and provide original returns associated with taxpayer files in a timely manner for returns selected for testing. (Finding Code 08-15)

G. FINDING (Lack of Required Lottery Board Members)

During the prior examination period, the Lottery Control Board was not comprised of five members as required by the Illinois Lottery Law.

In the current examination period, the auditors uncovered immaterial conditions of noncompliance. This condition is described in our Letter of Immaterial Findings. (Finding Code 08-16)