



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

Frank J. Mautino, Auditor General

**SUMMARY REPORT DIGEST**

**STATE OF ILLINOIS**

**Financial Audit  
 For the Year Ended June 30, 2020**

**Release Date: August 19, 2021**

<b>FINDINGS THIS AUDIT: 7</b>				<b>AGING SCHEDULE OF REPEATED FINDINGS</b>			
	<u>New</u>	<u>Repeat</u>	<u>Total</u>	<u>Repeated Since</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>
<b>Category 1:</b>	<b>2</b>	<b>3</b>	<b>5</b>	2010	<b>20-05</b>		
<b>Category 2:</b>	<b>0</b>	<b>0</b>	<b>0</b>	2009			<b>20-03, 20-04</b>
<b>Category 3:</b>	<b>0</b>	<b>2</b>	<b>2</b>	2007	<b>20-01</b>		
<b>TOTAL</b>	<b>2</b>	<b>5</b>	<b>7</b>	2002	<b>20-02</b>		
<b>FINDINGS LAST AUDIT: 5</b>							

**INTRODUCTION**

The Illinois Office of Comptroller prepares the State of Illinois’ Comprehensive Annual Financial Report. The Comprehensive Annual Financial Report is the State’s official annual report, which provides the readers with the financial position of the State as of June 30, 2020, and its results of operations during the fiscal year.

The financial section of the Comprehensive Annual Financial Report includes the Independent Auditor’s Report on the basic financial statements, management’s discussion and analysis, the basic financial statements, required supplementary information, and individual fund statements and schedules.

**AUDITOR’S OPINION**

The auditors qualified their opinion on the Aggregate Discretely Presented Component Units, Unemployment Compensation Trust Fund, and Business-Type Activities opinion units of the financial statements of the State of Illinois. All other opinion units of the financial statements of the State of Illinois are fairly presented in all material respects.

The financial statements at June 30, 2020, reflect the following:

- The net position of governmental activities continued to deteriorate and the deficit increased by \$4.7 billion from June 30, 2019, to June 30, 2020. Overall, the net position of governmental activities is reported as a deficit of \$197.8 billion. (Exhibit 1)
- The General Fund deficit decreased by \$1.1 billion from June 30, 2019, to June 30, 2020. The General Fund deficit is \$6.4 billion. (Exhibit 2)

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

**REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE**

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

**STATE OFFICIALS**  
**As of June 30, 2020**

Governor	JB Pritzker
Comptroller	Susana A. Mendoza
Speaker of the House	Michael J. Madigan
President of the Senate	Don Harmon
House Republican Leader	Jim Durkin
Senate Republican Leader	William E. Brady

## FINANCIAL ANALYSIS OF THE STATE

The net position of the State’s governmental activities declined \$4.7 billion. The following condensed financial information was derived from the government-wide Statement of Net Position and reflects the State’s governmental activities financial position as of June 30 for Fiscal Years 2013 through 2020.

**EXHIBIT 1**  
**STATE OF ILLINOIS**  
**DEFICITS FOR NET POSITION OF GOVERNMENTAL ACTIVITIES**  
**FY13-FY20**  
*(In billions)*



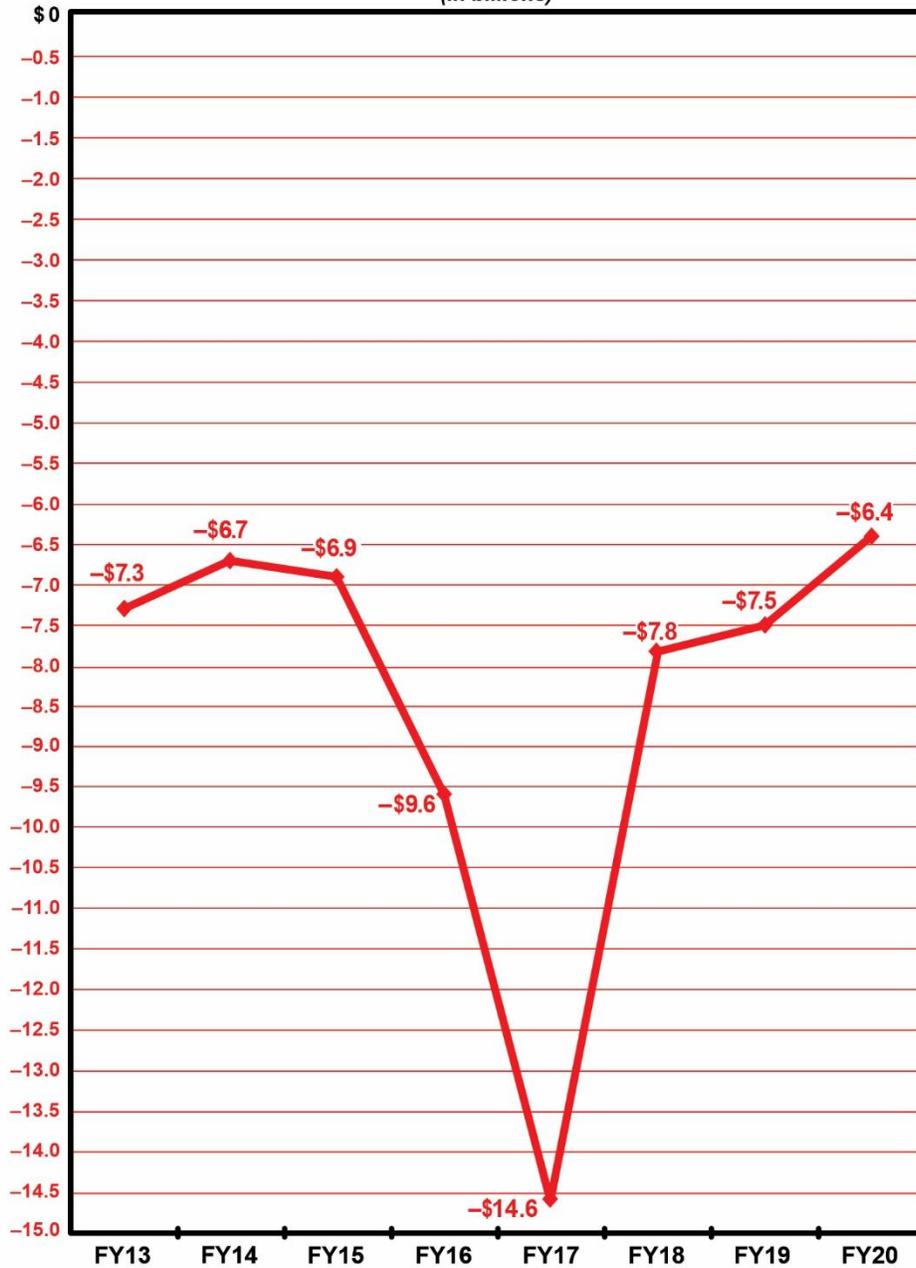
Source: State of Illinois’ Comprehensive Annual Financial Report (2020)  
 Numbers reflect restatements.

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

## GENERAL FUND

Many programs are accounted for in the General Fund. The GAAP basis financial position of the General Fund deficit decreased at June 30, 2020, from June 30, 2019. The fund balance deficit in the State's General Fund decreased by \$1.1 billion on a GAAP basis. The June 30, 2020, deficit was \$6.4 billion. Exhibit 2 reflects the General Fund deficit for Fiscal Years 2013 through 2020.

**EXHIBIT 2**  
**STATE OF ILLINOIS**  
**GENERAL FUND DEFICITS**  
**FY13-FY20**  
*(In billions)*

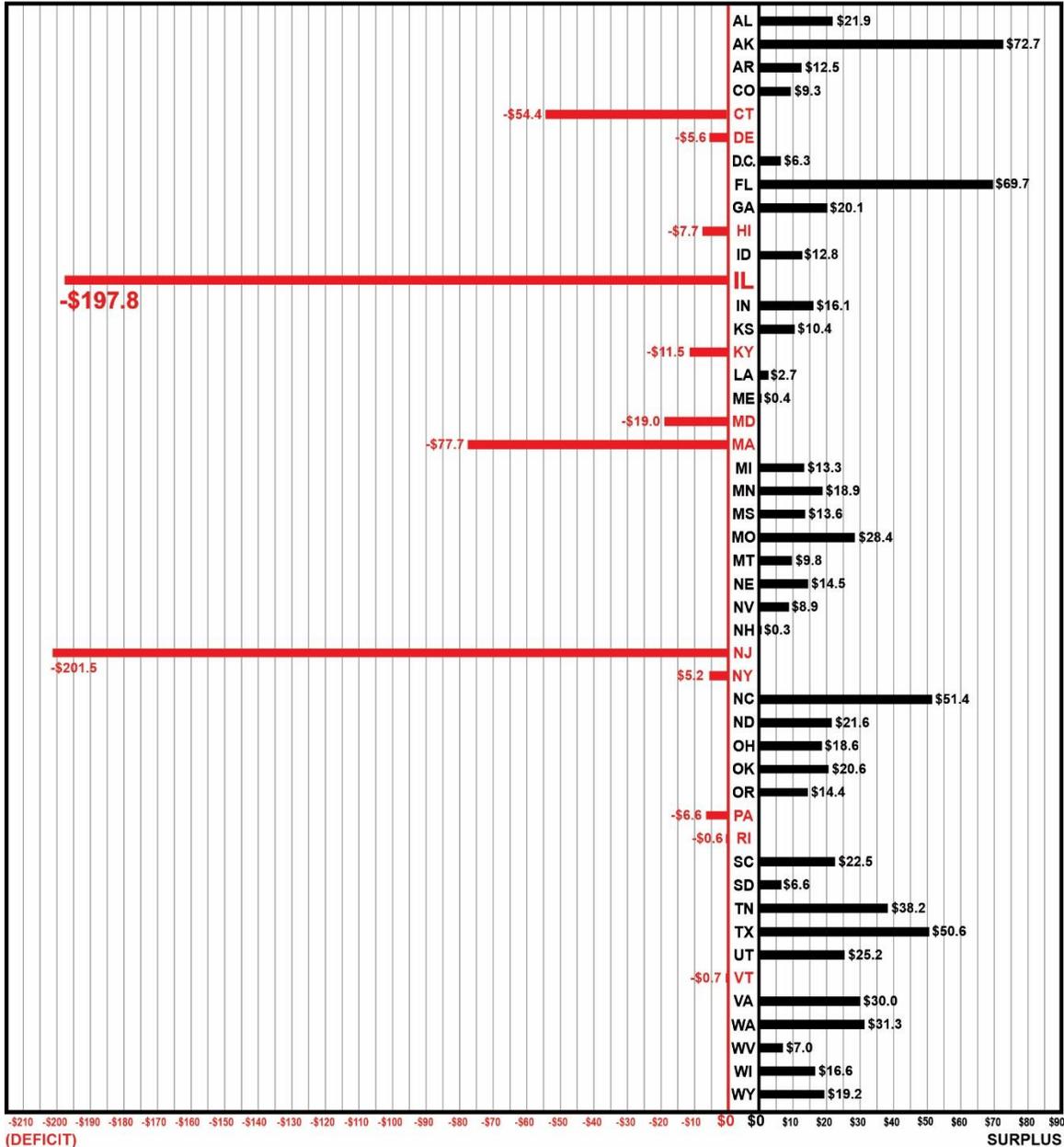


Source: State of Illinois' Comprehensive Annual Financial Report (2020)  
Numbers reflect restatements.

## STATE COMPARISON

Exhibit 3 provides an analysis of the State’s governmental activities net position at June 30, 2020, compared to other States.

**EXHIBIT 3**  
**STATE COMPARISON OF NET POSITION OF GOVERNMENTAL ACTIVITIES**  
**FOR FY20**  
*(In billions)*



Source: Compiled by the Illinois Auditor General’s Office from Comprehensive Annual Financial Reports for each state, excluding Arizona, California, Iowa, and New Mexico, which were not available at August 3, 2021.

## FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

### **INADEQUATE FINANCIAL REPORTING PROCESS**

The State of Illinois' current financial reporting process does not allow the State to prepare a complete and accurate Comprehensive Annual Financial Report in a timely manner. Reporting issues at various individual agencies caused delays in finalizing the financial statements. The lack of timely financial reporting limits effective oversight of State finances and may adversely affect the State's bond rating.

#### **Financial reporting problems continue**

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

#### **Financial reporting process dependent on post audits**

The Comptroller has made significant changes to the system used to compile financial information; however, the State has not solved all the problems to effectively remediate these financial reporting weaknesses. The State has a highly decentralized financial reporting process due to the use of numerous financial reporting systems, many of which are not interrelated and require manual intervention to convert data. The process is also overly dependent on the post audit program, even though the Office of the Auditor General has repeatedly informed State agency officials that the post audit function **is not** a substitute for appropriate internal controls at State agencies.

#### **Financial reporting process lacks sufficient internal controls**

Annual financial reporting to the Comptroller requires the State's agencies to prepare a series of financial reporting forms (SCO forms) designed by the Comptroller, which are utilized to prepare the Comprehensive Annual Financial Report. Although these SCO forms are subject to review by the Comptroller's financial reporting staff during the Comprehensive Annual Financial Report preparation process and there are recommended minimum qualifications for all new generally accepted accounting principles (GAAP) coordinators who oversee the preparation of the SCO forms, the current process still lacks sufficient internal controls at individual agencies. (Finding 1, pages 7-9) **This finding has been repeated since 2007.**

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

**Governor's Office agreed with auditors**

The Office of the Governor agreed with the recommendation and stated they will continue to work together with the Office of Comptroller, and together with the individual agencies that have the most pressing challenges, to address the core issues of the State's inability to produce timely and accurate GAAP-basis financial information. The Office of the Governor also stated the State is in the midst of a multi-year implementation of an Enterprise Resource Planning (ERP) system—an integrated enterprise-wide application system for financial accounting—which is intended to transform Illinois' IT system to be more inter-related among agencies and responsive to the needs of the State, its employees and those it serves.

According to the Office of the Governor, new challenges have arisen as State agencies have been making the transition from old systems to new, but a fully-operational ERP system and grants management system will improve internal controls and will better support the production of accurate financial statements in a timely manner in agencies throughout State government.

**Comptroller's Office agreed with auditors**

The Office of Comptroller accepted our recommendation and stated the State still faces several roadblocks in the timely completion of the Comprehensive Annual Financial Report due to the General Assembly enacting various Public Acts which extend the lapse period thus delaying the financial reporting process. The Office of the Comptroller also stated the Comprehensive Annual Financial Report (Report) completion continues to be delayed because of financial reporting issues identified during individual State agency financial and compliance audits and the Report cannot be finalized until these issues are resolved at the individual State agency reporting level.

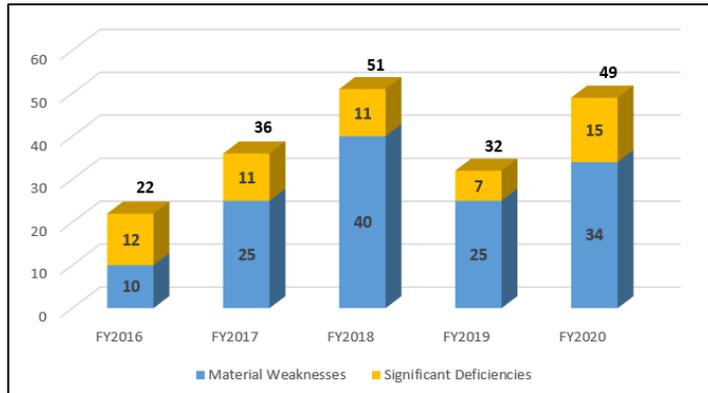
Lastly, the Office of Comptroller stated they will continue to work with the Governor's Office, the Auditor General's Office, and agency GAAP coordinators to improve the timeliness, quality, and processing of financial reporting for the State.

**FINANCIAL REPORTING WEAKNESSES**

The State of Illinois did not have adequate controls to assess the risk that information reported by individual agencies of the primary government would not be fairly stated and compliant with generally accepted accounting principles (GAAP). The Office of the Auditor General performed 29 audits at agencies of the primary government, including the five pension systems and the Illinois State Board of Investment. During these

audits, we noted a total of 34 material weaknesses and 15 significant deficiencies related to the internal controls over the financial reporting process at 17 of the agencies.

**17 of 29 agencies had 49 internal control findings over financial reporting**



Specifically, some of the more significant issues noted included the following:

- The Department of Healthcare and Family Services and the Department of Human Services failed to execute adequate internal controls over the Integrated Eligibility System.
- The Department of Healthcare and Family Services, the Department of Human Services, and the Department of Children and Family Services failed to execute adequate internal controls over the Illinois Medical Program Advanced Cloud Technology system.
- The Department of Corrections did not have adequate controls over capital assets.
- The Department of Employment Security did not have adequate controls over financial reporting.

**Internal control deficiencies extend financial reporting timelines**

**Material misstatements identified**

Material weaknesses and significant deficiencies further extend financial reporting timelines since additional measurements and reporting are required. Completion or substantial completion of these audits is necessary for the Auditor General to issue an opinion on the State’s basic financial statements.

In addition to the deficiencies noted above, material misstatements were identified by the auditors at one agency. The adjustments totaled \$58 million for the Business-Type Activities and Unemployment Compensation Trust Fund. (Finding 2, pages 10-16) **This finding has been repeated since 2002.**

We recommended the State continue its efforts to improve internal control procedures in order to assess the risk of material misstatements to the financial statements and to identify such misstatements during the financial statement

preparation process. We further recommended the internal control procedures include a formal evaluation of prior problems and implementation of procedures to reduce the risk of these problems reoccurring.

**Governor's Office agreed with auditors**

The Office of the Governor agreed with our recommendation and stated they will continue to work together with the Illinois Office of Comptroller, and together with the State agencies facing the greatest challenges, to improve internal control procedures and reduce the likelihood of material misstatements to the financial statements.

**Comptroller's Office agreed with auditors**

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

**INADEQUATE CONTROLS OVER PANDEMIC UNEMPLOYMENT ASSISTANCE**

The Illinois Department of Employment Security (IDES) failed to maintain adequate controls over Pandemic Unemployment Assistance systems, eligibility, and financial reporting. We noted the following problems related to the COVID-19 Pandemic:

**No SOC review obtained**

- The IDES contracted with a service provider for a system for issuing Pandemic Unemployment Assistance (PUA). As of June 30, 2020, the IDES has issued \$1.1 billion through the system. The IDES did not obtain a System and Organization Controls (SOC) review of the system from the service provider; therefore, we conducted testing over the general Information Technology (IT) controls of the system. During testing, we noted the system had weaknesses regarding change control and user access. Further, the IDES had not developed a disaster recovery plan in order to recover the system in the event of a disaster.
- The IDES failed to ensure PUA claimants met eligibility requirements. Some of the more significant issues noted included:
  - The IDES did not validate wages for all claimants receiving more than the minimum weekly payment. The total amount paid for PUA above the minimum was \$96.9 million.
  - The IDES failed to validate 4,579 claimants' identities, but still paid \$41.7 million dollars in payments to these claimants.
  - The IDES paid benefits of \$344 thousand to 35 deceased individuals.

**Benefits paid to deceased individuals**

**Claimants under 14 received \$1.5 million in payments**

- The IDES failed to implement adequate controls over the PUA processes. Some of the more significant issues noted included:
  - 164 claimants were between ages of birth and 13 years resulting in \$1.5 million in payments.
  - 31 claimants were either assigned more than one claimant ID or had more than one Social Security number associated with their ID.
  
- The IDES did not have sufficient internal controls over the determination of PUA accruals and eligibility related to the accruals. IDES management was unable to determine when claimants met all eligibility requirements as limitations within the system did not track all necessary data for this analysis. Additionally, there was a large backlog of unprocessed paperwork filed by claimants which would need to be considered to determine when a claimant became eligible. The large increase in volume of claims led to this backlog not being processed timely, compounding the issue. (Finding 6, pages 23-25).

We recommended IDES work to improve its controls over Pandemic Unemployment Assistance systems, eligibility, and financial reporting.

**Governor's Office agreed with auditors**

The Office of the Governor accepted our recommendation and stated implementing responses to the unprecedented COVID-19 public health emergency strained the resources of IDES, as well as those of other federal and state unemployment agencies. According to the Office of the Governor, the United States Department of Labor (DOL) Office of Inspector General has noted that both DOL and states struggled to implement federal pandemic unemployment programs, and specifically noted that the DOL guidance and oversight failed to ensure states implemented the programs promptly and accurately. The Office of the Governor also stated they will continue to work with IDES and the General Assembly to improve the implementation of federal pandemic Unemployment Insurance programs.

## **OTHER FINDINGS**

The remaining findings pertain to late payment of statutorily mandated transfers, debt covenant violations, insufficient controls over finances, and lack of controls over census data. We will review the State's progress towards the implementation of our recommendations in our next financial audit.

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

**SIGNED ORIGINAL ON FILE**

JANE CLARK  
Division Director

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

**SIGNED ORIGINAL ON FILE**

FRANK J. MAUTINO  
Auditor General

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