



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, 2022**

Release Date: August 22, 2023

FINDINGS THIS AUDIT: 6	AGING SCHEDULE OF REPEATED FINDINGS						
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
Category 1:	1	4	5	2020	22-05		
Category 2:	0	0	0	2010	22-04		
Category 3:	0	1	1	2009			22-03
TOTAL	1	5	6	2007	22-01		
				2002	22-02		
FINDINGS LAST AUDIT: 6							

INTRODUCTION

The Illinois Office of Comptroller prepares the State of Illinois’ Annual Comprehensive Financial Report. The Annual Comprehensive Financial Report is the State’s official annual report, which provides the readers with the financial position of the State as of June 30, 2022, and its results of operations during the fiscal year.

The financial section of the Annual Comprehensive 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 issued a disclaimer of opinion on the Unemployment Compensation Trust Fund Statements of Revenues, Expenses, and Changes in Net Position and Cash Flows and qualified their opinion on the Unemployment Compensation Trust Fund Statement of Net Position 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, 2022, reflect the following:

- The net position of governmental activities started to improve and the deficit decreased by \$14.4 billion from June 30, 2021, to June 30, 2022. Overall, the net position of governmental activities is reported as a deficit of \$184.8 billion. (Exhibit 1)
- The fund balance of the General Fund improved by \$4.6 billion from June 30, 2021, to June 30, 2022. The General Fund no longer has a deficit fund balance. The fund balance is \$1.5 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**

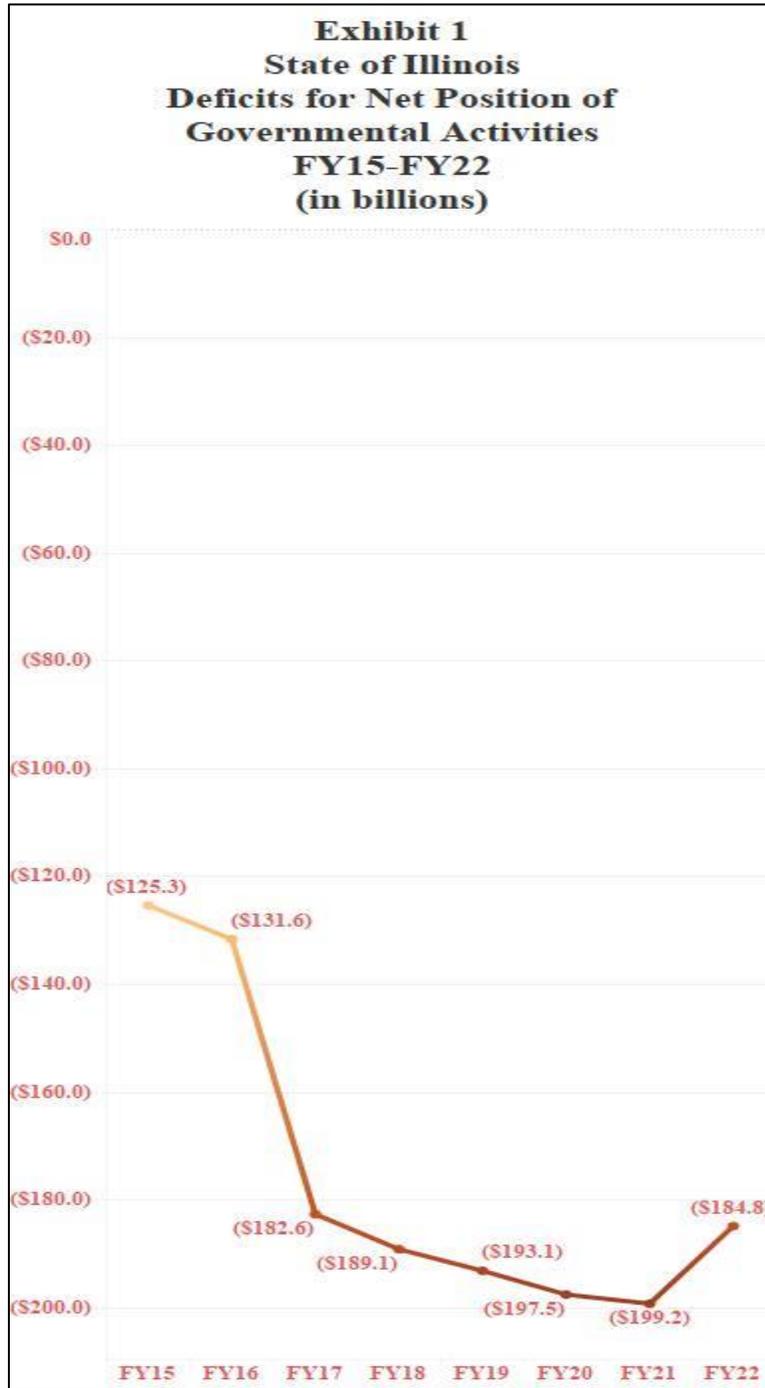
In accordance with Government Auditing Standards, a report on our consideration of the State of Illinois' internal control over financial reporting and our tests of its compliance is also issued as part of our financial statement audit. This report is a separate document and is summarized in this document. Our report noted 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, 2022

Governor	JB Pritzker
Comptroller	Susana A. Mendoza
Speaker of the House	Emanuel Chris Welch
President of the Senate	Don Harmon
House Republican Leader	Tony McCombie
Senate Republican Leader	John Curran

FINANCIAL ANALYSIS OF THE STATE

The net position of the State's governmental activities improved \$14.4 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 2015 through 2022.

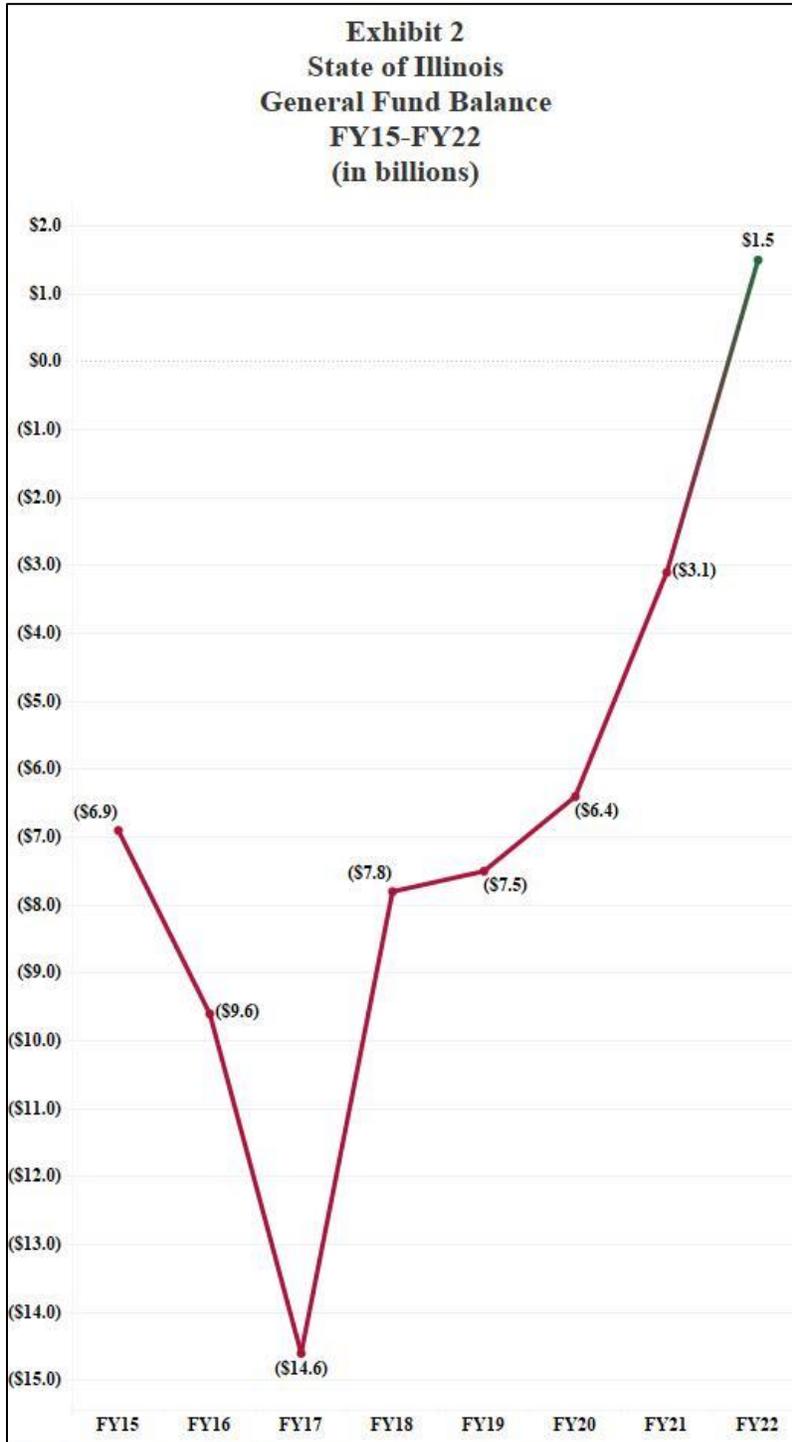


Source: State of Illinois' Annual Comprehensive Financial Report (2022)
Numbers reflect restatements.

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

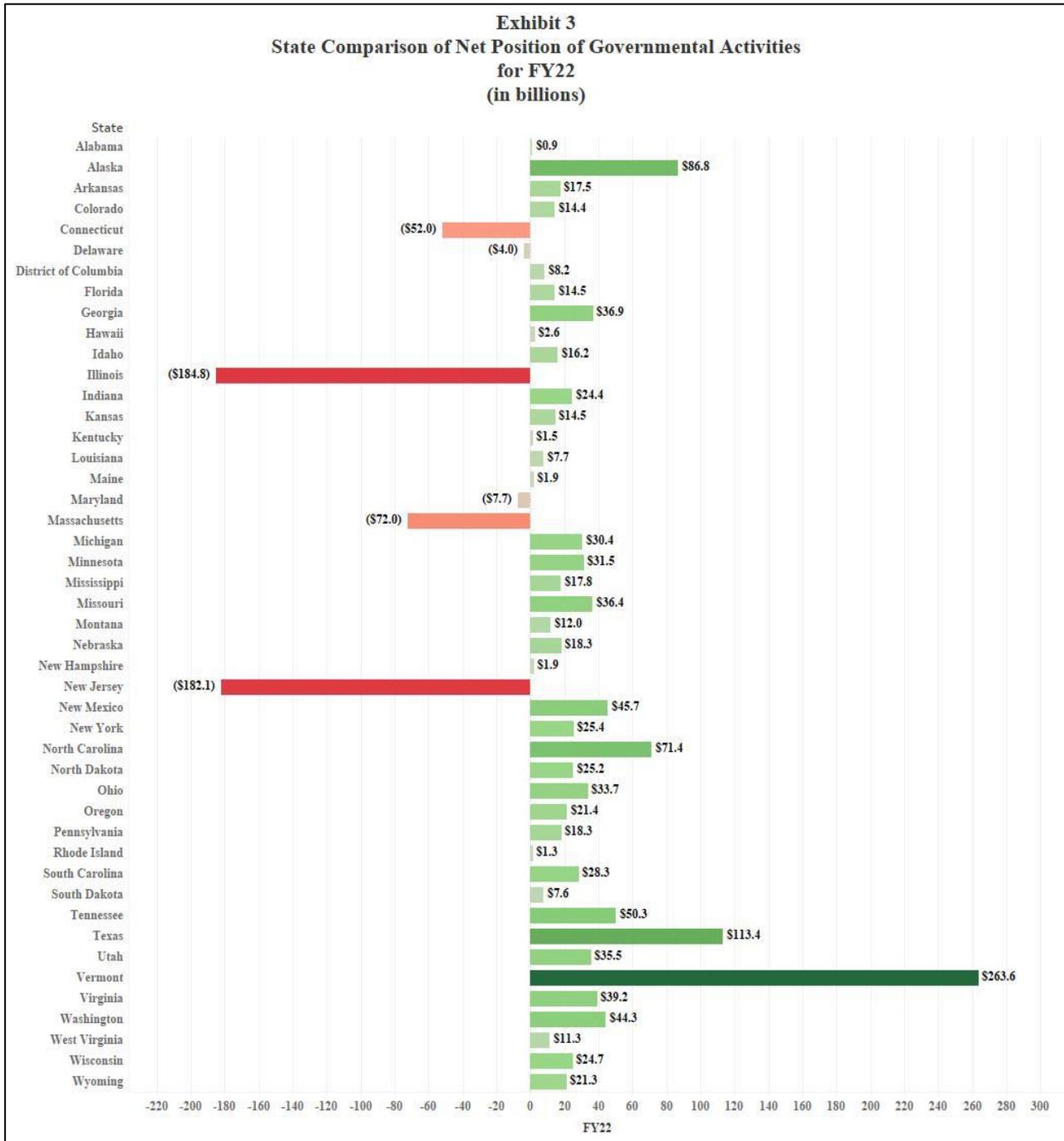
Many programs are accounted for in the General Fund. The GAAP basis financial position of the General Fund improved at June 30, 2022, from June 30, 2021. The fund balance in the State's General Fund improved by \$4.6 billion on a GAAP basis. The June 30, 2022, balance was \$1.5 billion. Exhibit 2 reflects the General Fund balance for Fiscal Years 2015 through 2022.



Source: State of Illinois' Annual Comprehensive Financial Report (2022)
Numbers reflect restatements.

STATE COMPARISON

Exhibit 3 provides an analysis of the State’s governmental activities net position at June 30, 2022, compared to other States.



Source: Compiled by the Illinois Auditor General’s Office from Annual Comprehensive Financial Reports for each state and the District of Columbia, excluding Arizona, California, Iowa, Nevada, and Oklahoma, which were not available at August 9, 2023.

FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS

INADEQUATE FINANCIAL REPORTING PROCESS

The State of Illinois' (State) current financial reporting process does not allow the State to prepare a complete and accurate Annual Comprehensive Financial Report (ACFR) 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.

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 Governor and towards the 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 ACFR. Although these SCO forms are subject to review by the Comptroller's financial reporting staff during the ACFR 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 reported 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 with the Comptroller and individual state agencies that have the most pressing challenges to produce timelier and more accurate GAAP-basis financial information. The state agencies under the Governor are completing the multi-year implementation of an Enterprise Resource Planning (ERP) system—an integrated enterprise-wide system that includes a financial accounting component. As of July 2022, all 73 state agencies under the Governor’s purview are using the financial accounting component of the ERP system. Further, the Governor anticipates that all state agencies subject to the Grant Accountability and Transparency Act will join, in Fiscal Year 2024, the Statewide grants management system, currently under development. The grants management system will pull data from the ERP system, promoting consistency across state systems. Upon full implementation, the two systems are expected to improve internal controls and will better support the agencies’ production of accurate and timely financial statements. The Governor notes that he has no authority to direct or control the financial reporting processes employed by other constitutional offices.

Comptroller’s Office agreed with auditors

The Comptroller accepted the recommendation and stated the State still faces several roadblocks in the timely completion of the Annual Comprehensive Financial Report. The General Assembly enacted Public Act 96-1501, which extended the lapse period to October 31 for fiscal year 2021 and future fiscal years for medical payments of the Department of Veterans’ Affairs and medical, childcare, and substance abuse treatment payments of the Department of Human Services. Public Act 102-0291 extended lapse period from August 31 to October 31 for fiscal year 2022 and future fiscal years for medical assistance payments of the Department of Healthcare and Family Services. More importantly, the Annual Comprehensive Financial Report completion continues to be delayed because of financial reporting issues identified during individual State agency financial and compliance audits. The report cannot be finalized until these issues are resolved at the individual State agency reporting level.

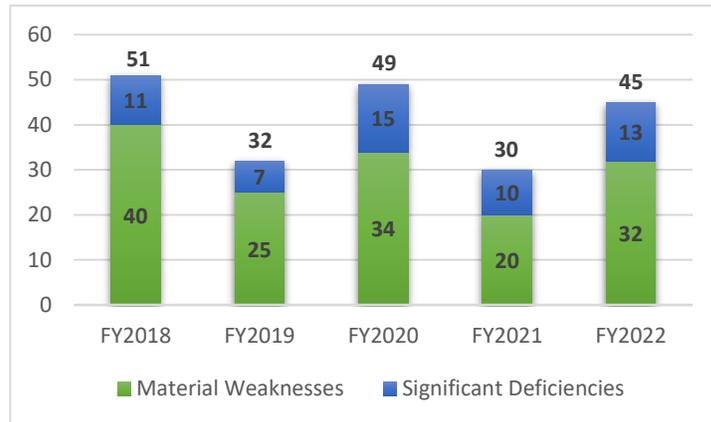
The Comptroller will continue to work with the Governor’s Office, the Auditor General’s Office, and agency GAAP coordinators to improve the timeliness and quality of reporting, including alternative options for the completion of the financial reporting process of the State.

FINANCIAL REPORTING WEAKNESSES

The State of Illinois (State) 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 26 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 32 material weaknesses and 13 significant deficiencies related to the internal controls over the financial reporting process at 14 of the agencies.

14 of 26 agencies had 45 internal control findings over financial reporting



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

- The Department of Healthcare and Family Services did not have adequate internal controls to ensure all eligible expenditures initiated by other State agencies were included in its Medicaid federal financial participation (FFP) reimbursement claims.
- The Department of Healthcare and Family Services and the Department of Human Services failed to execute adequate internal controls over the operation of the Illinois Medical Program Advanced Cloud Technology system.
- The State Board of Education did not exercise adequate internal control over the State’s Evidence-Based Funding Formula.

Internal control deficiencies extend financial reporting timelines

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

Material misstatements identified

In addition to the deficiencies noted above, material misstatements were identified by the auditors at three agencies. The adjustments totaled \$636 million for the Governmental Activities and General Fund; \$222.7 million for the Business-Type Activities and Unemployment Compensation Trust Fund; and \$8.8 million for Fiduciary Funds (Finding 2, pages 10-14). **This finding has been reported 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 Office of Comptroller and the State agencies under its jurisdiction to improve Statewide internal control procedures and reduce the likelihood of material misstatements to the financial statements. The state agencies under the Governor are completing the multi-year implementation of an Enterprise Resource Planning (ERP) system—an integrated enterprise-wide system that includes a financial accounting component. As of July 2022, all 73 state agencies under the Governor’s purview are using the financial accounting component of the ERP system. Agencies will continue to assess how ERP can support them, assist in assessing the risk of material misstatements, and identify such misstatements during the reporting process. Further, the Governor anticipates that all agencies subject to the Grant Accountability and Transparency Act will join, in Fiscal Year 2024, the Statewide grants management system, currently under development. The grants management system will pull data from the ERP system, promoting consistency across state systems. Upon full implementation, the two systems are expected to improve internal controls and will better support the ability of agencies to avoid misstatements in the financial reporting process. In addition, DHFS has implemented a corrective action plan to reassess and reinforce internal controls over the Medicaid FFP claim process. Finally, the Governor will work with DHFS and DHS to ensure necessary interagency agreements are timely executed and to strengthen internal controls over the IMPACT system. The Governor notes that he has no authority to direct or control the accounting policies and processes employed by other constitutional offices.

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 and encouraging more stringent internal controls at the agency level.

INADEQUATE CONTROLS OVER PANDEMIC UNEMPLOYMENT ASSISTANCE

The Illinois Department of Employment Security (IDES) failed to maintain adequate controls over the Pandemic Unemployment Assistance system. During the audit of Fiscal

Year 2022 Unemployment Compensation Trust Fund financial statements, we noted:

Controls not implemented

- The IDES failed to implement general Information Technology controls over the System. Although IDES obtained a System and Organization Control (SOC) Report from the service provider who provided the PUA system, IDES had not implemented controls to achieve the control objectives documented in the SOC report.
- On March 27, 2020, the President of the United States signed the Coronavirus Aid, Relief, and Economic Security (CARES) Act which provided states the ability to provide unemployment insurance to individuals affected by the pandemic, including those who would not normally be eligible for unemployment. Based on the Department's records, as of June 30, 2022, 11,213 claimants received payments totaling \$3,026,210,633. Auditors requested claimant data. Although the claimant data was provided, the data required considerable manipulation in order to make the data auditable and organized. As a result, we were unable to conclude the claimant data records were complete and accurate under the Professional Standards promulgated by the American Institute of Certified Public Accountants (AU-C § 500). As a result, the auditors were unable to conduct detailed testing to determine whether the claimants were entitled to benefits.
- During the audit, several adjustments were posted to correct errors identified by the auditors (Finding 5, pages 19-21). **This finding has been reported since 2020.**

Auditors were unable to conduct testing

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 as a result of the COVID-19 Pandemic, the State's unemployment rate jumped to a historically high rate of 17.4 percent in April 2020. While unemployment rates began to fall through Fiscal Years 2021 and 2022, implementing federal programs created in response to the unprecedented COVID-19 public health emergency strained the resources of IDES, as well as those of unemployment agencies across the country. The Governor notes that eligibility for the PUA program ended in September 2021. The Governor will continue to support the Department's efforts to implement controls in the areas cited. The Department continues to implement improved internal controls analyzing operational management, review, and approval in coordination with the Department of

Innovation and Technology, including working with outside consultants to implement best practices. The Department is also working to address the untimeliness of cash reconciliation and inadequate internal controls through temporary staff augmentation, strategic hiring, and consultation with an outside accounting firm with subject matter expertise.

OTHER FINDINGS

The remaining findings pertain to late payment of statutorily mandated transfers, insufficient controls over finances, and failure to implement adequate Information Technology controls. 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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