STATE OF ILLINOIS
ANNUAL COMPREHENSIVE FINANCIAL REPORT

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*

For the Year Ended June 30, 2022

STATE OF ILLINOIS
ANNUAL COMPREHENSIVE FINANCIAL REPORT
FINANCIAL AUDIT
For the Year Ended June 30, 2022

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Other Reports Issued Under a Separate Cover

The annual financial statements of the State of Illinois as of and for the year ended June 30, 2022, have been issued under a separate cover.

STATE OF ILLINOIS
ANNUAL COMPREHENSIVE FINANCIAL REPORT
FINANCIAL AUDIT
For the Year Ended June 30, 2022

STATE OFFICIALS

Governor	JB Pritzker
Comptroller	Susana A. Mendoza
Speaker of the House	Emanuel Chris Welch
President of the Senate	Don Harmon
House Republican Leader (1/11/23-Present)	Tony McCombie
House Republican Leader (8/29/2013-1/10/23)	Jim Durkin
Senate Republican Leader (1/11/23-Present)	John Curran
Senate Republican Leader (1/13/21-1/11/23)	Dan McConchie

STATE OF ILLINOIS
ANNUAL COMPREHENSIVE FINANCIAL REPORT
FINANCIAL AUDIT
For the Year Ended June 30, 2022

REPORT REQUIRED UNDER *GOVERNMENT AUDITING STANDARDS*

SUMMARY

The audit of the financial statements of the State of Illinois was performed in accordance with *Government Auditing Standards*. This report is an integral part of that audit.

Based on their audit, the auditors expressed a qualified opinion on the business-type activities and the statement of net position of the Unemployment Compensation Trust Fund, issued a disclaimer of opinion on the statements of revenues, expenses, and changes in net position and cash flows of the Unemployment Compensation Trust Fund, and expressed unmodified opinions on the governmental activities, the General Fund, the Water Revolving Fund, the Prepaid Tuition Fund, and the aggregate remaining fund information of the State of Illinois' basic financial statements, issued under a separate cover.

SUMMARY OF FINDINGS

The auditors identified five matters involving the State's internal control over financial reporting that they considered to be material weaknesses. Further, the auditors identified three noncompliance matters.

Item No.	Page	Last/First Report	Description	Finding Type
			Current Findings	
2022-001	7	2021/2007	Inadequate Financial Reporting Process	Material Weakness and Noncompliance
2022-002	10	2021/2002	Financial Reporting Weaknesses	Material Weakness
2022-003	15	2021/2009	Late Payment of Statutorily Mandated Transfers	Noncompliance
2022-004	17	2021/2010	Insufficient Controls Over Finances	Material Weakness
2022-005	19	2021/2020	Inadequate Controls over Pandemic Unemployment Assistance	Material Weakness and Noncompliance

Item No.	Page	Last/First Report	Description	Finding Type
2022-006	22	New	Failure to implement adequate Information Technology controls	Material Weakness

Prior Finding Not Repeated

A	26	2021/2020	Lack of Controls over Census Data	

EXIT CONFERENCE

The Office of the Governor waived an exit conference in a correspondence from Alexis Sturm, Director of the Governor's Office of Management and Budget, on August 10, 2023. The responses to the recommendations were provided by Alexis Sturm, Director of the Governor's Office of Management and Budget, in a correspondence dated August 10, 2023.

The Office of Comptroller waived an exit conference in a correspondence from Katie Madonia, Director of Financial Reporting, on August 3, 2023. The responses to the recommendations were provided by Katie Madonia, Director of Financial Reporting, in a correspondence dated August 4, 2023.

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OFFICE OF THE AUDITOR GENERAL
FRANK J. MAUTINO

INDEPENDENT AUDITOR'S 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 Emanuel Chris Welch, Speaker of the House
Honorable Don Harmon, President of the Senate
Members of the General Assembly
Honorable JB Pritzker, Governor
Honorable Susana A. Mendoza, Comptroller
State of Illinois

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, the General Fund, the statement of net position of the Unemployment Compensation Trust Fund, the Water Revolving Fund, the Prepaid Tuition Fund, and the aggregate remaining fund information, and we were engaged to audit the statements of revenues, expenses, and changes in net position and cash flows of the Unemployment Compensation Trust Fund, of the State of Illinois, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the State of Illinois' basic financial statements, and we have issued our report thereon dated August 15, 2023.

That report contained a disclaimer of opinion on the Unemployment Compensation Trust Fund – Statements of Revenues, Expenses, and Changes in Net Position and Cash Flows due to our inability to obtain sufficient and appropriate audit evidence to provide a basis for an audit opinion on the Statements of Revenues, Expenses, and Changes in Net Position and Cash Flows of the Unemployment Compensation Trust Fund. Accordingly, we do not express an opinion on these Statements of Revenues, Expenses, and Changes in Net Position and Cash Flows. Our report also contained a qualified opinion on the Unemployment Compensation Trust Fund – Statement of Net Position and business-type activities as we were unable to obtain sufficient appropriate audit evidence to conclude the Unemployment Compensation Trust Fund – Statement of Net Position and the financial statements of the business-type activities were free from material misstatement. Our report is also modified to include a reference to other auditors who audited the financial statements of certain university related organizations. Further, our report included an emphasis-of-matter paragraph which stated, as discussed in Note 2 to the financial statements, the State of

Illinois restated beginning balances to correct errors in the understatement of capital assets and intergovernmental receivables. Our report also included an emphasis-of-matter paragraph which stated, as discussed in Note 2 to the financial statements, the State of Illinois restated beginning balances resulting from the implementation of GASB Statement No. 87, *Leases*. Lastly, our report included an emphasis-of-matter paragraph which stated the deficit for net position of governmental activities decreased during Fiscal Year 2022. The deficit decreased by $14,341,062,000, from $199,152,440,000 at June 30, 2021, to $184,811,378,000 at June 30, 2022. This deficit, which is presented on an accrual basis, is the excess of total liabilities and deferred inflows of resources over total assets and deferred outflows of resources and represents a deferral of current and prior year costs to future periods.

For purposes of this report, our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters did not include the State's discretely presented component units. Separate reports have been issued for those entities except certain university related organizations and certain other authorities, for which the financial statements were not audited in accordance with *Government Auditing Standards*. The findings, if any, included in those reports are not included herein.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Illinois' financial statements are free from 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 financial statements. 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings as items 2022-001, 2022-003 and 2022-005.

Report on Internal Control Over Financial Reporting

Management of the State of Illinois is responsible for establishing and maintaining effective internal control over financial reporting (internal control).

In planning and performing our audit of the financial statements, we considered the State of Illinois' internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State of Illinois' internal control. Accordingly, we do not express an opinion on the effectiveness of the State of Illinois' internal control.

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 entity's financial statements will not be prevented, or detected and corrected, on a timely basis. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified certain deficiencies in internal control, described in the accompanying Schedule of Findings as items 2022-001, 2022-002, 2022-004, 2022-005, and 2022-006 that we consider to be material weaknesses.

The Office of the Governor's and the Illinois Office of Comptroller's Responses to the Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Office of the Governor's and the Illinois Office of Comptroller's responses to the findings identified in our audit and described in the accompanying Schedule of Findings. The Office of the Governor's and the Illinois Office of Comptroller's responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the State of Illinois' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of Illinois' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General
State of Illinois

SIGNED ORIGINAL ON FILE

JANE CLARK, CPA
Director of Financial and Compliance Audits
Office of the Auditor General

Springfield, Illinois
August 15, 2023

2022-001. **FINDING** (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 in a timely manner. Reporting issues at various individual agencies caused delays in finalizing the financial statements (see Finding 2022-002 for additional detail). The lack of timely financial reporting limits effective oversight of State finances.

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).

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.

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 Annual Comprehensive Financial Report. For the most part, these SCO forms are completed for each of the State's 834 primary government/fiduciary funds and 16 component units. The forms are completed by accounting personnel within each State agency who have varying levels of knowledge, experience, and understanding of both generally accepted accounting principles (GAAP) and of the State's accounting policies and procedures. Agency personnel involved with this process are not under the organizational control or jurisdiction of the Comptroller.

Although these SCO forms are subject to review by the Comptroller's financial reporting staff during the Annual Comprehensive Financial Report preparation process and there are recommended minimum qualifications for all new GAAP coordinators who oversee the preparation of the SCO forms, the current process still lacks sufficient internal controls at individual agencies. As a result, audit adjustments and significant internal control deficiencies relative to individual agencies' financial reporting continue to occur.

Concepts Statement No. 1 of the Governmental Accounting Standards Board, *Objectives of Financial Reporting* (GASBCS 1, paragraph 66), states, "If financial reports are to be useful, they must be issued soon enough after the reported events to affect decisions."

The Office of the Governor (Governor) indicated the lack of a fully implemented enterprise-wide system for financial accounting and a Statewide grants management system hindered the State's ability to prepare a complete and accurate Annual Comprehensive Financial Report in a timely manner. The Governor noted these systems were in development at the time of the auditor's review. The Governor stated that because the systems were not fully implemented at the time of the audit, agencies relied on accounting staff who, in some cases, required further training in GAAP, governmental accounting procedures, and grants management to ensure they were qualified to prepare accurate and timely reports. Further, the Governor noted that the lack of the necessary Statewide systems led to agency personnel having to repeat methods from the past. Specifically, agency personnel were required to manually convert raw data into required financial reports, which can lead to a greater risk of errors and time-consuming manual reconciliation.

The Comptroller's management indicated delays at the department level were caused by a lack of sufficient internal control processes in State agencies for the accumulation and reporting of financial information used to prepare the State's financial statements.

Failure to establish effective internal controls at all State agencies regarding financial reporting for the timely and accurate preparation of the Annual Comprehensive Financial Report prevents the State from completing an audit in a timely manner, delays financial reporting, and decreases the usefulness of such information. (Finding Code No. 2022-001, 2021-001, 2020-001, 2019-001, 2018-001, 2017-001, 2016-001, 2015-001, 2014-001, 2013-001, 12-1, 11-1, 10-1, 09-2, 08-2, 07-2)

RECOMMENDATION

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

AGENCY RESPONSES

Office of the Governor:
The Office of the Governor (Governor) agrees with the recommendation. The Governor 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.

Office of Comptroller:
The Comptroller accepts the recommendation. 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.

2022-002. **FINDING** (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). As reported in Finding 2022-001, the State has a decentralized financial reporting process. Primarily in response to this decentralized process, we 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 deficiencies that were either material weaknesses or significant deficiencies related to the internal controls over the financial reporting process.

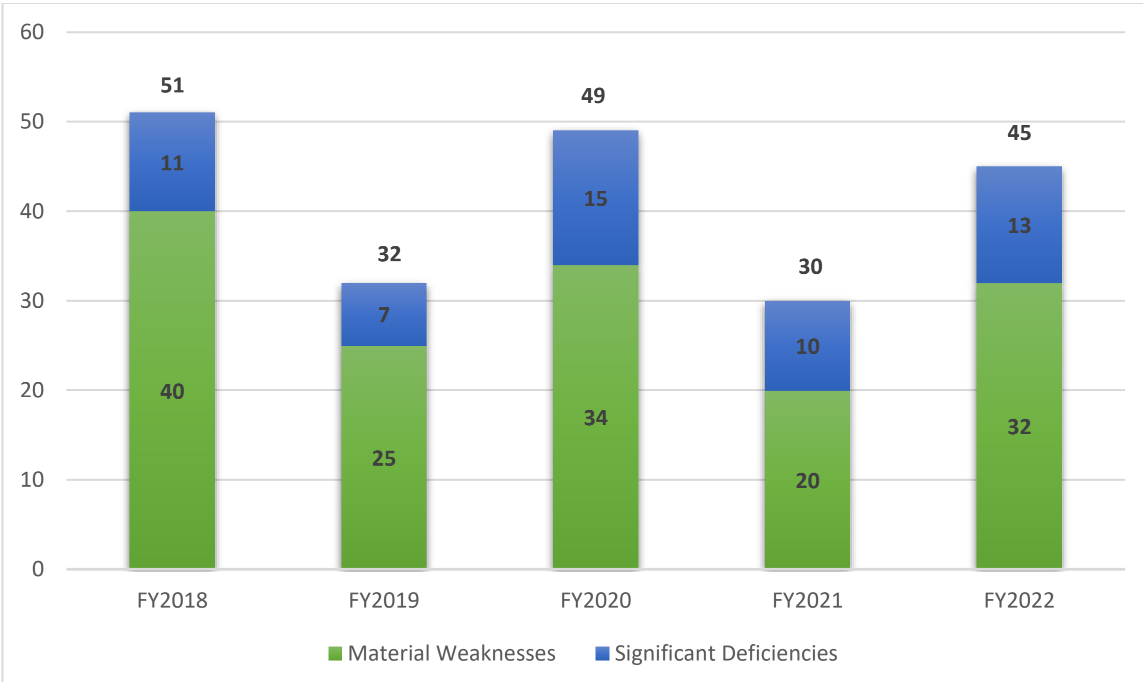
A *material weakness* is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

The chart below summarizes the number of material weaknesses and significant deficiencies we reported for each agency.

Agency	Material Weaknesses	Significant Deficiencies	Combined Total
Secretary of State	0	1	1
Office of Comptroller– Fiscal Officer Responsibilities	1	0	1
Office of the Treasurer – Illinois Funds	1	1	2
Department of Central Management Services	0	3	3
Department of Children and Family Services	3	0	3
Department of Corrections	6	2	8
Department of Employment Security	4	1	5
Department of Human Services	3	0	3
Department of the Lottery	0	2	2
Department of Healthcare and Family Services	4	0	4
Department of Human Services and Department of Healthcare and Family Services*	4	1	5
Department of Revenue	2	1	3
Environmental Protection Agency	1	0	1
Illinois Gaming Board- State Gaming Fund	0	1	1
State Board of Education	3	0	3
Total	**32**	**13**	**45**

** Five findings were reported in the departmental financial audit reports for both the Department of Human Services and the Department of Healthcare and Family Services.*

In addition, this chart summarizes the total material weaknesses and significant deficiencies we reported over the past five fiscal years.



Specifically, some of the more significant issues noted during the current fiscal year by the auditors included the following:

- The Department of Healthcare and Family Services (DHFS) 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. As a result of the inadequate internal controls which led to the missing Department of Human Services (DHS) expenditure data for which to claim FFP, developmental disabilities (DD) expenditures were excluded from the DHFS's Federal CMS quarterly claims for roughly a 24-month period (substantially all of calendar 2021 and 2022). For fiscal year 2022, we noted the DHFS did not submit approximately $1.1 billion in DD expenditures to Federal CMS on its quarterly claims report until the quarter ended March 30, 2023. The FFP portion of the $1.1 billion in DD expenditures equated to approximately $601 million in federal grant revenue to the State of Illinois which was delayed in being deposited into the State Treasury for up to 21 months (DHFS Finding 2022-008).

- The DHFS & DHS (collectively Departments) failed to execute adequate internal controls over the operation of the State of Illinois' Illinois Medicaid Program Advanced Cloud Technology system (IMPACT). The goal of IMPACT is to accommodate the processing of the State of Illinois' Medicaid provider enrollment determinations and all Medicaid claim payments to such providers. We noted the following problems:

- The Departments did not have current, formal written agreements defining the roles and responsibilities of DHS or DHFS within the Medicaid Program (DHS Finding 2022-007 and DHFS Finding 2022-004).

- The Departments had insufficient review and documentation of provider enrollment determinations (DHS Finding 2022-007 and DHFS Finding 2022-004).

- The State Board of Education (Board) did not exercise adequate internal control over the State's Evidence-Based Funding Formula. The Board failed to re-determine the Comparable Wage Index used in the formula. This would not change the total funds to be disbursed, but the distribution between the Evidence-Based Funding Organizational Units would change (Board Finding 2022-002).

Details of all material weaknesses and significant deficiencies are reported in each agency's financial audit for the year ended June 30, 2022 (reports are available on the Auditor General's website). 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, we identified misstatements during the audit process. The following chart indicates audit adjustments identified during our testing.

Opinion Unit	Amount (in thousands)	Responsible Agency
Governmental Activities	$636,000	Department of Healthcare and Family Services
Business-Type Activities	$222,719	Department of Employment Security
General Fund	$636,000	Department of Healthcare and Family Services
Unemployment Compensation Trust Fund	$222,719	Department of Employment Security
Fiduciary Activities	$8,799	Treasurer – Illinois Funds

The State's decentralized reporting system and related decentralized internal control system are not adequate to reduce the likelihood that a material misstatement of the State's financial statements could occur and not be detected during the normal course of business.

Audit adjustments were routinely identified for the primary government's State agencies required to prepare financial statements that were not deemed material by agency management and were not posted to the financial statements. In working with the Office of Comptroller (Comptroller) to finalize the State's financial statements, it is necessary to accumulate all of the uncorrected adjustments and evaluate these adjustments in total to ensure that they do not materially misstate the State's financial statements. Because of the volume of these passed adjustments, there is a continual risk that the State's financial statements could potentially be materially misstated until this accumulation and evaluation process is completed. In addition, these uncorrected adjustments require continued accumulation and evaluation in the subsequent year.

The Office of the Governor's (Governor) management stated the identified weaknesses and deficiencies at the agency level were due to a lack of internal control processes within the individual agencies and the lack of personnel adequately trained in GAAP, governmental accounting, and federal grants management. Further, the Governor stated the lack of a centralized financial accounting system and grants management system hindered the State's ability to implement Statewide internal controls to ensure accurate and timely completion of financial statements. Finally, the Governor noted that while it can recommend that agencies under its jurisdiction follow accounting policies developed by the State, it does not have the authority to ensure adherence to such policies by other constitutional officers outside of its jurisdiction.

The Comptroller's management stated the misstatements at the departmental level were caused by a lack of sufficient internal control processes in State agencies for the accumulation and reporting of financial information used to prepare the financial statements. Further, they stated the Comptroller has the statutory authority to develop and prescribe accounting policies for the State, but it does not have the statutory authority to monitor adherence to these policies as performed by State agencies.

In accordance with the Fiscal Control and Internal Auditing Act (30 ILCS 10/1002), each State agency's chief executive officer maintains statutory responsibility for the establishment and continuous monitoring of the internal control function for accounting and other operating policies of the officer's agency. (Finding Code No. 2022-002, 2021-002, 2020-002, 2019-002, 2018-002, 2017-002, 2016-002, 2015-002, 2014-002, 2013-002, 12-2, 11-2, 10-2, 09-1, 08-1, 07-1, 06-1, 05-1, 04-1, 03-1, 02-1)

RECOMMENDATION

We recommend the State continue its efforts to improve internal control procedures in order to assess the risk of material misstatements to the financial statements and to identify such misstatements during the financial statement preparation process. The internal control procedures should include a formal evaluation of prior problems and implementation of procedures to reduce the risk of these problems reoccurring.

AGENCY RESPONSES

Office of the Governor:
The Office of the Governor (Governor) agrees with the recommendation. The Governor will continue to work with the Office of the Comptroller and the state agencies under his 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.

Office of Comptroller:
The Comptroller accepts the recommendation. The Comptroller 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.

2022-003. **FINDING** (Late Payment of Statutorily Mandated Transfers)

The Office of Comptroller (Comptroller) did not make all statutorily mandated transfers between State funds within established timeframes.

The Comptroller had a system in place to identify and record inter-fund transfers it was required to make. During the fiscal year ended June 30, 2022, the Comptroller timely recorded, within the Statewide Accounting Management System (SAMS), the receivables and related payables for transfers of money in the State Treasury to be made between State of Illinois' (State) funds. However, not all transfers were made timely. During Fiscal Year 2022, we noted 320 transfers between State funds made greater than 30 days after the statutorily mandated transfer date. Transfers made between one and 30 days after the statutorily mandated transfer date were excluded from the information provided in the following table. The following summary concerning late payment of statutorily mandated transfers highlights the delays of making such transfers in Fiscal Year 2022 compared to Fiscal Year 2021 and Fiscal Year 2020:

	Fiscal Year 2022	Fiscal Year 2021	Fiscal Year 2020
Number of late transfers	320 transfers (165 from General Revenue Fund (GRF*))	346 transfers (185 from GRF*)	323 transfers (170 from GRF*)
Range of days transfers were late	31 to 365 days**	31 to 398 days**	31 to 443 days**
Total volume of late transfers, in dollars	$1.25 billion ($332.52 million from GRF*)	$1.28 billion ($355 million from GRF*)	$1.20 billion ($339 million from GRF*)
Late transfers outstanding as of and paid after June 30	$876.84 million ($49.69 million from GRF*)	$1.07 billion ($162 million from GRF*)	$999.41 million ($275 million from GRF*)

**GRF means the State of Illinois' General Revenue Fund.*
***This analysis was prepared as of October 12, 2022 for Fiscal Years 2022, 2021, and 2020*

Further, the following table contains the number and amount of late transfers still outstanding as of October 12, 2022, relating to Fiscal Year 2022, Fiscal Year 2021, and Fiscal Year 2020.

	Fiscal Year 2022	Fiscal Year 2021	Fiscal Year 2020
Number of late transfers outstanding as of 10/12/2022	130	67	4

Amount of late transfers outstanding as of 10/12/2022	$873.82 million	$544.06 million	$51.62 million

The transfers noted above are mandated by various State statutes that contain the required funds, amounts, and timeline.

Comptroller management stated, as it did during prior examinations, due to continued fiscal circumstances outside of the control of the Comptroller, the Comptroller must continue to engage in cash management strategies maximizing the use of limited State funds while also managing resources on-hand to address various pending vouchers causing some transfers to remain in the SAMS queue until the Comptroller is able to process them. Comptroller management further stated although it has significantly decreased the payment cycle and the number of late payments by managing revenues on-hand, some transfers cannot be made timely since payments for core State programs are prioritized. Comptroller management also stated the Comptroller policy was to prioritize State obligations for payrolls, pension contributions, human and social services programs, education, and debt service rather than to transfer revenues into funds that have no current demand or funding pressures.

Failure to make inter-fund transfers within applicable timeframes represents noncompliance with State law and untimely transfers of monies may have delayed the receiving fund's use of appropriated funds. (Finding Code No. 2022-003, 2021-003, 2020-003, 2019-003, 2018-003, 2017-003, 2016-003, 2015-003, 2014-003, 2013-003, 12-3, 11-3, 10-3, 09-3)

RECOMMENDATION

We recommend the Comptroller make transfers within timeframes established by applicable statutes. While we realize that lack of available cash in the State Treasury requires prioritization and cash management decisions, we recommend the Comptroller continue in its efforts to make transfers in as timely a manner as possible.

OFFICE OF COMPTROLLER'S RESPONSE

The Comptroller accepts the recommendation and will continue in its effort to make the required transfers timely, or when requested by the respective state agency. But given all the competing payments from limited resources in the State Treasury there will always be some that are not able to be processed until sufficient funding becomes available. The Comptroller staff continues to collaborate with various State fiscal officers on a regular ongoing basis to complete fund transfers that are essential throughout the fiscal year to avoid disruptions in the delivery of State services or programs.

2022-004. **FINDING** (Insufficient Controls over Finances)

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

As disclosed in Footnote 20 B, we noted the State had transactions, totaling $3.043 billion, on hand at June 30, 2022, that had been approved for payment by the State, but remained unpaid at year end due to the State's cash flow difficulties. Of this amount, approximately $434 million was owed to external parties; the remaining balance was related to intra-governmental transactions and statutorily mandated transfers. The external parties include State vendors, State universities, local schools, and local governments. The majority of these "held-payments" were payable from the General Revenue Fund.

The State's inadequate financial reporting process as described in Finding 2022-001 was designed in 1981 under the assumption that cash payments would be made at the time the expenditures were processed by the Illinois Office of Comptroller. Since this was not the case at year end, extra effort was required by the accountants and the auditors to ensure "held-payments" were appropriately accounted for. In addition, due to the State not being able to pay external vendors in a timely manner, the State processed for payment (on a cash basis) approximately $39.159 million in interest payments during Fiscal Year 2022.

The Office of the Governor indicated, as it did during the prior period, economic conditions, as well as years of unbalanced budgets, appear to be the cause of the above condition.

Sound business practices require the State to have adequate controls over its finances and budget process. (Finding Code No. 2022-004, 2021-004, 2020-005, 2019-005, 2018-005, 2017-005, 2016-005, 2015-005, 2014-005, 2013-005, 12-5, 11-5, 10-7)

RECOMMENDATION

We recommend the Office of the Governor work with the General Assembly to improve the State's control over its finances in a manner that eliminates significant payment delays and unnecessary interest payments to State vendors.

OFFICE OF THE GOVERNOR'S RESPONSE

The Office of the Governor (Governor) agrees with the recommendation. The Governor will continue to work with the General Assembly, the Illinois Office of the Comptroller, and the Office of the State Treasurer to improve the State's financial controls to reduce payment delays and unnecessary interest costs. Improved fiscal management and balanced budgets have significantly decreased the amount of approved but unpaid transactions, reducing the delays in payments. The Governor, in coordination with the Comptroller, Treasurer, and legislative leaders, has taken steps to direct additional State revenues towards held payments, which will reduce unnecessary interest costs and improve the State's financial performance. The Governor notes that transactions approved for payment but unpaid at the end of Fiscal Year 2022 were $2.84 billion (48.3%) less than at the end of Fiscal Year 2021. In addition, the State processed for payment approximately $79.676 million (67%) less in interest in Fiscal Year 2022 than in Fiscal Year 2021.

2022-005. **FINDING** (Inadequate Controls over Pandemic Unemployment Assistance)

The Illinois Department of Employment Security (IDES) failed to maintain adequate controls over the Pandemic Unemployment Assistance (PUA) System (System).

During the audit of Fiscal Year 2022 Unemployment Compensation Trust Fund (Fund) financial statements, we noted:

- 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. (IDES Finding 2022-001)

  The *Security and Privacy Controls for Information Systems and Organizations* (Special Publication 800-53, Fifth Revision) published by the National Institute of Standards and Technology (NIST), Access Control section requires the implementation of internal controls over access. The Configuration Management section also requires enforcement of controls over changes to systems. Further, the Contingency Planning sections makes compulsory the development of detailed disaster recovery plans and testing.

- 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.

  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 to provide assurance funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use and misappropriation, and maintain accountability over the State's resources. (IDES Finding 2022-002)

- During the audit, several adjustments were posted to correct errors identified by the auditors as noted below:

- Receivables due from the Federal Government relating to the waiver of the first waiting week for new claimants was improperly recorded and a large portion was found to relate to prior periods, resulting in a restatement of opening net position. The impact of this error was receivables being overstated by $12,547,000, revenue being overstated by $506,163,000, and opening net position being understated by $493,616,000. Management elected to record the adjusting entry for this error.
- Receivables for overpayments that are still in the adjudication and appeals processes were improperly recorded, as the Department does not have a claim to the monies until the adjudication and appeals processes are complete. The impact of this error was receivables being overstated by $393,731,000, the allowance for uncollectible accounts being overstated by $378,582,000, revenue being overstated by $369,507,000, and expenses being overstated by $354,358,000. Management elected to record the adjusting entry for this error.
- Allowances for uncollectible accounts relating to overpayment receivables were not appropriately evaluated and recorded based on historical and subsequent collection data. The impact of this error was expenses and the allowance for uncollectible accounts being understated by $201,497,000. Management elected to record the adjusting entry for this error.
- Outstanding and voided checks were not appropriately accounted for while reconciling cash. The impact of this error was cash being overstated by $31,591,000, benefit expense being understated by $32,057,000, benefit payable being understated by $2,461,000, and other receivables being understated by $1,995,000.
- Loan interest payable that will be paid by another fund was incorrectly accrued to the trust fund. The impact of this error was an overstatement of interest payable and related expense by $50,121,000.

Statement No. 33 of the Governmental Accounting Standards Board, Accounting and Financial Reporting for Nonexchange Transactions (GASBS 33, paragraph 21), states recipients should recognize receivables and revenues when all applicable eligibility requirements are met. According to generally accepted accounting principles (GAAP), the allowance for uncollectible accounts should represent management's best estimate of the amount of receivables that will not be collected. The allowance for doubtful accounts is a significant estimate that requires proper analysis and evaluation of past and current events as well as the assumptions used. (IDES Finding 2022-003)

- As part of our audit, we requested copies of the June 30, 2022 bank reconciliations. The Department did not have the reconciliations prepared timely for audit fieldwork and we received the final versions of the June 2022 reconciliations on April 5, 2023.

  Concepts Statement No. 1 of the Governmental Accounting Standards Board, Objectives of Financial Reporting (GASBCS 1, paragraph 64), states, "Financial reporting should be reliable; that is, the information presented should be verifiable and free from bias and should faithfully represent what it purports to represent. To be reliable, financial reporting needs to be comprehensive." The reconciliation of cash accounts is a basic control to ensure the accuracy and reliability of financial reports. (IDES Finding 2022-004)

According to IDES management, the PUA system limitations, data entry errors, and competing priorities resulted in the weaknesses.

As a result of IDES' lack of general IT controls, we were once again unable to rely on the System and the proper determination of claimant data and benefits paid. In addition, due to our inability to conduct detailed claimant testing, we were unable to determine whether the Fund financial statement accurately documented the PUA benefits paid. Further, without the proper recording of the various adjustments, the Fund financial statements would have been materially misstated. Due to the absence of complete and accurate information to support the eligibility of paid and accrued claimants, some amounts in the financial statements could not be audited. Additionally, due to bank reconciliations not being prepared timely, auditors were not able to reconcile bank statements. Accordingly, the auditors issued a disclaimer of opinion and qualified opinion on the financial statements of the Unemployment Compensation Trust Fund. In addition, the auditor's opinion on the business-type activities was qualified. (Finding Code No. 2022-005, 2021-005, 2020-006)

RECOMMENDATION

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

OFFICE OF THE GOVERNOR'S RESPONSE

The Office of the Governor (Governor) accepts the recommendation. 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 IDES's efforts to implement controls in the areas cited. The IDES 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 IDES 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.

2022-006. **FINDING** (Failure to implement adequate Information Technology controls)

The State of Illinois (State) failed to implement adequate general Information Technology (IT) controls related to its environment and applications and failed to implement adequate controls over its service providers.

During our testing of the Office of Comptroller (Comptroller), we noted the Comptroller:

- Security of environment
  - Was unable to provide certain requested information concerning the network and related security policies. In addition, we noted instances where the network's security settings were not current or suitably configured.
- Access Provisioning
  - Had not established policies and procedures documenting requirements for reviewing security logging reports for the network or their various applications.
  - Had not established policies and procedures documenting the process for terminating external users' access.
  - Did not document its review of mainframe security violation reports.
  - Did not document approval of users' access to applications.
  - Did not timely terminate separated users' access.
  - Did not conduct a periodic review of users' access to the environment and applications.
- Change Management
  - Had not updated the System Development Methodology, System Request Procedures, and Network Change Authorization Form Procedures to reflect the process for change management.
  - Was unable to provide a complete population of changes to the network. As a result we were unable to conduct testing.
  - Although a population of developers was provided, the Comptroller did not provide documentation of its completeness and accuracy. Due to these conditions, we were unable to conclude the listing of developers was sufficiently precise and detailed under the Professional Standards promulgated by the American Institute of Certified Public Accountants (AU-C § 500). Even given the limitations, we conducted testing of a sample of application changes to ensure a proper segregation of duties was maintained. Our testing noted developers migrated changes into the production environment or sufficient documentation was not provided to determine who conducted the migration.

During our testing of the Department of Human Services and the Department of Healthcare and Family Services' Integrated Eligibility System (IES), we noted:

- During the Departments' internal security review, completed as part of its Plan of Actions and Milestones (2022) report to the U.S. Department of Health and Human Services, Centers for Medicare and Medicaid Services (Federal CMS), significant threats over the Department of Innovation and Technology's general IT environment, which hosts IES, were identified.

- The Departments experienced two security breaches related to the IES system; the first breach occurred in August 2022, and the second breach was discovered in March 2023.
- The IES Change Management Plan lacked important definitions.
- The access policies did not define the time-period in which the Departments were required to disable a terminated individual's system access. Also, there was no systemic record of the date when the access was removed, or a management-defined definition of timeliness. Therefore, we were unable to determine whether user access was removed timely when a user was transferred or terminated.

During testing of the general IT controls over the State of Illinois, Illinois Medicaid Program Advance Cloud Technology (IMPACT) we noted:

- The Department of Healthcare and Family Services did not have adequate controls over user access.
- The Department of Healthcare and Family Services did not have adequate controls over the recovery of IMPACT in the event of a disaster.

During our testing of user access to applications, we noted (user access findings were noted at Department of Corrections and Department of Healthcare and Family Services):

- Incomplete populations of users with access, terminated users, and users transferred from one department to another.
- Lack of adequate and complete documentation of user access request and approval to ensure appropriateness of access rights as well as timeliness of approvals and terminations of access.
- Lack of periodic review of user access to its applications.
- Users with unnecessary access.
- Access not timely disabled.

During our testing of controls over change management procedures at the various agencies, we noted (change management findings were noted at Department of Central Management Services, Department of Corrections, Illinois Gaming Board, and State Board of Education):

- Inadequate change control policies and procedures.
- Complete and accurate populations of changes could not be provided.
- Some changes tested were missing documentation of requestors, approvals, authorized staff moving changes into productions, and/or post-implementation reviews.

During our testing of the State's controls over the various service providers utilized by the agencies, we noted (lack of controls over service provider findings were noted at Department of Children and Family Services, Department of Healthcare and Family Services, Department of Revenue, Department of Lottery, and Department of Corrections):

- Complete and accurate populations of service providers could not be provided.

- A process to identify service providers had not been implemented.
- System and Organization Control (SOC) reports were not obtained and reviewed.
- Deviations noted in the SOC reports were not analyzed to determine the impact on internal controls.
- Controls to review significant subservice organizations had not been established.
- Controls to review significant services and subservice providers had not been established.
- Monitoring and documenting the operation of the Complementary User Entity Controls (CUECs) had not been completed.

The Security and Privacy Controls for Information Systems and Organizations (Special Publication 800-53, Fifth Revision) published by the National Institute of Standards and Technology (NIST), Access Control, Configuration Management, and the System Development Life Cycle sections, require entities to maintain proper internal controls over the security of the environment, access provisioning and change management. In addition, the Maintenance and System and Service Acquisition sections, requires entities outsourcing their information technology environment or operations to obtain assurance over the entities' internal controls related to the services provided. Such assurance may be obtained via System and Organization Control reports or independent reviews. Further, the Contingency Planning section requires entities to establish controls in order to timely recover applications and data.

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 to provide assurance funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use, and misappropriation and to maintain accountability over the State's resources.

The Office of Comptroller's management indicated missing information causing the auditors to cite security weaknesses within the Office of Comptroller was due to insufficient written documentation of current processes and procedures.

The Office of the Governor's (Governor) management indicated the exceptions were the result of various factors at the indicated agencies, including turnover in responsible agency staff, insufficient training of new staff, and misunderstanding of relevant criteria and terminology.

Failure to implement adequate general IT controls could lead to unauthorized access, unauthorized changes and security risks to the environments, applications, and data. Further, due to the severity of the weaknesses noted, we were unable to rely upon the general IT controls over the environment and applications. Failure to implement adequate controls over service providers could result in the agencies not having assurance of the service providers' internal controls. (Finding Code No. 2022-006)

RECOMMENDATION

We recommend the Office of the Governor and Office of Comptroller implement adequate general IT controls related to the State's environment, application, and service providers.

AGENCY RESPONSES

Office of the Governor:
The Office of the Governor (Governor) agrees with the recommendation. The Governor will continue to work with the state agencies under his jurisdiction to improve general Information Technology (IT) controls related to their environments and applications and to implement adequate controls over their service providers. Agencies continue to train management and staff on the acquisition, review, and implementation of controls cited in SOC reports and to document procedures related to the same. The Department of Corrections has implemented an Electronic Service Request Form procedure to track access to systems not designed to track historical user populations. IDHS is working with the Department of Innovation and Technology (DoIT) to resolve any outstanding Plan of Actions and Milestones for IES as expeditiously as possible to address environment security and has updated its IES Change Management policy in line with auditor recommendations. Also, the Illinois Department of Human Services (IDHS) and the Department of Healthcare and Family Services (DHFS) are working with DoIT and the service provider to implement a solution in the IES application, which will provide for tracking of user access provisioning and termination. The Governor will work with DHFS and IDHS to ensure necessary interagency agreements are timely executed and to strengthen internal controls over the IMPACT system. In addition, agencies continue to work with DoIT to implement necessary change management controls, increase necessary staffing levels, and implement corrective action plans to improve cybersecurity programs and practices.

Office of Comptroller:
The Comptroller accepts the recommendation. The policies and procedures will be reviewed and updated to ensure they reflect current practices. The Comptroller must be agile in its operations to ensure statutory requirements are met and adapt, as necessary, when conditions change. Although the Comptroller was not always timely in terminating separated users' access from specific applications, all employees leaving employment with the Comptroller are terminated from the network on their last day. This practice can be clarified with a procedure change. The Comptroller will continue to work to timely update procedures and ensure the required supporting documentation is maintained in accordance with the documented procedures in place.

A. **FINDING** (Lack of Controls over Census Data)

During the prior examination, the State of Illinois (State) did not develop a reconciliation process to provide assurance census data submitted by its agencies to its pension and other postemployment benefits (OPEB) plans was complete and accurate.

During the current examination, the State developed a reconciliation process to aid in providing assurance census data submitted by its agencies to its pension and OPEB plans was complete and accurate. (Finding Code No. 2021-006, 2020-007)