

**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, 2023**

**STATE OF ILLINOIS**  
**ANNUAL COMPREHENSIVE FINANCIAL REPORT**  
**FINANCIAL AUDIT**  
**For the Year Ended June 30, 2023**

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FINANCIAL AUDIT  
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**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 (8/29/13-1/10/23)	Jim Durkin
Senate Republican Leader (1/11/23-Present)	John Curran
Senate Republican Leader (1/13/21-1/11/23)	Dan McConchie

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**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 Unemployment Compensation Trust Fund and the business-type activities, and expressed unmodified opinions on the governmental activities, aggregate discretely presented component units, 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 four matters involving the State's internal control over financial reporting that they considered to be material weaknesses. Further, the auditors identified three noncompliance matters.

<u>Item No.</u>	<u>Page</u>	<u>Last/First Reported</u>	<u>Description</u>	<u>Finding Type</u>
<b>Current Findings</b>				
2023-001	7	2022/2007	Inadequate Financial Reporting Process	Material Weakness and Noncompliance
2023-002	10	2022/2002	Financial Reporting Weaknesses	Material Weakness
2023-003	15	2022/2009	Late Payment of Statutorily Mandated Transfers	Noncompliance
2023-004	17	2022/2020	Inadequate Controls over Pandemic Unemployment Assistance	Material Weakness and Noncompliance
2023-005	20	2022/2022	Failure to Implement Adequate Information Technology Controls	Material Weakness

<u>Item No.</u>	<u>Page</u>	<u>Last/First Reported</u>	<u>Description</u>	<u>Finding Type</u>
<b>Prior Findings Not Repeated</b>				

A	24	2022/2010	Insufficient Control over Finances	
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### **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 5, 2025. The responses to the recommendations were provided by Janis Van Durme, ACFR Internal Control Director, in a correspondence dated August 5, 2025.

The Office of Comptroller waived an exit conference in a correspondence from Katie Madonia, Director of Financial Reporting, on August 5, 2025. The responses to the recommendations were provided by Katie Madonia, Director of Financial Reporting, in a correspondence dated August 5, 2025.

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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 Unemployment Compensation Trust Fund, the Water Revolving Fund, the Prepaid Tuition Fund, and the aggregate remaining fund information of the State of Illinois, as of and for the year ended June 30, 2023, 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 7, 2025.

That report contained qualified opinions on the Unemployment Compensation Trust Fund and business-type activities due to material weaknesses in internal controls over the benefit payment systems, for which we were unable to obtain sufficient appropriate audit evidence over related amounts. 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 liabilities and expenditures. 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. 96, *Subscription-Based Information Technology Arrangements*. Lastly, our report included an emphasis-of-matter paragraph which stated the deficit for net position of governmental activities decreased during Fiscal Year 2023. The deficit decreased by \$15,372,904,000, from \$185,576,485,000 at June 30, 2022, as restated, to \$170,203,581,000 at June 30, 2023. 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 2023-001, 2023-003 and 2023-004.

### ***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 as a basis for designing 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 2023-001, 2023-002, 2023-004, and 2023-005 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**

COURTNEY DZIERWA, CPA  
Director of Financial and Compliance Audits  
Office of the Auditor General

Springfield, Illinois  
August 7, 2025



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2023-001. **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 2023-002 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 845 primary government/fiduciary funds and 15 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.

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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.”

For those items noted above which are attributable to agencies under the jurisdiction of the Governor, the Office of the Governor’s (Governor) management team indicated the lack of a centralized financial accounting and a Statewide grants management system hinders the State’s ability to prepare a complete and accurate Annual Comprehensive Financial Report in a timely manner. The Governor noted that the lack of the necessary Statewide systems has led to agency personnel having to repeat methods from the past, which include relying on agency accounting staff who, in some cases, require further training in GAAP and are required to manually convert raw data from various operational IT applications into financial reports. Both these elements have led 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. 2023-001, 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 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 continuing the multi-year implementation of an Enterprise Resource Planning (ERP) system—an integrated enterprise-wide system that includes a financial accounting component. All 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 the Statewide grants management system currently under development. The grants

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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. Finally, the Governor has taken steps to increase staffing of and training for agency fiscal offices to improve processes.

**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.

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2023-002. **FINDING** (Financial Reporting Weaknesses)

The State of Illinois (State) did not have adequate controls to address the risk of primary government agencies reporting incorrect information or information noncompliant with generally accepted accounting principles (GAAP).

As reported in Finding 2023-001, the State has a decentralized financial reporting process. Primarily in response to this decentralized process, we performed 25 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.

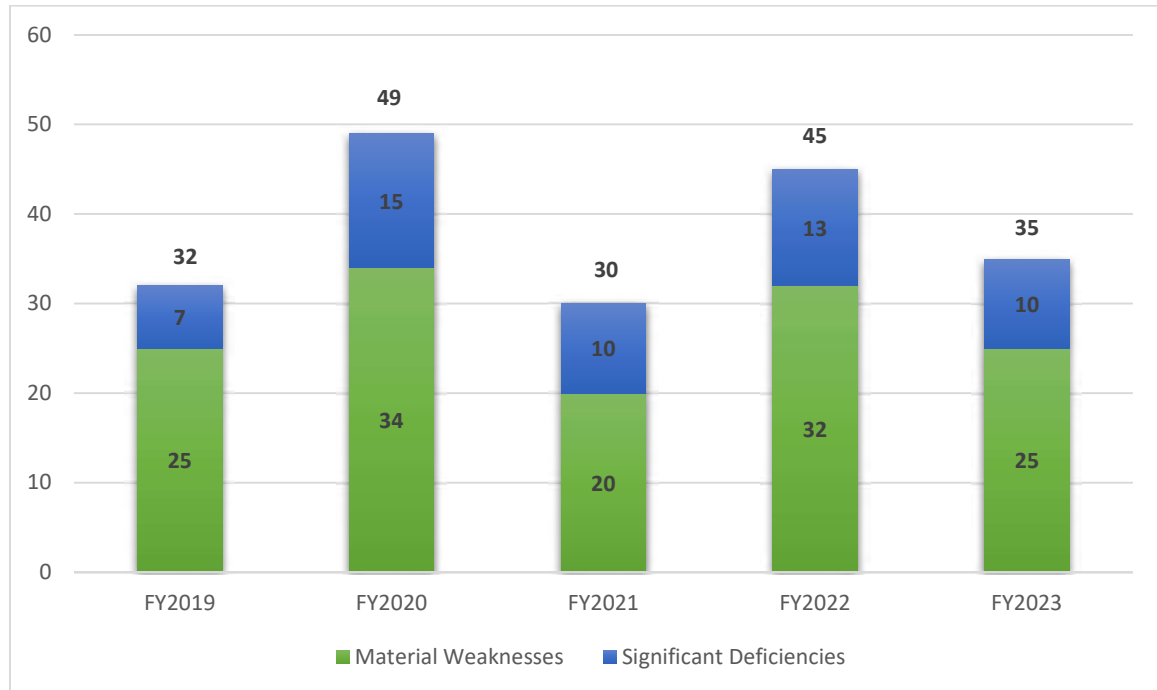
The chart below summarizes the number of material weaknesses and significant deficiencies we reported for each agency.

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
Office of the Treasurer – College Savings Program	0	1	1
Department of Central Management Services	0	1	1
Department of Employment Security	6	2	8
Department of Human Services	4	0	4
Department of Innovation and Technology – Technology Management Revolving Fund	4	0	4
Department of Healthcare and Family Services	1	1	2
Department of Human Services and Department of Healthcare and Family Services*	5	0	5
Department of Revenue	0	1	1
Department of Transportation	1	0	1
Environmental Protection Agency	1	0	1
Illinois Gaming Board – State Gaming Fund	0	1	1
State Board of Education	0	1	1
State University Retirement System	1	0	1
Total	25	10	35

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*\* 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) & Department of Human Services (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. The Departments had insufficient review and documentation of provider enrollment determinations during the monthly screenings for enrolled providers (DHS Finding 2023-008 and DHFS Finding 2023-005).
- The Departments lacked controls over eligibility determinations and redeterminations for Federal programs where such determination is documented using the Integrated Eligibility System (IES). In 12 of 60 cases tested (20%), we noted exceptions (DHS Finding 2023-007 and DHFS Finding 2023-003).

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- The Department of Innovation and Technology (DoIT) did not adequately review the billing rates utilized to bill agencies for Information Technology and Telecommunications services and its accounts receivable. Due to unreconcilable differences during accounts receivable confirmations, we were unable to determine if accounts receivable and revenues were fairly stated (DoIT Finding 2023-004).
- The Department of Transportation (DOT) did not have adequate controls for calculating its net investment in capital assets and unrestricted net position. The Department's underlying calculations used to determine the net position at the end of the fiscal year inappropriately allocated amounts to net investment in capital assets as opposed to unrestricted net position (DOT Finding 2023-001).

Details of all material weaknesses and significant deficiencies are reported in each agency's financial audit for the year ended June 30, 2023 (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.

The Department of Healthcare and Family Services (DHFS), after the completion of their agency audit, identified an error that resulted in DHFS invoicing pharmaceutical manufacturers for rebate payments for Medicare Part D drugs that were ineligible for such rebates. This error required a restatement of the beginning balance for the General Fund and Governmental Activities, along with an adjustment for the Fiscal Year 2023 portion of the error.

In addition to the deficiencies noted above, we identified misstatements during the audit process. The following chart indicates audit adjustments identified during our testing.

<b>Opinion Unit</b>	<b>Amount (in thousands)</b>	<b>Responsible Agency</b>
Governmental Activities	\$1,110,000	Department of Healthcare and Family Services Department of Transportation*
Business-Type Activities	\$69,756	Department of Employment Security
General Fund	\$1,110,000	Department of Healthcare and Family Services Office of Comptroller^
Unemployment Compensation Trust Fund	\$69,756	Department of Employment Security
Fiduciary Activities	\$18,751	State Employees Retirement System; State Treasurer

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*\*The DOT issue noted in bullet 4 above was a reclassification of \$560,626 within Net Position.*

*^The Education Assistance Account Fund required a reclassification of a \$19,244 deficit from committed to unassigned fund balance.*

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.

For those items noted above which are attributable to agencies under the jurisdiction of the Governor, the Office of the Governor's (Governor) management team indicated identified weaknesses and deficiencies at the agency level were due to a lack of personnel adequately trained in GAAP and the learning curve associated with the implementation of new governmental accounting standards. Further, the Governor indicated the lack of a centralized financial accounting and a Statewide grants management system hinders the State's ability to prepare a complete and accurate Annual Comprehensive Financial Report in a timely manner.

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. 2023-002, 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)

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**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 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 continuing the multi-year implementation of an Enterprise Resource Planning (ERP) system—an integrated enterprise-wide system that includes a financial accounting component. All 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 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. Further, the Governor has taken steps to increase staffing of and training for agency fiscal offices to improve processes such as accounts receivable and capital assets documentation. 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 and IES. 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.



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2023-003. **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, 2023, 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 timely made. During Fiscal Year 2023, we noted 264 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 2023 compared to Fiscal Year 2022:

	<b>Fiscal Year 2023</b>	<b>Fiscal Year 2022</b>
Number of late transfers	264 transfers (127 from General Revenue Fund (GRF*))	320 transfers (165 from GRF*)
Range of days transfers were late	31 to 299 days**	31 to 365 days**
Total volume of late transfers, in dollars	\$1.23 billion (\$327.98 million from GRF*)	\$1.25 billion (\$332.52 million from GRF*)
Late transfers outstanding as of and paid after June 30	\$954.86 million (\$0 from GRF*)	\$876.84 million (\$49.69 million from GRF*)

*\*GRF means the State of Illinois' General Revenue Fund.*

*\*\*This analysis was prepared as of October 30, 2023, for Fiscal Year 2023 and October 12, 2022 for Fiscal Year 2022.*

Further, the following table contains the number and amount of late transfers still outstanding as of October 30, 2023, relating to Fiscal Year 2023 and Fiscal Year 2022.

	<b>Fiscal Year 2023</b>	<b>Fiscal Year 2022</b>
Number of late transfers outstanding as of 10/30/2023	63	21
Amount of late transfers outstanding as of 10/30/2023	\$391.43 million	\$133.79 million

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

Comptroller management stated, as they did during prior examinations, due to continued fiscal circumstances outside 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. 2023-003, 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 but given all the competing payments from limited resources in the State Treasury there will always be some transfers pending until funds are available, or when needed. It should be noted that most GRF transfers were made by the end of June 30, 2023 and the few pending GRF transfers were not delayed. Pending non-GRF transfers, especially those for capital obligations, will be processed upon collaboration with the respective state agencies. The Comptroller staff continues to work together with various State fiscal officers on a regular ongoing basis to manage the processing of such transfers throughout the fiscal year to avoid disruptions in the delivery of State services or programs.

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2023-004. **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 2023 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 2023-002)
- 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 IDES' records, as of June 30, 2023, 2,828 claimants received payments totaling \$6,171,258. 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. (IDES Finding 2023-001)
- The IDES prepares an allowance for receivables associated with PUA, classified within other receivables. During fiscal year 2023, and review of subsequent collections in fiscal year 2024, the IDES recovered minimal amounts on these receivables and an adjustment was booked to reduce the overstated other receivables and benefit payments expense by \$7,653,000. (IDES Finding 2023-003)
- As part of our audit, we requested copies of the June 30, 2023 bank reconciliations. The IDES did not have the reconciliations prepared timely for audit fieldwork and we received the final versions of the June 2023 reconciliations on January 16, 2024. In addition, the IDES did not record all reconciling items identified in the reconciliation which resulted in an understatement of benefit expense by \$40,125,000, an overstatement of cash reported by \$32,414,000, and an understatement of benefits payable by \$7,711,000. (IDES Finding 2023-005)

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

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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.

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.

Section N50 paragraph 113 of the Governmental Accounting Standards Board (GASB) Codification states "Revenues should be recognized, net of estimated refunds and estimated uncollectible amounts" and paragraph 125 states, "if notification by the provider government is not available in a timely manner, recipient governments should use a reasonable estimate of the amount to be accrued." The determination of the estimate should be reasonable, should be based on most up-to-date information, and should be calculated properly.

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.

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 qualified opinions on the Unemployment Compensation Trust Fund and business-type activities. (Finding Code No. 2023-004, 2022-005, 2021-005, 2020-006)

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**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. IDES continues to implement improved general IT controls and to analyze operational management, review, and approval in coordination with the Governor's Office of Management and Budget and the Department of Innovation and Technology. 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.

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2023-005. **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 and mainframe security settings were not current or properly configured. Further, we noted instances where the level of administrative access did not appear to be appropriate.
- Access Provisioning
  - Had not established policies and procedures documenting requirements for reviewing security reports for the network or all 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 conduct timely reviews of the network and mainframe environments' security violations reports.
  - Did not conduct security logging for all applications.
  - Did not document approval of users' access to applications.
  - Did not timely terminate separated users' access or have a designated timeframe for which access was to be revoked.
  - Did not provide documentation demonstrating separated users' access had been revoked.
  - Did not conduct a periodic review of users' access to the network and mainframe environment and applications.
- Change Management
  - Had not updated the System Development Methodology, System Request Procedures, and Network Change Authorization Form Procedures to reflect the current 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.
  - Did not maintain documentation of migration dates and approvals or complete post implementation reviews for all application changes.
  - 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

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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' (collectively Departments) Integrated Eligibility System (IES), we noted:

- During the Departments' internal security review, completed as part of its Plan of Actions and Milestones (2023) 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 three security breaches related to the IES system; the first breach occurred in August 2022, the second breach was discovered in March 2023, and the third breach occurred in August 2023.
- Based on our review of sampled infrastructure changes, we noted backout plans to return the system to a previous functional version in the event a change moved into production caused undesired results had not been prepared for individual infrastructure changes for 5 out of 5 (100%) changes reviewed.
- The Departments' Disaster Recovery Plan for its IES application did not include the following:
  - Detailed recovery scripts over the application and its data,
  - Detailed environment diagrams,
  - IES support staff and vendor contact information,
  - Documentation on the backup and responsibilities for recovery of IES, and
  - Documentation of the current environment.Additionally, we noted the Departments did not conduct recovery testing of critical systems and components in fiscal year 2023.

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 and Department of Human Services did not have adequate controls over user access.

During our testing of controls over change management procedures at the Illinois Gaming Board, we noted inadequate change control policies and procedures.

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 the Office of the Treasurer, Department of Revenue, and State Board of Education):

- 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.

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- 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 require 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 Comptroller's management indicated that the items causing auditors to cite concerns were due to incomplete written documentation although technical controls remain in place. However, auditors believe the issues were more than incomplete documentation and also believe the technical controls in place did not address all of the noted concerns. The Comptroller's inability to implement adequate general IT controls was the result of staffing shortages and limited resources.

For those items noted above which are attributable to agencies under the jurisdiction of the Office of the Governor, the Governor's management indicated the exceptions were the result of various factors at the indicated agencies, including the condensed timeline in financial reporting versus the time needed to develop and implement internal control procedures over service providers and information technology, turnover in responsible agency staff, insufficient training of agency 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. 2023-005, 2022-006)



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**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. In addition, the Governor's Office of Management and Budget, in consultation with the Department of Innovation and Technology (DoIT) and the Department of Central Management Services, has developed new policies and trainings related the general IT control responsibilities and functions of state agencies. DHS and DHFS are working with DoIT to implement multi-factor authentication, resolve any outstanding Plan of Actions and Milestones for IES as expeditiously as possible to address environment security, and update the IES Change Management policy in line with auditor recommendations. 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 Comptroller must be agile in its operations to ensure statutory requirements are met and adapt when conditions change. The Comptroller will continue to work to update procedures in a timely manner and ensure the required supporting documentation is maintained in accordance with the documented procedures in place, as necessary.

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A. **FINDING** (Insufficient Controls over Finances)

During the prior audit, the State of Illinois (State) did not have sufficient controls over its finances which increases the risk that liabilities will not be properly recorded.

During the current audit, the State improved its controls over its finances related to liabilities. Specifically, the State significantly reduced held transactions and reduced the amount of interest due and paid due to not being able to pay external vendors in a timely manner. (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)