



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

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

OFFICE OF THE COMPTROLLER
FISCAL OFFICER RESPONSIBILITIES

**Financial Audit and Compliance Examination
For the Year Ended: June 30, 2010**

Release Date: May 19, 2011

Summary of Findings:

Total this report	4
Total last report	2
Repeated from last report:	1

INTRODUCTION

This digest covers our financial audit and compliance examination of the State of Illinois Office of the Comptroller – Fiscal Officer Responsibilities for the year ended June 30, 2010.

SYNOPSIS

- The State of Illinois Office of the Comptroller (Office) did not make all statutorily mandated transfers from the General Revenue Fund within established timeframes, as required.
- Pursuant to Public Act 96-44, the Office transferred general obligation bond proceeds from the Coal Development Fund for general operating expenses of the State of Illinois. The transfer of the bond proceeds for operating expenses of the State represents noncompliance with the terms of the bond sale order related to the issuance of State of Illinois general obligation bonds.
- The Office did not record transfers from the Capital Projects Fund due to the General Revenue Fund at the statutorily required amounts as a result of insufficient revenues in the Capital Projects Fund.
- The Office did not repay loans totaling \$275.7 million made from the Budget Stabilization Fund by June 30, 2010 as required, nor was a liability recorded in the General Revenue Fund for its obligation to repay the loans.

{Financial data is summarized on the reverse page.}

OFFICE OF THE STATE COMPTROLLER - STATE OF ILLINOIS
FISCAL OFFICER RESPONSIBILITIES
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
For The Year Ended June 30, 2010

FUND BALANCE (Amounts in Thousands)	Fiscal Year 2010		Fiscal Year 2009	
	Cash Balance	Budgetary Balances*	Cash Balance	Budgetary Balances*
Appropriated Funds				
General Funds.....	\$ 129,866	\$ (6,094,102)	\$ 279,818	\$ (3,672,830)
Highway Funds.....	805,153	685,738	687,984	582,457
Special State Funds.....	2,028,878	1,442,062	2,573,918	2,001,173
Bond Financed Funds.....	2,226,200	2,225,894	68,103	65,013
Debt Service Funds.....	919,732	919,732	653,920	653,920
Federal Trust Funds.....	232,733	(369,918)	224,762	(85,061)
Revolving Funds.....	41,499	(70,500)	28,608	(35,807)
State Trust Funds.....	<u>353,807</u>	<u>284,865</u>	<u>463,149</u>	<u>387,752</u>
Sub-Total.....	\$ 6,737,868	\$ (976,229)	\$ 4,980,262	\$ (103,383)
Non-Appropriated Funds				
Federal Trust Funds.....	\$ 235	\$ (29)	\$ 6,956	\$ 6,354
State Trust Funds.....	<u>1,527,237</u>	<u>1,440,016</u>	<u>1,894,060</u>	<u>1,834,070</u>
Sub-Total.....	\$ 1,527,472	\$ 1,439,987	\$ 1,901,016	\$ 1,840,424
GRAND TOTAL - ALL FUNDS.....	\$ 8,265,340	\$ 463,758	\$ 6,881,278	\$ 1,737,041
* Budgetary Balances the represent balances remaining after reduction of Cash Balances at June 30 by lapse period transactions.				

FINANCIAL HIGHLIGHTS (Amounts in Thousands)	FY 2010	FY 2009
Total Revenues - All Funds.....	\$ 111,097,775	\$ 102,952,187
Total Expenditures - All Funds.....	112,371,059	105,812,607
Net Change in Budgetary Fund Balance - All Funds	\$ (1,273,284)	\$ (2,860,420)

FINANCIAL HIGHLIGHTS (Not Examined)	FY 2010	FY 2009
Interest Paid on Late Vendor Payments		
Department of Healthcare and Family Services.....	\$ 32,937,309	\$ 25,650,906
Department of Human Services.....	12,089,244	2,005,415
Department of Corrections.....	6,569,137	933,114
Department of Central Management Services.....	3,238,666	793,289
State Board of Education.....	1,922,931	427,100
Department on Aging.....	944,837	345,396
Department of State Police.....	644,359	224,400
Office of the Secretary of State.....	539,000	124,664
Department of Juvenile Justice.....	428,152	126,904
All Other.....	3,019,072	575,219
Total Interest Paid.....	\$ 62,332,707	\$ 31,206,407

STATE COMPTROLLER
During Engagement Period: Honorable Daniel W. Hynes
Currently: Honorable Judy Baar Topinka

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

LATE PAYMENT OF STATUTORILY MANDATED TRANSFERS

The Office of the Comptroller (IOC) did not make all transfers from the General Revenue Fund within the established timeframes, as required by statute.

Late payments made for inter-fund transfers totaling \$2.0 billion in FY10

The Office processed transfers between 31 to 525 days after the mandated transfer date for a total of \$2.0 billion in FY10. Failure to make inter-fund transfers within applicable timeframes is in noncompliance with State law and might result in delayed use of appropriated funds.

Late payment due to cash management decisions due to lack of available cash in State Treasury

IOC officials stated the late payment of transfers occurred because of cash management decisions and prioritization required due to the lack of available cash in the State Treasury. (Finding No. 10-1, page 10)

We recommended the Office make transfers within timeframes established by law. If there is a lack of available funds in the State Treasury, we recommended the Office of the Comptroller continue in its efforts to make transfers as timely as possible.

Office of the Comptroller officials concurred with the recommendation.

NONCOMPLIANCE WITH GENERAL OBLIGATION FINANCING PROVISIONS

Fund transfer authorized by Public Act 96-44 violated bond sale order related to issuance of State of Illinois general obligation bonds

In accordance with Public Act 96-44, the Office of the Comptroller transferred general obligation bond proceeds from the Coal Development Fund for general operating expenses of the State of Illinois (State), which represents noncompliance with the terms of the bond sale order related to the issuance of State of Illinois general obligation bonds.

As authorized by the General Obligation Bond Act (Bond Act) (30 ILCS 330/7) the State issued general obligation bonds to provide funds for coal and energy

Quarterly transfers totaling \$320 thousand were paid from the Coal Development fund to the General Revenue fund for operating expenses of the State

Comptroller staff contacted Governor's Office of Management and Budget before transfers were completed to initiate a transfer reversal

Use of bond proceeds for purposes other than allowed by the terms of the debt issuance could result in accelerated repayment if required by the bondholders

development as well as certain other capital purposes. During fiscal year 2010, the State issued general obligation bonds totaling \$400 million. Pursuant to the Bond Act and the terms of the bond issuance, \$20.7 million bond proceeds was deposited into the Coal Development Fund. During fiscal year 2010, the Comptroller executed quarterly transfers totaling \$320 thousand paid from the Coal Development Fund to the General Revenue Fund for operating expenses of the State.

The Comptroller made the above described transfers pursuant to the mandate from Public Act 96-44 which directed these, and other transfers be made "in order to maintain the integrity of special funds and improve stability in the General Revenue Fund". Comptroller staff stated that they contacted the Governor's Office of Management and Budget before the transfers were completed and discussed seeking authority to initiate a transfer reversal. The Comptroller also footnoted the transfers on its monthly bond reports.

Use of bond proceeds for purposes not in compliance with and authorized by the Bond Act and the terms of the debt issuance could result in accelerated repayment if required by the bondholders and could also jeopardize the State's ability to obtain future financing.

We recommended that the Office of the Comptroller coordinate with the Director of the Governor's Office of Management and Budget regarding possible resolutions to the transfers made to the General Revenue Fund, and if necessary, seek a formal opinion from the Attorney General. (Finding Code No.10-2, pages 11-12)

Office of the Comptroller officials concurred with the recommendation.

NONCOMPLIANCE WITH MANDATE TRANSFER REQUIREMENT FOR THE CAPITAL PROJECTS FUND

The Office of the Comptroller did not record transfers from the Capital Projects Fund due to the General Revenue fund during the year ended June 30, 2010, at the statutorily required amounts as a result of insufficient revenues of the Capital Projects Fund.

\$134,883,650 in mandated transfers to the General Revenue fund were not made timely

During fiscal year 2010, the Capital Projects Fund was created and the legislation creating the fund (30 ILCS 105/6z-77) also required specific amounts of transfers to be made from the Capital Projects Fund to the General Revenue Fund. For fiscal year 2010, \$245,178,200 of transfers were mandated to be paid to the General Revenue Fund, however, only \$110,294,550 were actually recorded and paid. The remaining unpaid amount of \$134,883,650 at June 30, 2010 was not recorded in the State's accounting records as being owed from the Capital Projects Fund to the General Revenue Fund.

Revenue sources were not at anticipated level due to two revenue sources for the Fund not beginning in FY10 as anticipated

Comptroller personnel stated that the revenue sources of the Capital Projects Fund were not at the level anticipated when the legislation was enacted. Two of the revenue sources for the Capital Projects Fund (legalized video gambling and expanded lottery sales) did not begin in fiscal year 2010 as originally anticipated. Total revenue for the Capital Projects Fund for fiscal year 2010 was only \$174.1 million. (Finding Code No. 10-3, pages 13).

We recommend the Office of the Comptroller record all required Capital Projects Fund transfers as mandated by the General Assembly.

Office of the Comptroller officials concurred with the recommendation.

FAILURE TO REPAY BUDGET STABILIZATION FUND

\$275.7 million loan from the Budget Stabilization Fund not repaid timely

The Office of the Comptroller (Comptroller) did not repay loans totaling \$275.7 million made from the Budget Stabilization Fund (Fund) by June 30, 2010, as required, nor was a liability recorded in the General Revenue Fund for its obligation to repay the loans.

The Budget Stabilization Fund was established to provide resources as a means for addressing budgetary shortfalls. The Comptroller is authorized to make transfers from the Fund to the General Revenue Fund to meet cash flow deficits resulting from timing variations between disbursements and the receipt of revenues. All such transfers are required to be repaid by June 30 of each fiscal year (30 ILCS 105/6z-51). Transfers from the Fund were deemed necessary and executed by the Comptroller for fiscal year 2010. However, the Fund was not repaid the

Liability for the obligation to the Budget Stabilization Fund not recorded in SAMS

\$275.7 million by June 30, 2010. Furthermore, a liability for the obligation of the General Revenue Fund to repay the Budget Stabilization Fund was not recorded in the Statewide Accounting Management System (SAMS).

Fund not repaid due to severe shortage of available funds

Comptroller management stated that the Fund was not repaid because of the severe shortage of available funds with which to pay immediate obligations of the State. The Budget Stabilization Fund was recorded in July, 2010 and repaid in December, 2010. (Finding Code No. 10-4, pages 14).

We recommended the Office of the Comptroller ensure that monies transferred from the Budget Stabilization Fund are repaid annually by June 30 as required. Furthermore, the obligation to repay the loan should be reported in SAMS.

Office of the Comptroller officials concurred with the recommendation.

AUDITORS' OPINION

We conducted a compliance examination of the Comptroller's Fiscal Officer Responsibilities for the year ended June 30, 2010 as required by the Illinois State Auditing Act.

Our auditors stated the fund balances at June 30, 2010, and the revenues and expenditures for the year then ended relating to the State of Illinois, Office of the Comptroller - Fiscal Officer Responsibilities' Traditional Budgetary Financial Report, are fairly presented in all material respects. The auditors noted the financial statements have been prepared on a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

General Revenue Budgetary Fund balance decreased \$2.4 billion.

The budgetary basis fund balance of the General Funds decreased by \$2,421,273,151 during the fiscal year ended June 30, 2010. At June 30, 2010, the budgetary basis fund balance of the General Funds was a deficit of \$6,094,102,990.

General Revenue Fund Budgetary Fund balance deficit of \$6.1 billion at June 30, 2010



WILLIAM G. HOLLAND
Auditor General

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SPECIAL ASSISTANT AUDITORS

Sikich LLP were our Special Assistant Auditors for this engagement.