

REPORT DIGEST

OFFICE OF THE STATE COMPTROLLER

STATEWIDE FINANCIAL STATEMENT AUDIT

**For the Year Ended:
June 30, 2007**

Summary of Findings:

Total this audit	2
Total last audit	3
Repeated from last audit	1

- REVISED -
Release Date:
June 30, 2008



State of Illinois
Office of the Auditor General
WILLIAM G. HOLLAND
AUDITOR GENERAL

This Report Digest is also available on
the worldwide web at
www.auditor.illinois.gov

The CAFR is available on the worldwide
web at
<http://www.ioc.state.il.us>

Our Report on Internal Control over
Financial Reporting and on Compliance is
also available on the worldwide web at
www.auditor.illinois.gov

INTRODUCTION

The Illinois Office of the State Comptroller prepares the State of Illinois Comprehensive Annual Financial Report (CAFR). The CAFR is the State's official annual report which provides the readers with the financial position of the State as of June 30, 2007, and results of operations during the fiscal year.

The financial section of the CAFR includes the Independent Auditors' Report on the basic financial statements, the management discussion and analysis, the basic financial statements, required supplementary information, and individual fund statements and schedules.

AUDITORS' OPINION

The June 30, 2007 financial statements of the State of Illinois are fairly presented in all material respects.

The financial statements reflect a continuing financial deficit trend. At June 30, 2007 the:

- Net assets of governmental activities decreased \$1.7 billion from FY06 to FY07. Overall, net assets of governmental activities are reported as a deficit of \$20.4 billion. (Exhibit 1)
- The General Revenue Fund deficit increased \$858 million from FY06 to FY07. The June 30, 2007 deficit was \$3.8 billion. (Exhibit 2)

Over time, increases and decreases in net assets measure whether the State's financial position is improving or deteriorating. A comparison of Illinois' financial position to other states is contained in Exhibit 3.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE

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

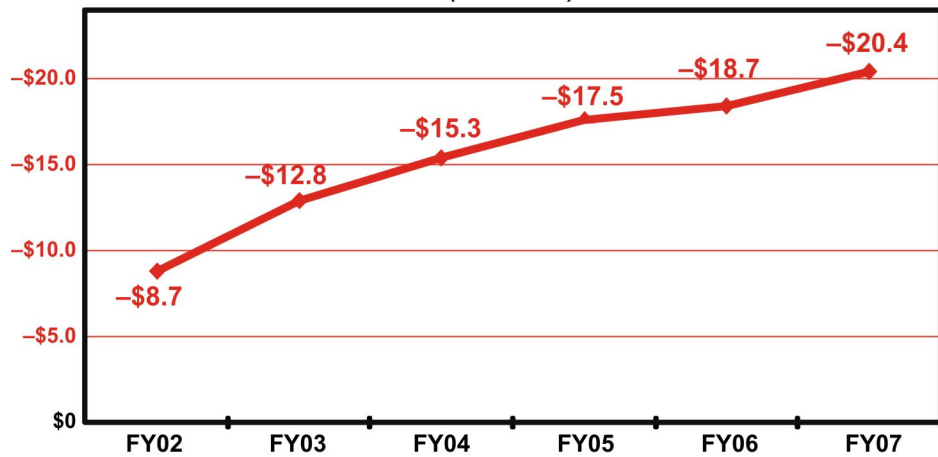
COMPTROLLER

Currently & During the Audit Period: Honorable Daniel W. Hynes

FINANCIAL ANALYSIS OF THE STATE

The net assets of the State's governmental activities decreased \$1.725 billion. The following condensed financial information was derived from the government-wide Statement of Net Assets and reflects the State's governmental activities financial position as of June 30 for fiscal years 2002 through 2007. (See Exhibit 1)

EXHIBIT 1
STATE OF ILLINOIS
DEFICITS FOR NET ASSETS OF GOVERNMENTAL ACTIVITIES
FY02-FY07
(In billions)



Source: Illinois' Comprehensive Annual Financial Reports (CAFRs), FY02-FY07.
Numbers reflect restatements.

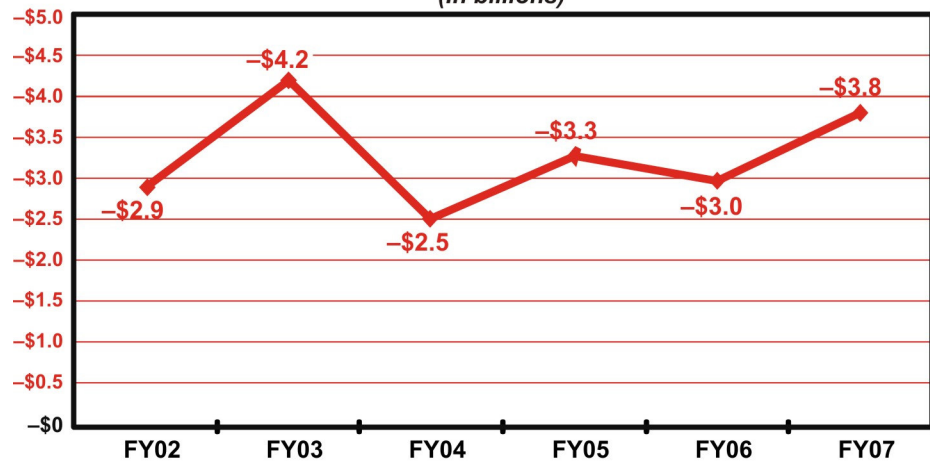
The deficits reflected in Exhibit #1 are presented on an accrual basis and represent the excess of total liabilities over total assets at a given point in time. These deficits represent the deferral of current and prior year costs to future periods.

Over time, increases and decreases in net assets measure whether the State's financial position is improving or deteriorating.

GENERAL REVENUE FUND

Many programs are accounted for in the General Fund. The GAAP basis financial position of the General Fund deficit increased at June 30, 2007 from June 30, 2006. The fund balance deficit in the State's General Fund increased by \$858 million on a GAAP basis (from a deficit of \$2.970 billion, as restated, to a deficit of \$3.828 billion). Exhibit 2 reflects the General Fund deficit for fiscal years 2002 through 2007.

EXHIBIT 2
STATE OF ILLINOIS
GENERAL REVENUE FUND DEFICITS
FY02-FY07
(In billions)



Source: Illinois' Comprehensive Annual Financial Reports (CAFRs), FY02-FY07.
Numbers reflect restatements.

With regard to the June 30, 2007 deficit it should be noted that the unavailability of revenues on the modified accrual basis for the hospital assessment tax and federal financial participation in relation to \$1.199 billion in accrued access improvement to hospitals as a part of the State's Medicaid plan for fiscal year 2007 was the primary reason for the deficit increase in FY07. In accordance with the State's revenue recognition policy, on the modified accrual basis of accounting, this revenue will be recognized in the General Fund in fiscal year 2008.

STATE COMPARISON

Exhibit 3 of this digest provides an analysis of Illinois' Net Assets at June 30, 2007 to other States.

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

FINANCIAL REPORTING WEAKNESSES

Inadequate controls

The Illinois Office of the Comptroller (IOC) did not have adequate controls to access the risk that information reported by individual agencies would not be fairly stated and compliant with generally accepted accounting principles (GAAP). We noted the following:

Restatements

- The beginning balances in the financial statements were restated to correct prior reporting errors related to accumulated depreciation, improper allocation of tax revenues among multiple funds, and an understatement of educational expenditures in the General Fund.

Misstatements

- Material misstatements were identified by the auditors. The errors related to accounting for liabilities and revenues for federal reimbursements and incorrect account classifications.
- Insufficient controls over Internal Service Funds, the Unemployment Compensation Trust Fund, the Illinois Designated Account Purchase Program and Illinois Prepaid Tuition Trust Fund.

IOC personnel indicated the misstatements were caused by a separation in the responsibility for the State's internal control procedures among agencies and component units. The IOC has the statutory authority to develop and prescribe accounting policy for the State but there is no centralized automated system in place to capture all items necessary to provide underlying support to review agency financial activities. IOC estimates that the cost of a modernized statewide system would exceed \$100 million. It is currently each State agency's Chief Executive Officer who maintains statutory responsibility for the proper function of accounting and other operating policies of the Officer's agency. (Finding 1, pages 3-5)

Centralized automated system lacking

IOC estimates cost to modernize at \$100 million

We recommended the IOC implement additional internal control procedures in order to assess the risk of

material misstatements to the State's financial statements and to identify such misstatements during the financial statement preparation process.

IOC officials responded that they will continue to attempt to work with the Governor's Office of Management and Budget, the Illinois Office of Internal Audit, and the various agencies identified in this finding to resolve this matter.

IOC states they will attempt to work with others to resolve problems

DELAYS IN FINANCIAL REPORTING

The Statewide financial statements for the year ended June 30, 2007 were not finalized timely.

Failure to finalize statements timely

Certain disclosures (long-term debt) were available for audit in October, 2007. However, the majority of the CAFR was not made available to audit until March, 2008. Reporting issues at various individual agencies caused further delays in finalizing the financial statements and this did not occur until June, 2008.

Information not made available to audit until March, 2008

Additionally, the State was not in compliance with annual financial reporting requirements set forth in continuing disclosure undertakings. We noted that audited or unaudited financial statements were not submitted with annual financial information submitted to repositories as required by the continuing disclosure undertakings for 18 (100%) of the bond issues tested during the audit period.

Reporting issues not resolved until June, 2008

Continuing disclosure undertakings require the State to submit annual financial information to each repository within specified timelines which ranged from 210 to 270 days after the end of the fiscal year. The State is required to submit audited financial statements to each repository at the same time. However, if audited financial statements are not available at the time the annual financial information is filed, unaudited financial statements are required to be filed, and audited financial statements are to be filed when available.

IOC personnel indicated the delays were caused by a separation in the responsibility for the State's internal control procedures among agencies and component

IOC attributes delays to separation in responsibilities

IOC states they lack enforcement mechanism

units. The IOC has the statutory authority to request submission of financial information but does not have ability to enforce submission. In order for the State of Illinois to have financial statements in accordance with generally accepted accounting principles for the year ended June 30, 2007, the State needed to implement GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. IOC did not receive actuarial reports necessary to implement GASB Statement No. 43 from the Department of Healthcare and Family Services until after the close of business on March 4, 2008.

Delays in financial reporting decrease the usefulness of such information and affect the State's ability to comply with continuing disclosure requirements. (Finding 2, pages 6-7)

We recommended the IOC implement policies and procedures necessary to ensure timely reporting.

The IOC personnel responded that they will work with State agencies to ensure such agencies' financial transactions are properly reported in a timely manner in order that annual financial information is available for each repository within specified timelines.

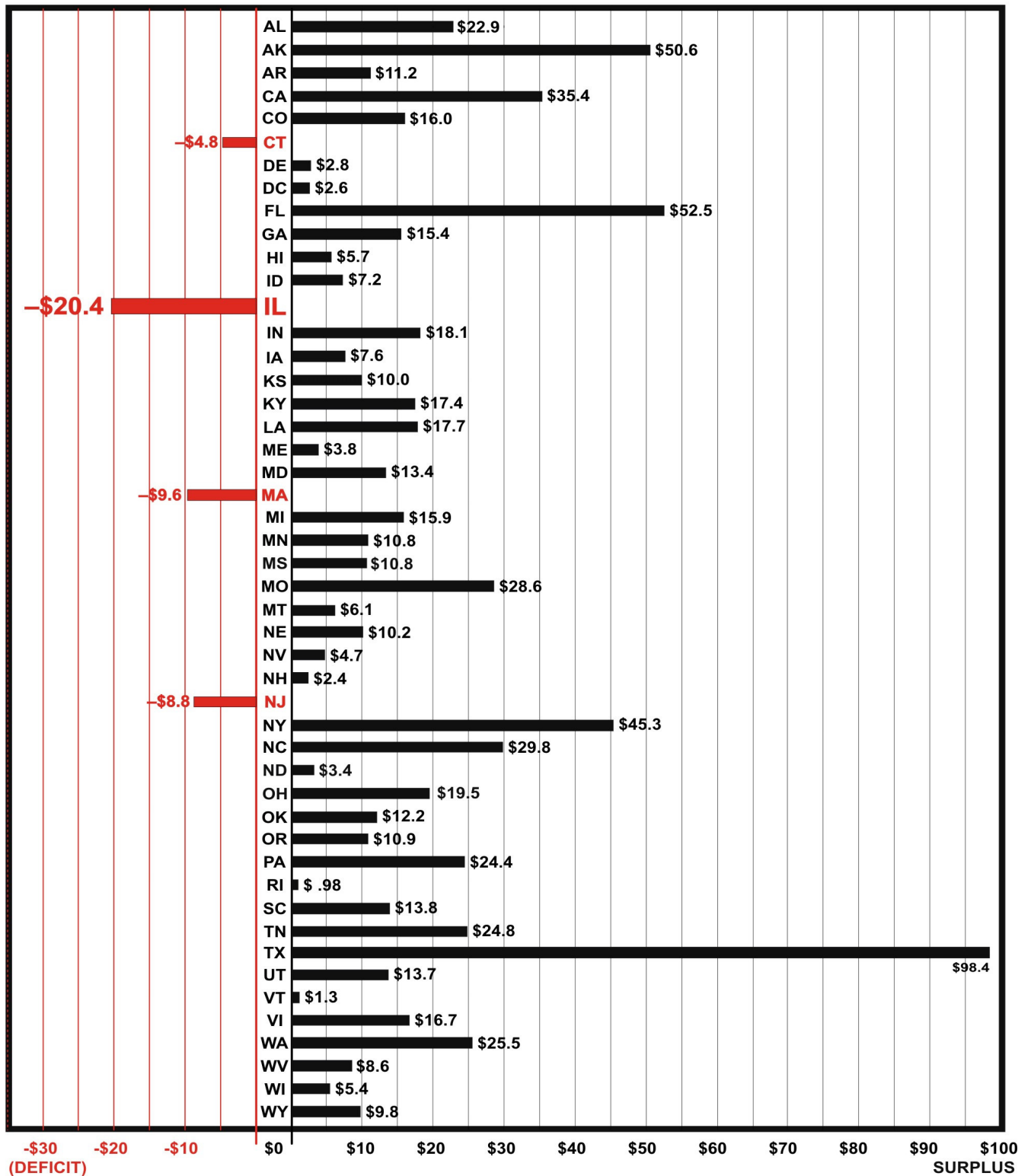
IOC to work with State agencies on reporting and timeliness issues



WILLIAM G. HOLLAND, Auditor General

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EXHIBIT 3 STATE COMPARISON OF NET ASSETS OF GOVERNMENTAL ACTIVITIES FOR FY07 (In billions)



Source: Compiled by Illinois Auditor General's Office from Comprehensive Annual Financial Reports (CAFR) for each state, excluding AZ, NM and SD, which are currently not available.