REPORT DIGEST

OFFICE OF THE STATE COMPTROLLER

STATEWIDE FINANCIAL STATEMENT AUDIT

For the Year Ended: June 30, 2008

Summary of Findings:

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

Release Date:
July 30, 2009

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, 2008, 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, 2008 financial statements of the State of Illinois are fairly presented in all material respects.

The financial statements reflect a continuing financial deficit. At June 30, 2008:

- The net assets of governmental activities continued to deteriorate and the deficit increased by $3.6 billion from FY07 to FY08. Overall, net assets of governmental activities are reported as a deficit of $24.4 billion. (Exhibit 1)

  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.

- The General Revenue Fund's deficit at June 30, 2008 was $3.9 billion. (Exhibit 2)

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE

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

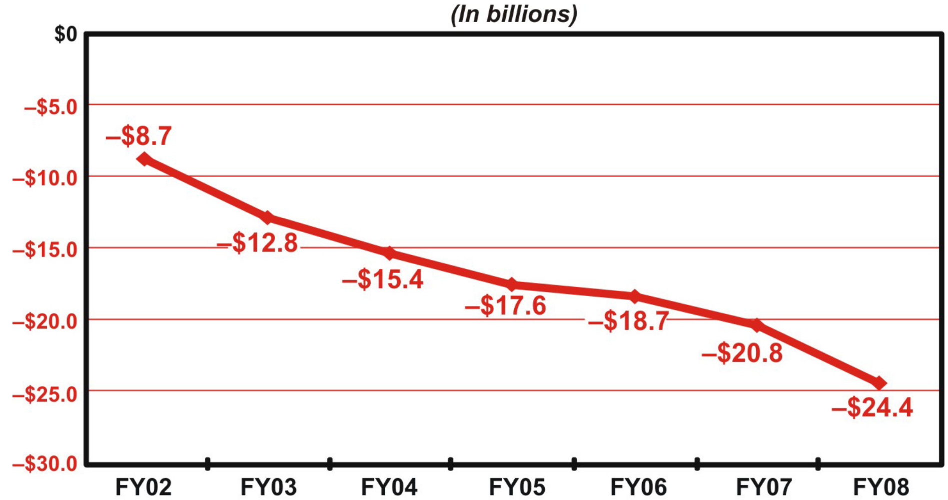
COMPTROLLER

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

FINANCIAL ANALYSIS OF THE STATE

The net assets of the State's governmental activities declined $3.577 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 2008. (See Exhibit 1)

EXHIBIT 1
STATE OF ILLINOIS
DEFICITS FOR NET ASSETS OF GOVERNMENTAL ACTIVITIES
FY02-FY08
(In billions)



Source: Illinois' Comprehensive Annual Financial Report (2008)
Numbers reflect restatements.

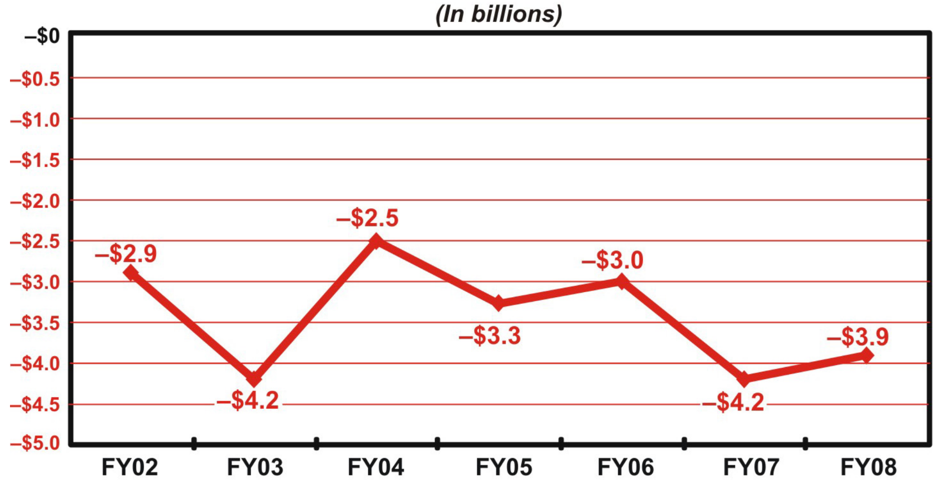
The deficits reflected in Exhibit 1 are presented on an accrual basis and represent the excess of total liabilities over total assets at a given point in time. These deficits represent the deferral of current and prior year costs to future periods.

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 improved slightly at June 30, 2008 from June 30, 2007. The fund balance deficit in the State's General Fund decreased by $237 million on a GAAP basis (from a deficit of $4.171 billion, as restated, to a deficit of $3.934 billion). Exhibit 2 reflects the General Fund deficit for fiscal years 2002 through 2008.

EXHIBIT 2
STATE OF ILLINOIS
GENERAL REVENUE FUND DEFICITS
FY02-FY08
(In billions)



Source: Illinois' Comprehensive Annual Financial Report (2008)
Numbers reflect restatements.

STATE COMPARISON

Exhibit 3 of this digest provides an analysis of Illinois' Net Assets at June 30, 2008 to other States.

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

FINANCIAL REPORTING WEAKNESSES

Inadequate controls

The State of Illinois did not have adequate controls to assess 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 unearned income tax revenues, unearned driver's license and fee revenue, lack of allocation of motor fuel tax revenues, and an understatement of shared motor fuel tax liabilities.

Misstatements

- Material misstatements were identified by the auditors. The errors related to accounting for revenues, securities lending transactions, net assets and inventories.

Decentralized system is inadequate

We also reported the State's decentralized reporting system and related decentralized internal control system is 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. We noted significant financial reporting deficiencies for the following agencies:

Financial reporting deficiencies at five large agencies

Department of Revenue
Department of Central Management Services
Department of Human Services
Department of Healthcare and Family Services
Department of Corrections

State officials state misstatements were caused by a separation in the responsibility for the State's internal control

In discussing these conditions with the Office of the Governor's officials, they stated that the weakness is due to 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 statewide accounting system to capture all items necessary to provide underlying support to review agency financial transactions. In addition, there is an overall lack of qualified individuals in the State to ensure that all transactions are recorded in accordance with government accounting standards.

IOC personnel indicated the misstatements were caused by a separation in the responsibility for the State's internal control. The IOC has the statutory authority to develop and prescribe accounting policy for the State but does not have statutory authority to monitor adherence to these policies as performed by State agencies at the transactional level. (Finding 1, pages 4 -8)

We recommended the State implement additional 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.

Governor's Office to work for capital funding for the procuring and implementing a statewide accounting system

Officials of the Governor's Office responded that they will work together with the Office of the State Comptroller to convince the Illinois Legislature of the necessity to include capital funding for the purpose of procuring and implementing a statewide accounting system with all necessary components including general ledger, procurement, inventory, grants management, payroll and timekeeping information systems. Officials further stated they will work together to enhance internal controls over the year-end financial reporting process.

IOC officials responded that they will continue to provide consultation and technical advice to State agencies in relation to identification and establishment of adequate internal control with respect to financial reporting.

SIGNIFICANT DELAYS IN FINANCIAL REPORTING

Process does not allow for timely financial reporting

The State of Illinois' current financial reporting process does not allow the State to prepare a complete and accurate Comprehensive Annual Financial Report (CAFR) or the Schedule of Expenditures of Federal Awards (SEFA) in a timely manner.

Financial statements completed almost 12 months after year end

Reporting issues at various individual agencies caused delays in finalizing the financial statements which did not occur until June of the subsequent year for the past two fiscal years.

Deficiencies have been reported by the auditors for a number of years

Corrective action remains problematic

Although the deficiencies relative to the CAFR and SEFA financial reporting processes have been reported by the auditors for a number of years, problems continue with the State's ability to provide accurate and timely external financial reporting. Corrective action necessary to remediate these deficiencies continues to be problematic. (Finding 2, pages 9-11)

We recommended the Office of the Governor and the Office of the State Comptroller work together with the State agencies to establish a corrective action plan to address the quality and timeliness of accounting information provided to and maintained by the Office of the State Comptroller as it relates to year end preparation of the CAFR and SEFA.

The Office of the Governor's response noted that they will continue to work with the Office of the State Comptroller to implement additional procedures to assist in preparing the complex SCO forms currently used in the preparation of the Comprehensive Annual Financial Report and the Schedule of Expenditures of Federal Awards.

IOC to seek legislation that provides it with enforcement tools

The IOC's response indicated it will continue to provide consultation and technical advice to State agencies in relation to financial reporting in order to increase the likelihood that State agencies will report financial information in a timely manner. The IOC also stated it will also seek legislation that provides it with enforcement tools to compel State agencies to comply with necessary reporting deadlines.

OTHER FINDING

The remaining finding reported compliance issues with the annual financial reporting requirements set forth by continuing disclosure undertakings. We will review the State's progress towards the implementation of our recommendations in our next audit.

NEW STANDARDS

Actuarial liability for Other Postemployment Benefits (OPEB) totals $23.9 billion

No assets set aside to fund this liability

Effective for the year ending June 30, 2008, the State adopted GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. To implement the Standard, the State performed an actuarial valuation of the health, dental, vision, and life insurance benefits promised to retirees. The valuation reported a $23.9 billion actuarial liability with no assets currently set aside to fund the liability as the State uses a "pay-as-you-go" method to make payments for retirees.

The liability amount recorded in the financial statements based upon the accounting criteria set forth in GASB Statement No. 45 was $1,238,131,000 at June 30, 2008.

WILLIAM G. HOLLAND, Auditor General

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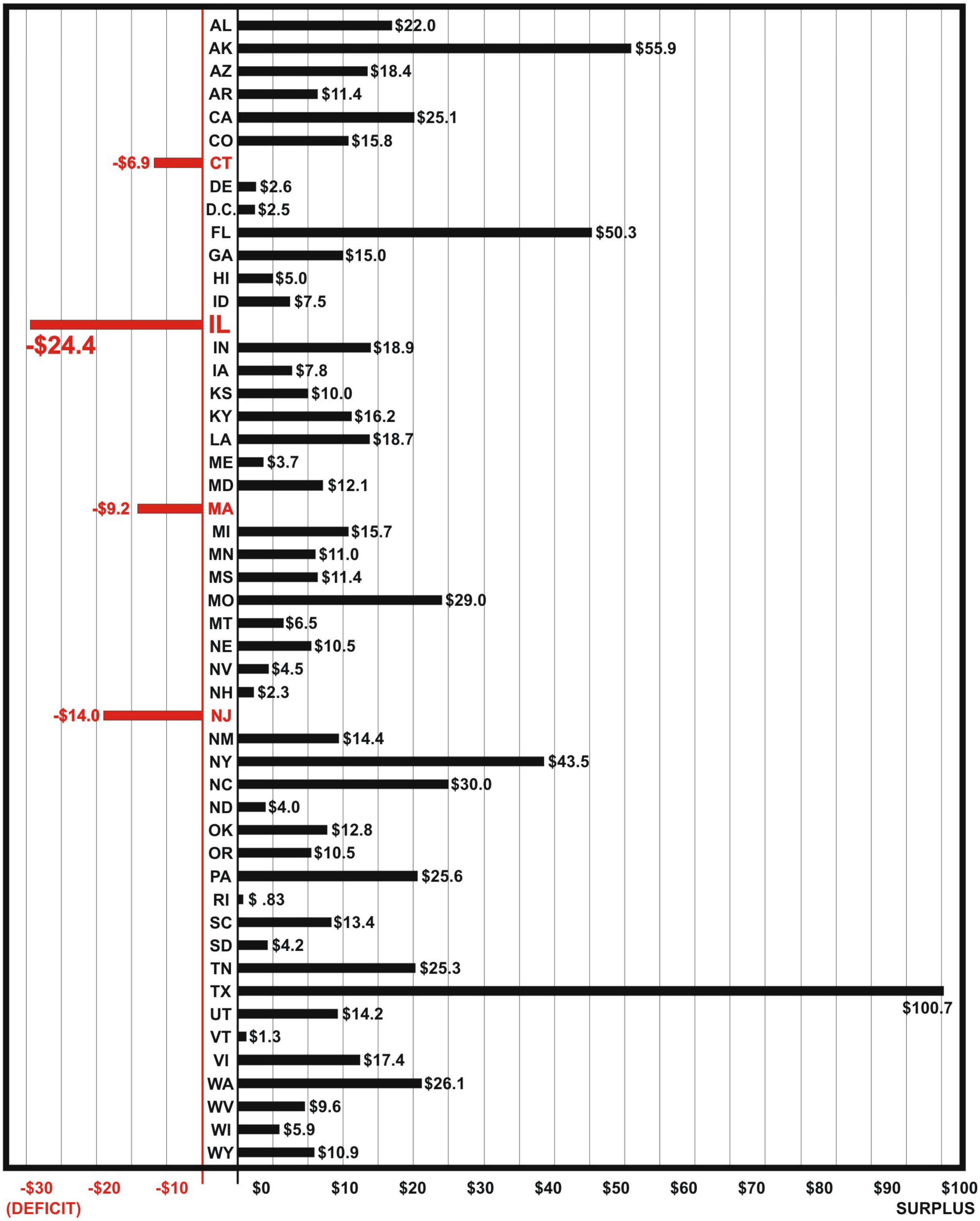
EXHIBIT 3
STATE COMPARISON OF NET ASSETS OF GOVERNMENTAL ACTIVITIES FOR FY08
(In billions)



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