

REPORT DIGEST

OFFICE OF THE STATE COMPTROLLER

STATEWIDE FINANCIAL STATEMENT AUDIT

**For the Year Ended:
June 30, 2009**

Summary of Findings:

Total this audit	4
Total last audit	3
Repeated from last audit	2

July 14, 2010



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, 2009, 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, 2009 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, 2009:

- The net assets of governmental activities continued to deteriorate and the deficit increased by \$5.4 billion from FY08 to FY09. Overall, net assets of governmental activities are reported as a deficit of \$29.9 billion. (Exhibit 1)
- The General Revenue Fund deficit increased by \$3.7 billion from FY08 to FY09. The June 30, 2009 deficit was \$7.7 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 is summarized in this document. Our report noted significant financial reporting deficiencies at several State agencies. We also reported the State's decentralized internal control system is not adequate.

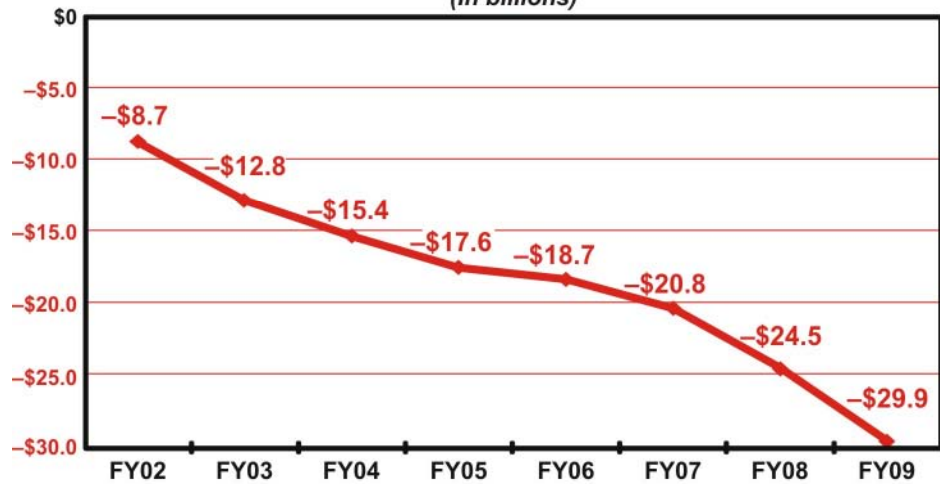
COMPTROLLER

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

FINANCIAL ANALYSIS OF THE STATE

The net assets of the State's governmental activities declined \$5.398 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 2009. (See Exhibit 1)

EXHIBIT 1
STATE OF ILLINOIS
DEFICITS FOR NET ASSETS OF GOVERNMENTAL ACTIVITIES
FY02-FY09
(In billions)



Source: Illinois' Comprehensive Annual Financial Report (2009)
Numbers reflect restatements.

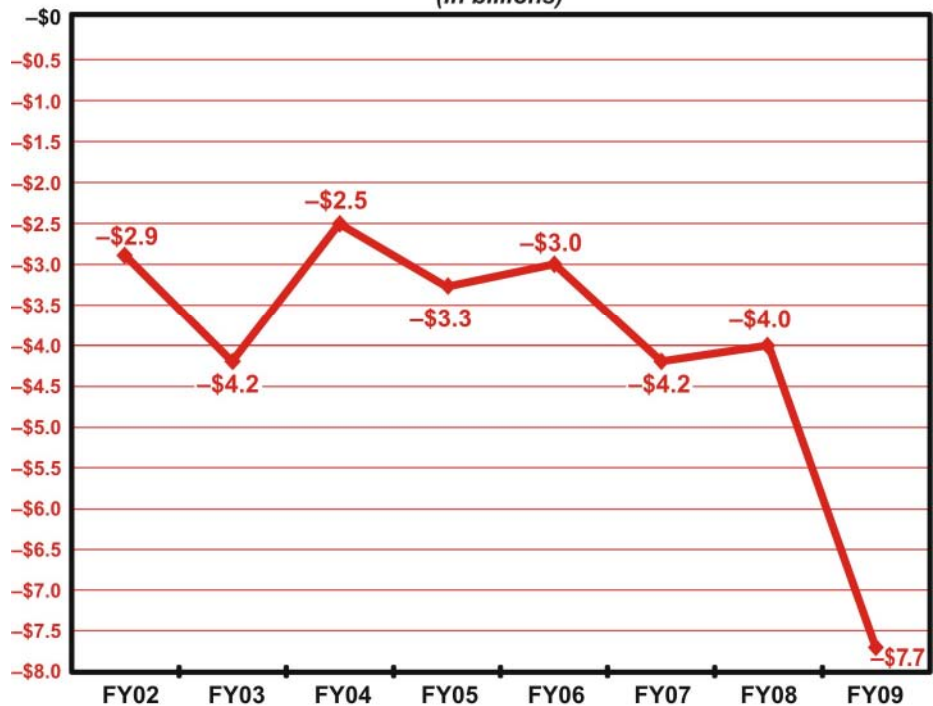
The deficits reflected in Exhibit 1 are presented on an accrual basis and represent the excess of total liabilities over total assets at a given point in time. These deficits represent the deferral of current and prior year costs to future periods.

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, 2009 from June 30, 2008. The fund balance deficit in the State's General Fund increased by \$3.647 billion on a GAAP basis (from a deficit of \$4.035 billion, as restated, to a deficit of \$7.682 billion). Exhibit 2 reflects the General Fund deficit for fiscal years 2002 through 2009.

EXHIBIT 2
STATE OF ILLINOIS
GENERAL REVENUE FUND DEFICITS
FY02-FY09
(In billions)



Source: Illinois' Comprehensive Annual Financial Report (2009)
Numbers reflect restatements.

STATE COMPARISON

Exhibit 3 of this digest provides an analysis of Illinois' Net Assets at June 30, 2009 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:

Restatement

- The beginning balances in the financial statements were restated to correct a prior reporting error related to an understatement of claims by the Department of Central Management Services for the State's workers' compensation program.

Misstatements

- Material misstatements were identified by the auditors. The errors occurred across several State agencies and required adjustments ranging from \$1.7 million to \$114 million.

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 various agencies

Department of Revenue
Department of Central Management Services
Illinois Student Assistance Commission
Department of Human Services
Department of Transportation
Secretary of State's Office
State Universities Retirement System

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

In discussing this condition with the Office of the Governor, 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 the State lacks an enterprise accounting system to capture

all items necessary to provide underlying support to review agency financial transactions. In addition, there is a shortage of qualified individuals in the State to ensure that all transactions are recorded in accordance with governmental accounting standards.

Illinois Office of the Comptroller (IOC) management 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 transaction level. (Finding 1, pages 4-7)

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 is conducting an evaluation

The Governor's Office responded it is conducting an evaluation that includes prior year adjustments, staffing, and implementation of new accounting standards to determine the additional internal control procedures necessary to reduce the risk of material misstatements during the financial statement preparation process. In addition, the Governor's Office and the Illinois Office of the Comptroller have agreed to increase communications and work closely throughout the financial statement preparation and GAAP package review process.

IOC will continue to provide consultation and technical advice

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

Financial statements completed almost 12 months after year end

(CAFR) or the Schedule of Expenditures of Federal Awards (SEFA) in a timely manner. 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 three fiscal years.

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

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 8-11)

Corrective action remains problematic

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.

Governor's Office noted the long-term solution will be to replace systems; the State's resources do not currently permit an investment of this size

The Governor's Office response stated that as noted in the discussion, the root cause of the finding is the State of Illinois' highly decentralized financial reporting process, reliant on over 100 separate agency financial accounting and reporting systems. While the most effective long-term solution will be to replace these systems with a single entity-wide accounting system, the State's resources do not currently permit an investment of this size.

The Office of the Governor will work with the Illinois General Assembly and the Office of the State Comptroller to establish the business case for procuring and implementing a statewide accounting system with all of the necessary components including general ledger, accounts payable, procurement, inventory, grants management, and payroll.

The Governor's Office response also detailed short-to-medium term measures it is taking to address this issue prior to replacing the State's legacy financial systems.

IOC to continue to support 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 continue to support legislation, as was introduced in the past two legislative sessions, that provides it with enforcement tools to compel State agencies to comply with necessary reporting deadlines.

OTHER FINDINGS

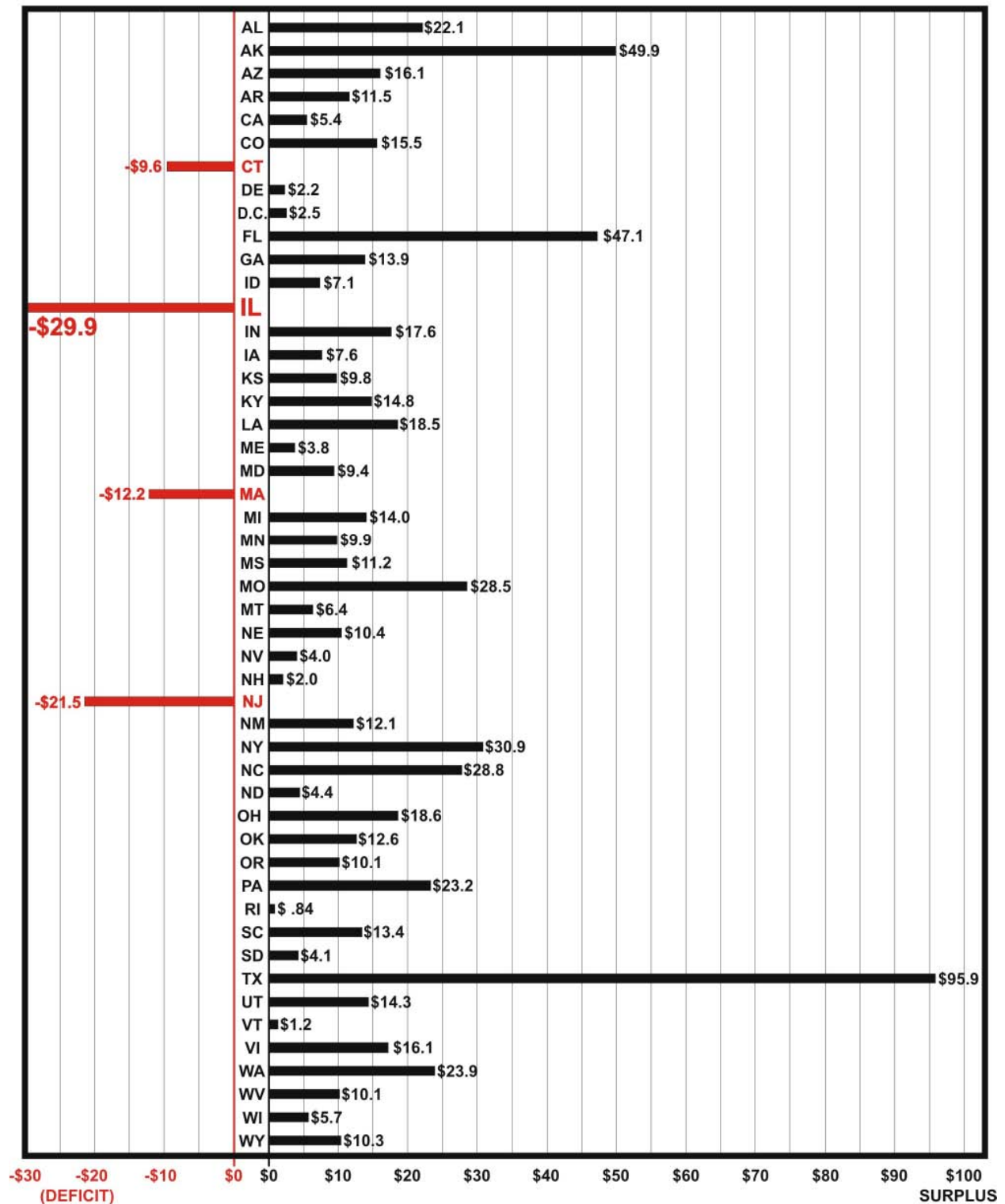
The remaining findings reported noncompliance with statute and a debt covenant and weaknesses in the CAFR compilation process. We will review the State's progress towards the implementation of our recommendations in our next audit.



WILLIAM G. HOLLAND, Auditor General

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EXHIBIT 3
STATE COMPARISON OF
NET ASSETS OF GOVERNMENTAL ACTIVITIES
FOR FY09
(In billions)



Source: Compiled by Illinois Auditor General's Office from Comprehensive Annual Financial Reports (CAFR) for each state, excluding Hawaii and Tennessee, which were not available at June 30, 2010.