

STATE OF ILLINOIS  
OFFICE OF THE COMPTROLLER  
FISCAL OFFICER RESPONSIBILITIES  
COMPLIANCE EXAMINATION

For the Year Ended June 30, 2005

Performed As Special Assistant Auditors  
for the Auditor General, State of Illinois

STATE OF ILLINOIS  
OFFICE OF THE COMPTROLLER  
FISCAL OFFICER RESPONSIBILITIES  
COMPLIANCE EXAMINATION  
For the Year Ended June 30, 2005

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STATE OF ILLINOIS  
OFFICE OF THE COMPTROLLER  
FISCAL OFFICER RESPONSIBILITIES  
COMPLIANCE EXAMINATION  
For the Year Ended June 30, 2005

AGENCY OFFICIALS

Comptroller	Daniel W. Hynes
Chief of Staff	Keith Taylor
Assistant Comptroller - Operations	Don Templeman
Assistant Comptroller - Chicago Operations	Peggy Roth
Assistant Comptroller - Programs	Rick Cornell
Legal Counsel	Whitney Rosen
Director of Internal Audit	Rusti Cummings

Agency offices are located at:

100 W. Randolph, Suite 15 - 500  
Chicago, IL 60601

Room 201 State-House  
Springfield, IL 62704

325 West Adams  
Springfield, IL 62704

DANIEL W. HYNES  
COMPTROLLER

www.loc.state.il.us

MANAGEMENT ASSERTION LETTER

Sleeper, Disbrow, Morrison,  
Tarro & Lively, LLC  
250 N. Water Street, Suite 501  
Decatur, Illinois 62523

November 30, 2005

Gentlemen:

We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grants that could have a material effect on the operations of the Illinois Office of the Comptroller - Fiscal Officer Responsibilities. We are responsible for and we have established and maintained an effective system of internal controls over compliance requirements. We have performed an evaluation of the Illinois Office of the Comptroller - Fiscal Officer Responsibilities' compliance with the following assertions during the period ended June 30, 2005. Based on this evaluation, we assert that during the year ended June 30, 2005, the Office has materially complied with the assertions below.

- A. The Office has obligated, expended, received and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The Office has obligated, expended, received and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.
- C. The Office has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.

Please respond to:

State House  
Springfield, Illinois 62706-0001  
217/782-6000

James R. Thompson Center  
100 West Randolph, Suite 15-500  
Chicago, Illinois 60601-3252  
312/814-2451

325 West Adams  
Springfield, Illinois 62704-1871

Printed On Recycled Paper

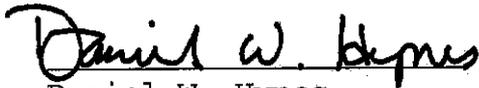
Sleeper, Disbrow, Morrison,  
Tarro & Lively, LLC  
November 30, 2005  
Page 2

D. The State revenues and receipts collected by the Office are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.

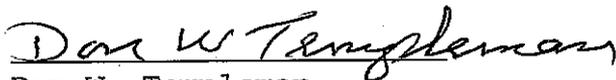
E. The money or negotiable securities or similar assets handled by the Office on behalf of the State or held in trust by the Office have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate and in accordance with law.

Yours very truly,

ILLINOIS OFFICE OF THE COMPTROLLER



Daniel W. Hynes  
Comptroller



Don W. Templeman,  
Assistant Comptroller,  
Operations

  
Whitney Wagner Rosen  
General Counsel

STATE OF ILLINOIS  
OFFICE OF THE COMPTROLLER  
FISCAL OFFICER RESPONSIBILITIES  
COMPLIANCE EXAMINATION  
For the Year Ended June 30, 2005

COMPLIANCE REPORT

SUMMARY

The compliance testing performed during this examination was conducted in accordance with *Government Auditing Standards* and in accordance with the Illinois State Auditing Act.

AUDITORS' REPORTS

The Independent Accountants' Report on State Compliance and on Internal Control Over Compliance for State Compliance Purposes does not contain scope limitations, disclaimers, or other significant non-standard language.

SUMMARY OF FINDINGS

<u>Number of</u>	<u>This Audit</u>	<u>Prior Audit</u>
Findings	0	1
Repeated findings	0	0
Prior recommendations implemented or not repeated	1	0

SCHEDULE OF FINDINGS

<u>Item No.</u>	<u>Page</u>	<u>Description</u>
PRIOR FINDINGS NOT REPEATED (STATE COMPLIANCE)		
05-1	11	Payments from Pension Contribution Fund Not in Accordance with Public Act 93-0002

EXIT CONFERENCE

An exit conference was declined by Office personnel.

# SLEEPER, DISBROW, MORRISON, TARRO & LIVELY, LLC

ROBERT A. DISBROW, C.P.A.  
THOMAS K. LEACH, C.P.A.  
WAYNE K. LIVELY, C.P.A.  
STEPHEN M. PAYTON, C.P.A.  
RICHARD B. TARRO, C.P.A.

CERTIFIED PUBLIC ACCOUNTANTS  
250 N. WATER SUITE 501  
P.O. BOX 1460  
DECATUR, ILLINOIS 62525-1460  
TELEPHONE 217-423-6000  
FAX 217-423-6100

MEMBERS  
ILLINOIS C.P.A. SOCIETY  
AMERICAN INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT ACCOUNTANTS' REPORT ON STATE COMPLIANCE, ON INTERNAL CONTROL OVER COMPLIANCE AND ON SUPPLEMENTARY INFORMATION FOR STATE COMPLIANCE PURPOSES

Honorable William G. Holland  
Auditor General  
State of Illinois

### Compliance

As Special Assistant Auditors for the Auditor General, we have examined the State of Illinois, Office of the Comptroller - Fiscal Officer Responsibilities' compliance with the requirements listed below, as more fully described in the Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies (Audit Guide) as adopted by the Auditor General, during the year ended June 30, 2005. The management of the State of Illinois, Office of the Comptroller - Fiscal Officer Responsibilities is responsible for compliance with these requirements. Our responsibility is to express an opinion on the State of Illinois, Office of the Comptroller - Fiscal Officer Responsibilities' compliance based on our examination.

- A. The State of Illinois, Office of the Comptroller - Fiscal Officer Responsibilities has obligated, expended, received, and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The State of Illinois, Office of the Comptroller - Fiscal Officer Responsibilities has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.
- C. The State of Illinois, Office of the Comptroller - Fiscal Officer Responsibilities has complied, in all material

respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.

- D. The State revenues and receipts collected by the State of Illinois, Office of the Comptroller - Fiscal Officer Responsibilities are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.
- E. Money or negotiable securities or similar assets handled by the State of Illinois, Office of the Comptroller - Fiscal Officer Responsibilities on behalf of the State or held in trust by the State of Illinois, Office of the Comptroller - Fiscal Officer Responsibilities have been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants; the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States; the Illinois State Auditing Act (Act); and the Audit Guide as adopted by the Auditor General pursuant to the Act; and, accordingly, included examining, on a test basis, evidence about the State of Illinois, Office of the Comptroller - Fiscal Officer Responsibilities' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the State of Illinois, Office of the Comptroller - Fiscal Officer Responsibilities' compliance with specified requirements.

In our opinion, the State of Illinois, Office of the Comptroller - Fiscal Officer Responsibilities complied, in all material respects, with the aforementioned requirements during the year ended June 30, 2005. The results of our procedures disclosed no instances of noncompliance with those requirements, which are required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General. However, as required by the Audit Guide, immaterial findings relating to instances of noncompliance excluded from this report have been reported in a separate letter to your office.

#### Internal Control

The management of the State of Illinois, Office of the Comptroller - Fiscal Officer Responsibilities is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws and regulations. In planning and performing our examination, we considered the State of Illinois, Office of the Comptroller - Fiscal Officer Responsibilities' internal control over

compliance with the aforementioned requirements in order to determine our examination procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Audit Guide, issued by the Illinois Office of the Auditor General.

Our consideration of internal control over compliance with the aforementioned requirements would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws and regulations that would be material in relation to one or more of the aforementioned requirements being examined may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over compliance that we consider to be material weaknesses. The results of our procedures disclosed no matters involving internal control which are required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General. There were no immaterial findings relating to internal control deficiencies that have been excluded from this report.

#### Supplementary Information for State Compliance Purposes

As Special Assistant Auditors for the Auditor General, we have audited the special-purpose statement of fund balances-budgetary basis and statement of receipts and expenditures-budgetary basis of the State of Illinois, issued under separate cover, for the year ended June 30, 2005, and have issued our report thereon dated November 30, 2005. The accompanying supplementary Schedule of Interest Paid on Late Vendor Payments is presented for purposes of additional analysis and is not a required part of the special-purpose statement of fund balances - budgetary basis and statement of receipts and expenditures - budgetary basis of the State of Illinois. The supplementary Schedule of Interest Paid on Late Vendor Payments has not been subjected to the auditing procedures applied in our audit of the special-purpose statement of fund balances - budgetary basis and statement of receipts and expenditures - budgetary basis, and accordingly, we do not express an opinion thereon.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, and the Comptroller's Office management, and is not intended to be and should not be used by anyone other than these specified parties.

*S. Meyer, Diskrow, Morrison, Tarr & Lively, LLC*

November 30, 2005

# SLEEPER, DISBROW, MORRISON, TARRO & LIVELY, LLC

CERTIFIED PUBLIC ACCOUNTANTS

250 N. WATER SUITE 501  
P.O. BOX 1460

DECATUR, ILLINOIS 62525-1460

TELEPHONE 217-423-6000  
FAX 217-423-6100

MEMBERS

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STEPHEN M. PAYTON, C.P.A.  
RICHARD B. TARRO, C.P.A.

## 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 William G. Holland  
Auditor General  
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the special-purpose statement of fund balances-budgetary basis and statement of receipts and expenditures-budgetary basis of the State of Illinois, issued under separate cover, for the year ended June 30, 2005, and have issued our report thereon dated November 30, 2005. We conducted our audit in accordance with 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.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the State of Illinois, Office of the Comptroller - Fiscal Officer Responsibilities' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the special-purpose financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Illinois' special-purpose financial statements are free of material misstatement, we performed tests of the State of Illinois, Office of the Comptroller - Fiscal Officer Responsibilities' compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain matters which we have reported to management of the State of Illinois, Office of the Comptroller - Fiscal Office Responsibilities in a separate letter dated November 30, 2005.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, and the Comptroller's Office management and is not intended to be and should not be used by anyone other than these specified parties.

*S. Leppin, Diabrown, Morrison, Tanno & Lively, LLC*

November 30, 2005

PRIOR FINDING NOT REPEATED - STATE COMPLIANCE

05-1. Finding: The Office of the Comptroller did not disburse proceeds from the Pension Contribution Fund in accordance with Public Act 93-0002.

We recommended the Office of the Comptroller perform sufficient research in the future to ensure that transfers are only made in accordance with the applicable legislation and appropriations.

We noted no transfers made by the Office of the Comptroller in fiscal year 2005 that were not in accordance with applicable legislation and appropriations.

Status: Not Repeated. (Finding Code No. 04-1)

STATE OF ILLINOIS  
OFFICE OF THE COMPTROLLER  
FISCAL OFFICER RESPONSIBILITIES  
COMPLIANCE EXAMINATION  
For the Year Ended June 30, 2005

SUPPLEMENTARY INFORMATION FOR STATE COMPLIANCE PURPOSES

SUMMARY

Supplementary information for State compliance purposes includes the following:

- . Financial Schedule
- . Analysis of Operations
  - Agency Functions and Planning Program
  - Schedule of Interest Paid on Late Vendor Payments (Unaudited)

The auditors' report that covers the Supplementary Information for State Compliance Purposes presented in the Compliance Report Section states that the Schedule of Interest Paid on Late Vendor Payments was not subjected to the auditing procedures applied in the audit of the special-purpose statement of fund balances - budgetary basis and statement of receipts and expenditures - budgetary basis of the State of Illinois (issued under separate cover). Accordingly, they expressed no opinion on the Schedule of Interest Paid on Late Vendor Payments.

STATE OF ILLINOIS  
OFFICE OF THE COMPTROLLER  
FISCAL OFFICER RESPONSIBILITIES  
COMPLIANCE EXAMINATION  
For the Year Ended June 30, 2005

FINANCIAL SCHEDULE

The Office of the Comptroller - Fiscal Officer Responsibilities has issued a separate "Traditional Budgetary Financial Report 2005," which includes the State of Illinois' special-purpose statement of fund balances - budgetary basis and statement of receipts and expenditures - budgetary basis and the Independent Auditors' Report on the special-purpose financial statements.

STATE OF ILLINOIS  
OFFICE OF THE COMPTROLLER  
FISCAL OFFICER RESPONSIBILITIES  
AGENCY FUNCTIONS AND PLANNING PROGRAM  
For the Year Ended June 30, 2005

In accordance with Chapter 22 of the Auditor General's "Audit Guide for Performing Financial Audits and Compliance Attestation Engagements of Illinois State Agencies," we reviewed the Office of the Comptroller's (Office) "Agency Functions and Planning Program" as outlined below.

During the year ended June 30, 2005, the Honorable Daniel Hynes was the Comptroller of the State of Illinois.

Office Functions

The Office's "Fiscal Officer Functions," as set forth in the Illinois Compiled Statutes (ILCS), are as follows:

1. Development and maintenance of a uniform accounting system for the use of all State agencies (15 ILCS 405/7).
2. Preaudit of invoice-vouchers to verify that adequate documentation and sufficient unexpended appropriations exist before a state warrant is drawn (15 ILCS 405/9).
3. Authorization of payment into and out of funds held by the State Treasurer and establishment and dissolution of all State "Imprest" and/or "Petty Cash" funds (various references).
4. Storage and retrieval of State financial records including invoice-vouchers and supporting documents, payrolls, contracts, leases and canceled warrants (various references).
5. Accumulation and reporting of State agencies' financial information regarding funds held by the State Treasurer, receipts and expenditures of locally held funds, fixed assets, accounts receivable and bonded indebtedness (various references).
6. Dissemination of Statewide fiscal information to constitutional officers and the general public through the preparation of periodic financial reports (various references).

Budgeting

Planning and budgeting of the Comptroller's Office begins at the Senior staff level. To begin the process, each year in late September the Director of Budget and State Officers Payroll solicits budget information from the Chief of Staff and the three Assistant Comptrollers. The Assistant Comptrollers will obtain from Departmental Directors information on operational needs, initiatives and resource

levels needed. Typically, the Departmental Director begins with the current cost to maintain current levels of services. He/she will then adjust this amount to arrive at the current year's budget proposal. Decreases from current costs may be made when inefficient or duplicative functions are identified. Increases are first made for required additions to services or cost increases. Further additions are prioritized and built upon the required increases in step fashion as in zero-based budgeting. In determining the current year's budget, the Departmental Director will request input from his staff managers and supervisors. Other considerations when determining increases and decreases include determining adequacy of the present staffing, possible salary increases, and any new departmental changes in procedures which may require both financial and human resources. Once departmental budgets are completed, they are returned to the Director of Budget and State Officers Payroll.

The Director of Budget and State Officers Payroll in conjunction with the Budget Review Committee, reviews each department's needs and prepares a recommendation report for amendments to various budget line items. The recommendations are sent to the Comptroller. After a preliminary meeting with appropriate staff to discuss the recommendations, the Budget Review Committee meets with the Comptroller for a final review of the budget. Once the Comptroller has approved the Office's budget, it is presented to the Governor's Office of Management and Budget, which will include it in the State Budget Book.

The Comptroller will present the Office's budget to the General Assembly. The final budget as approved by the General Assembly and signed into law by the Governor is returned to the Comptroller where the Fiscal Officer allocates the money actually appropriated to the Office for the year. This process is normally concluded in June.

All Departmental Directors may monitor their allocation via SAMS at any time. The Directors are responsible for reporting potential budget issues to the office budget staff. The budget staff reviews all office expenditures on an ongoing basis to ensure adherence to the strategic budget plan.

#### Strategic Long Range Plan

Management conducts strategic planning by continually monitoring and evaluating adherence of Office activities to overall short and long-term objectives. The overall objectives are based on the following general goals:

1. To increase the effectiveness of manual processes which cannot be eliminated and enhance the usefulness and timeliness of work results as well as reduce associated costs.
2. To increase the effectiveness of automated processes by enhancing the usefulness and timeliness of information as well as reduce the associated costs.

3. To increase the efficiency of the Comptroller's various facilities in order to enhance the effectiveness of overall activities.
4. To maintain a quality work force through the recruitment, selection and training process.

These goals are consistent with the Office's main mission i.e., to provide fiscal information for the purpose of promoting the integrity of public policy decisions, and to efficiently manage and report on the State's accounts.

#### Fiscal Year 05 Planned/Implemented

1. Continue expansion of Electronic Fund Transfer program.
  - A. Promote new State employees' participation in payroll direct deposit.
  - B. Increase participation of State payees through targeted marketing programs and maintain efficient enrollment process.
  - C. Enhance delivery and scope of remittance information relayed with EFT payments.
  - D. Continue development of major innovations related to this initiative, e.g., introduction of agency procurement cards, direct deposit of tax refunds, and electronic inter-fund transfers.
2. Realization of opportunities afforded by operation of the Statewide Accounting and Financial Reporting System, namely:
  - A. Continue improving efficiencies in the Payroll Offset System.
  - B. Develop strategies for enhanced integration with State agencies' accounting systems, with the goal of creating efficiencies between systems.
  - C. Increase volume of paperless transactions and resultant cost efficiencies.
  - D. Enhance information management capabilities.
3. Continue working with agencies on financial reporting issues.
  - A. Continue providing education and training to State agencies on GAAP Accounting.

- B. Analyze efficiency of policies and procedures utilized by agencies for reporting purposes.
- 4. Efficient management of Cemetery Care and Burial Trust Division responsibilities.
  - A. Increase scrutiny of licensees related to oversight of trust funds and maintenance of facilities.
  - B. Maintain training opportunities for personnel assigned to oversight functions.
  - C. Improve and regularly evaluate division database to increase information management capabilities.
- 5. Service Efforts and Accomplishments (SEA).
  - A. Continue to work with agencies to gather information and report on the results of State expenditures; increase agency participation levels.

As a mechanism for evaluating Office activities in relation to strategic objectives, the Office has developed a project management infrastructure for SAMS and an Internal Service Efforts and Accomplishments (S.E.A.) Public Accountability Program. These mechanisms include formal guidelines for the review, coordination and approval of activities and includes participation by upper administration personnel.

### Conclusion

The Agency Functions and Planning Program appear to adequately address Office needs.

STATE OF ILLINOIS  
OFFICE OF THE COMPTROLLER  
FISCAL OFFICER RESPONSIBILITIES

SCHEDULE OF INTEREST PAID ON LATE VENDOR PAYMENTS (UNAUDITED)  
For the Year Ended June 30, 2005

Capital Development Board	\$164,406
Department of Central Management Services	163,478
Department of Healthcare and Family Services	48,775
Department of Human Services	33,936
Department of Corrections	27,375
Department of State Police	26,371
Department of Children and Family Services	14,719
Department of Transportation	11,740
Department of Public Health	6,795
Illinois Commerce Commission	6,206
Department of Natural Resources	4,801
Department of Revenue	3,702
Department of Commerce and Economic Opportunities	3,190
Department of Agriculture	3,138
Illinois Mathematics and Science Academy	1,920
State Board of Education	926
Department of Veteran's Affairs	905
Attorney General	735
Northern Illinois University	574
Supreme Court	536
Secretary of State	498
Historic Preservation Agency	493
Department of Financial and Professional Regulations	442
Department of Military Affairs	391
Department of Aging	141
Office of the State Fire Marshal	<u>80</u>
 Total Interest Paid on Late Vendor Payments	 <u>\$526,273</u>

The State Prompt Payment Act (30 ILCS 540/3-2(1)) requires State agencies to pay interest on vendor bills which are paid late. Bills were considered to have been paid late if payment was not made within 60 days after the receipt of a proper bill.