



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

William G. Holland, Auditor General

**SUMMARY REPORT DIGEST**

**STATE OF ILLINOIS**

**Statewide Financial Statement Audit  
 For the Year Ended June 30, 2014**

**Release Date:**

FINDINGS THIS AUDIT: 5	New	Repeat	Total	AGING SCHEDULE OF REPEATED FINDINGS			
				Repeated Since	Category 1	Category 2	Category 3
<b>Category 1:</b>	<b>0</b>	<b>5</b>	<b>5</b>	2010	<b>14-5</b>		
<b>Category 2:</b>	<b>0</b>	<b>0</b>	<b>0</b>	2009	<b>14-3,</b> <b>14-4</b>		
<b>Category 3:</b>	<b>0</b>	<b>0</b>	<b>0</b>	2007	<b>14-1</b>		
<b>TOTAL</b>	<b>0</b>	<b>5</b>	<b>5</b>	2002	<b>14-2</b>		
<b>FINDINGS LAST AUDIT: 5</b>							

**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, 2014, 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, 2014 financial statements of the State of Illinois are fairly presented in all material respects.

The financial statements at June 30, 2014 reflect the following:

- The net position of governmental activities continued to deteriorate and the deficit increased by \$1.3 billion from FY13 to FY14. Overall, the net position of governmental activities is reported as a deficit of \$49.2 billion. (Exhibit 1)
- The General Fund deficit decreased by \$658 million from FY13 to FY14. The June 30, 2014 deficit was \$6.7 billion. (Exhibit 2)

Over time, increases and decreases in net position 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.

<b>Category 1:</b>	Findings that are <b>material weaknesses</b> in internal control and/or a <b>qualification</b> on compliance with State laws and regulations (material noncompliance).
<b>Category 2:</b>	Findings that are <b>significant deficiencies</b> in internal control and <b>noncompliance</b> with State laws and regulations.
<b>Category 3:</b>	Findings that have <b>no internal control issues but are in noncompliance</b> with State laws and regulations.

**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 that the State's decentralized internal control system is not adequate. We also reported significant financial reporting deficiencies at several State agencies.

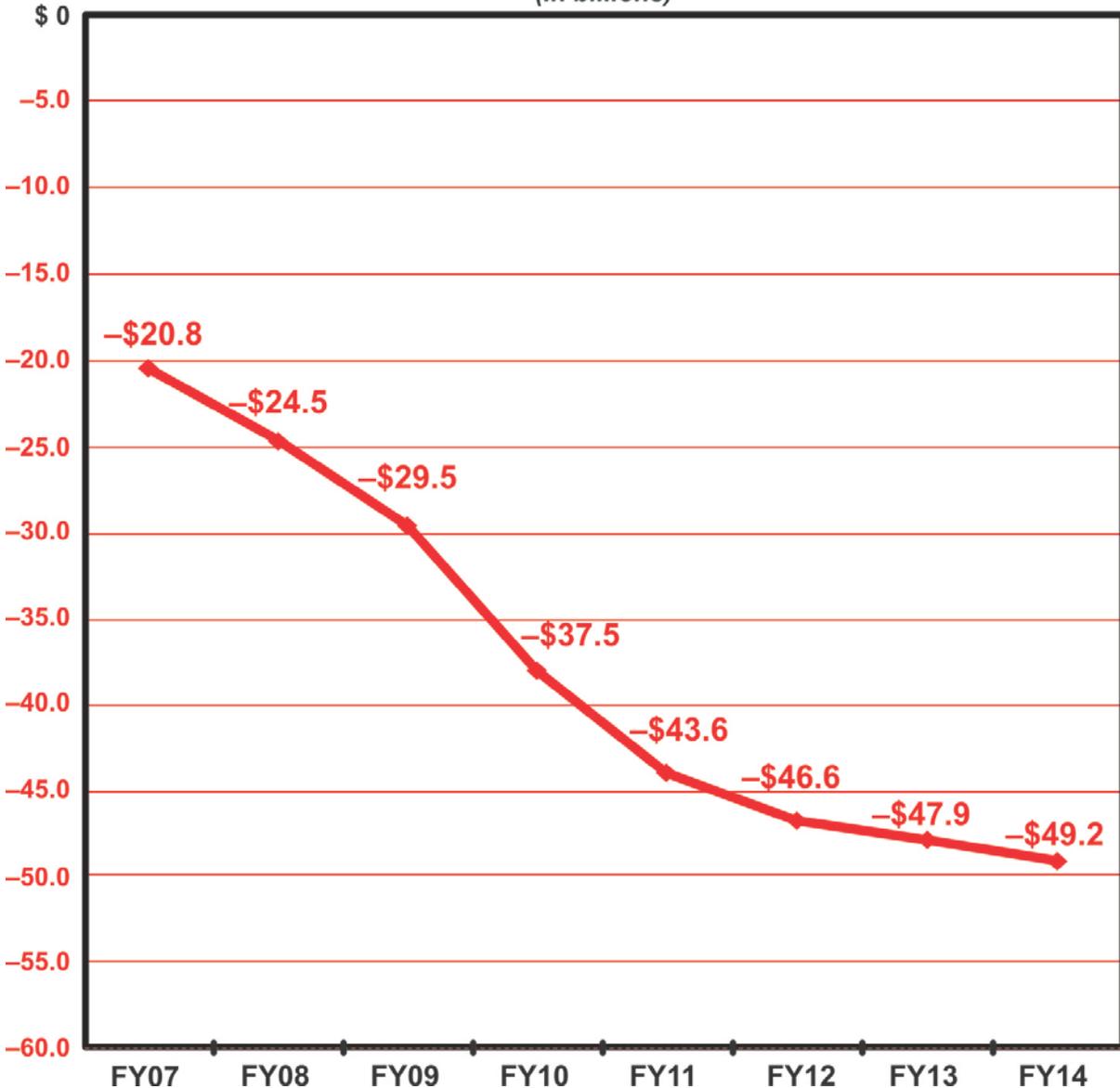
**STATE OFFICIALS**

Governor	Bruce Rauner
Comptroller	Leslie Geissler Munger
Speaker of the House	Michael J. Madigan
President of the Senate	John J. Cullerton
House Republican Leader	Jim Durkin
Senate Republican Leader	Christine Radogno

## FINANCIAL ANALYSIS OF THE STATE

The net position of the State's governmental activities declined \$1.318 billion. The following condensed financial information was derived from the government-wide Statement of Net Position and reflects the State's governmental activities financial position as of June 30 for Fiscal Years 2007 through 2014.

### EXHIBIT 1 STATE OF ILLINOIS DEFICITS FOR NET POSITION OF GOVERNMENTAL ACTIVITIES FY07-FY14 (In billions)



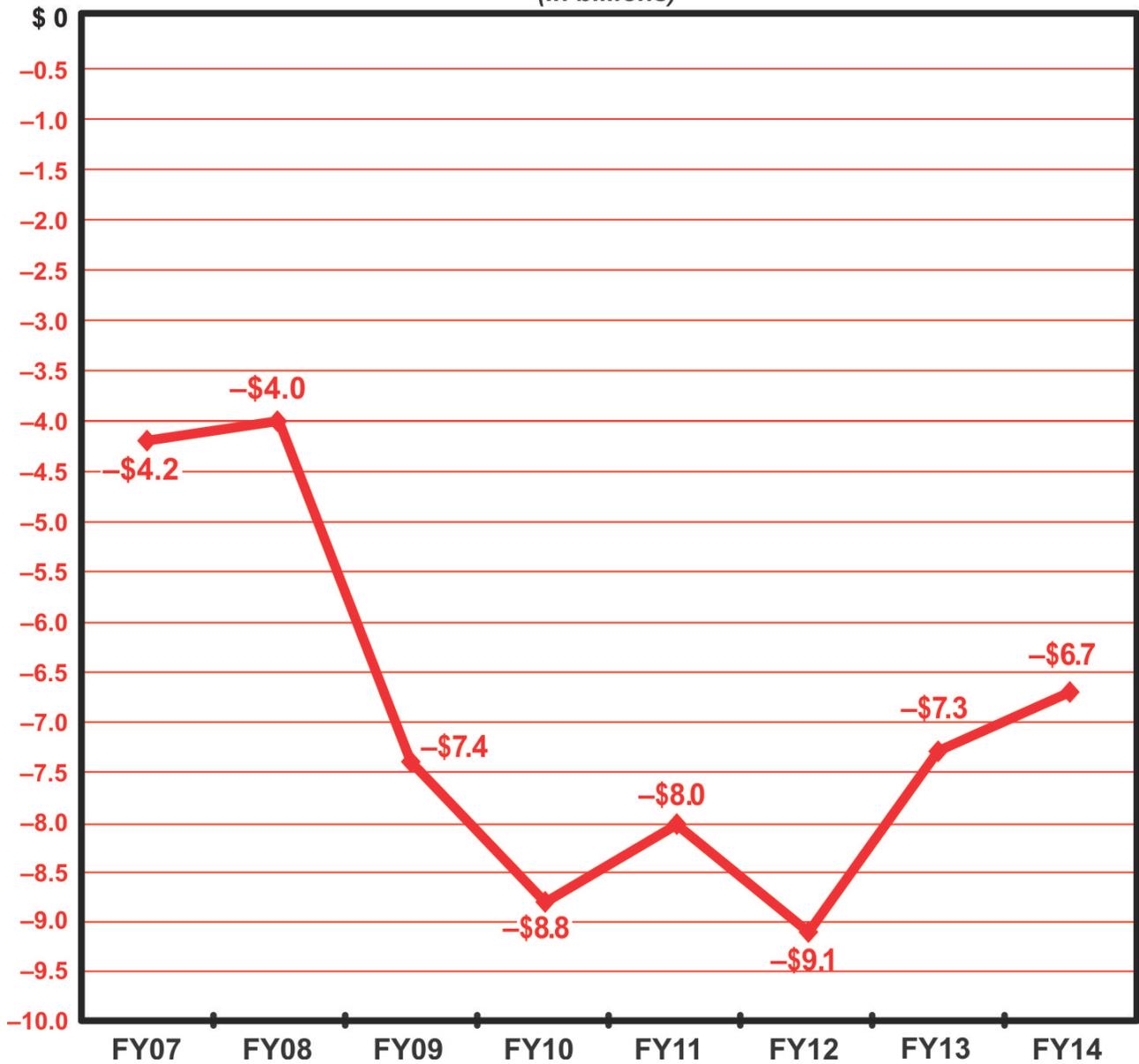
Source: Illinois' Comprehensive Annual Financial Report (2014)  
Numbers reflect restatements.

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

## GENERAL FUND

Many programs are accounted for in the General Fund. The GAAP basis financial position of the General Fund deficit decreased at June 30, 2014 from June 30, 2013. The fund balance deficit in the State's General Fund decreased by \$658 million on a GAAP basis. The June 30, 2014 deficit was \$6.7 billion.. Exhibit 2 reflects the General Fund deficit for Fiscal Years 2007 through 2014.

### EXHIBIT 2 STATE OF ILLINOIS GENERAL FUND DEFICITS FY07-FY14 (In billions)

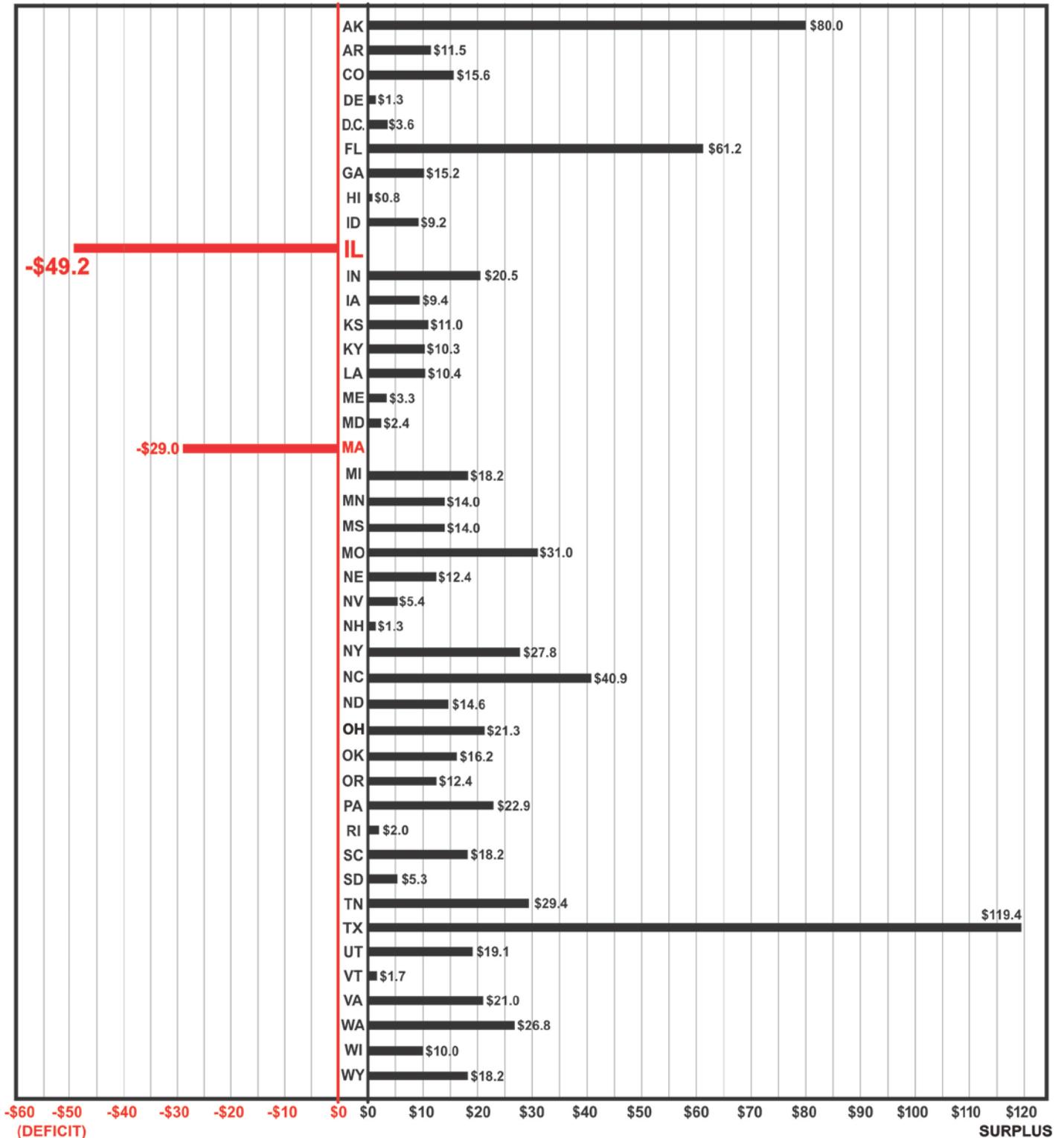


Source: Illinois' Comprehensive Annual Financial Report (2014)  
Numbers reflect restatements.

## STATE COMPARISON

Exhibit 3 provides an analysis of Illinois' Net Position at June 30, 2014 compared to other States.

### EXHIBIT 3 STATE COMPARISON OF NET POSITION OF GOVERNMENTAL ACTIVITIES FOR FY14 (In billions)



Source: Compiled by Illinois Auditor General's Office from Comprehensive Annual Financial Reports (CAFR) for each state, excluding Alabama, Arizona, California, Connecticut, Montana, New Jersey, New Mexico, and West Virginia, which were not available at March 11, 2015.

**FINDINGS, CONCLUSIONS, AND**  
**RECOMMENDATIONS**

**INADEQUATE FINANCIAL REPORTING PROCESS**

The State of Illinois' current financial reporting process does not allow the State to prepare a complete and accurate Comprehensive Annual Financial Report (CAFR) in a timely manner. Reporting issues at various individual agencies caused delays in finalizing the financial statements. The lack of timely financial reporting limits effective oversight of State finances and may adversely affect the State's bond rating.

**Financial reporting problems continue**

Accurate and timely financial reporting problems continue to exist even though the auditors have: 1) continuously reported numerous findings on the internal controls (material weaknesses and significant deficiencies), 2) commented on the inadequacy of the financial reporting process of the State, and 3) regularly proposed adjustments to financial statements year after year. These findings have been directed primarily towards major State agencies under the organizational structure of the Office of the Governor and towards the Office of the State Comptroller.

**Financial reporting problems not resolved**

The Office of the State Comptroller has made significant changes to the system used to compile financial information; however, the State has not solved all the problems to effectively remediate these financial reporting weaknesses. The process is overly dependent on the post audit program being a part of the internal control for financial reporting even though the Illinois Office of the Auditor General has repeatedly informed State agency officials that the post audit function **is not and should not** be an internal control mechanism for any operational activity related to financial reporting.

**Financial reporting process dependent on post audits**

**Two Public Acts positively affected process**

We acknowledge that there have been two Public Acts that have positively affected the financial reporting process. Public Act 97-408, which became effective August 16, 2011, established a statutory deadline of October 31 of each year for State agencies to report financial information for the previous June 30 to the State Comptroller. We noted that there were no agencies under the Governor that were delinquent in their financial reporting to the Office of the State Comptroller. Public Act 97-1055, which became effective August 23, 2012, established the Financial Reporting Standards Board (Board). The purpose of the Board is to "assist the State in improving the timeliness, quality, and processing of financial reporting for the State." The Board first met on September 25, 2013 and has had an additional nine meetings. (Finding 1, pages 7-9)

We recommended the Office of the Governor and the Office of the State Comptroller continue to work together to resolve the State's inability to produce timely and accurate Generally

Accepted Accounting Principles (GAAP) basis financial information.

**Governor's Office agreed with auditors**

The Governor's Office agreed with our recommendation and stated that the Governor's Office will continue to work with the Office of the State Comptroller to address the core issues of the State's inability to produce timely and accurate GAAP basis financial information.

**IOC agreed with auditors and will continue to work with the Governor's Office**

The Comptroller's Office agreed with our recommendation and stated that the Office will continue to work with the Governor's Office, the Auditor General's Office, the Financial Reporting Standards Board and agency GAAP coordinators to improve the timeliness, quality, and processing of financial reporting for the State.

**FINANCIAL REPORTING WEAKNESSES**

**15 of 27 agencies with 37 internal control findings over financial reporting**

The State of Illinois did not have adequate controls to assess the risk that information reported by individual agencies of the primary government would not be fairly stated and compliant with generally accepted accounting principles. The Office of the Auditor General performed audits at 27 agencies of the primary government, including five pension systems and the State Board of Investments. During these audits, we noted at 15 agencies there were a total of 10 material weaknesses and 27 significant deficiencies related to the internal controls over the financial reporting process.

**Internal control deficiencies extend financial reporting timelines**

Material weaknesses and significant deficiencies further extend financial reporting timelines since additional measurements and reporting are required. Completion or substantial completion of these audits is necessary in order for the Auditor General to issue an opinion on the State's basic financial statements.

**Beginning balances restated**

In addition to the deficiencies noted above, restatements and material errors were noted, which are as follows:

- The beginning balances in the financial statements of the primary government were restated due to the correction of three errors. The restatements ranged from \$20.4 million to \$121.8 million.
- Material misstatements were identified by the auditors at six agencies. The misstatements ranged from \$5.3 million to \$189.7 million. (Finding 2, pages 10-13)

**Material misstatements identified**

We recommended the State continue their efforts to improve 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. The internal control procedures should include a formal evaluation of prior problems and implementation of procedures to reduce the risk of these problems reoccurring.

**Governor's Office agreed with auditors**

The Governor's Office agreed with our recommendation and stated that the Governor's Office will work with the Office of the State Comptroller to continue efforts to improve internal control procedures to reduce the likelihood of material misstatements to the financial statements.

**IOC agreed with auditors and will continue to assist the Governor's Office**

The Comptroller's Office agreed with our recommendation and stated that the Office will continue to assist the Governor's Office in their efforts to increase the quality of GAAP packages by providing enhanced training and technical assistance to State agencies. In addition, the Office will continue to work with the Financial Reporting Standards Board in their mission to improve the timeliness, quality and processing of financial reporting for the State.

**FINANCES INCREASE RISKS**

**Insufficient controls over the State's finances**

The State of Illinois did not have sufficient controls over its finances to ensure obligations are paid. This condition increases the risk that liabilities will not be properly recorded.

**\$3.45 billion of approved payments on hand at June 30, 2014**

We noted during our financial audit of the State's financial statements that the State had transactions, totaling \$3.45 billion, on hand at June 30, 2014 that had been approved for payment by the State, but remained unpaid at year end due to the State's cash flow difficulties. Of this amount, approximately \$1.861 billion was owed to external parties, the remaining balance was related to intra-governmental transactions and statutorily mandated transfers. Due to the State not being able to pay external vendors in a timely manner, the State paid approximately \$160 million in interest payments during Fiscal Year 2014. (Finding 5, page 17)

**\$160 million paid in interest payments**

We recommended the Governor work with the General Assembly to improve the State's control over State finances in a manner that eliminates significant payment delays and unnecessary interest payments to State vendors.

**Governor's Office agreed with auditors**

The Governor's Office agreed with our recommendation and stated they will work with the General Assembly, the Office of the State Comptroller and the Office of the State Treasurer to improve the State's control over finances to eliminate significant payment delays and unnecessary interest payments to State vendors.

**OTHER FINDINGS**

The remaining findings included two noncompliance issues. We will review the State's progress towards the implementation of our recommendations in our next audit.

A handwritten signature in blue ink, appearing to read "William G. Holland", is written above a horizontal line. The signature is stylized and cursive.

WILLIAM G. HOLLAND  
•• Auditor General

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