



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

STATE OF ILLINOIS

Statewide Financial Statement Audit
 For the Year Ended June 30, 2015

Release Date: April 5, 2016

| FINDINGS THIS AUDIT: 5 | | | | AGING SCHEDULE OF REPEATED FINDINGS | | | |
|------------------------|-----|--------|-------|-------------------------------------|-----------------|------------|------------|
| | New | Repeat | Total | Repeated Since | Category 1 | Category 2 | Category 3 |
| Category 1: | 0 | 5 | 5 | 2010 | 14-05 | | |
| Category 2: | 0 | 0 | 0 | 2009 | 14-03, 14-04 | | |
| Category 3: | 0 | 0 | 0 | 2007 | 14-01 | | |
| TOTAL | 0 | 5 | 5 | 2002 | 14-02 | | |
| FINDINGS LAST AUDIT: 5 | | | | | | | |

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, 2015, 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, 2015 financial statements of the State of Illinois are fairly presented in all material respects.

The financial statements at June 30, 2015 reflect the following:

- The net position of governmental activities continued to deteriorate and the deficit increased by \$4.1 billion from FY14 to FY15. Overall, the net position of governmental activities is reported as a deficit of \$125.3 billion. (Exhibit 1)
- The General Fund deficit increased by \$172 million from FY14 to FY15. The June 30, 2015 deficit was \$6.9 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.

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

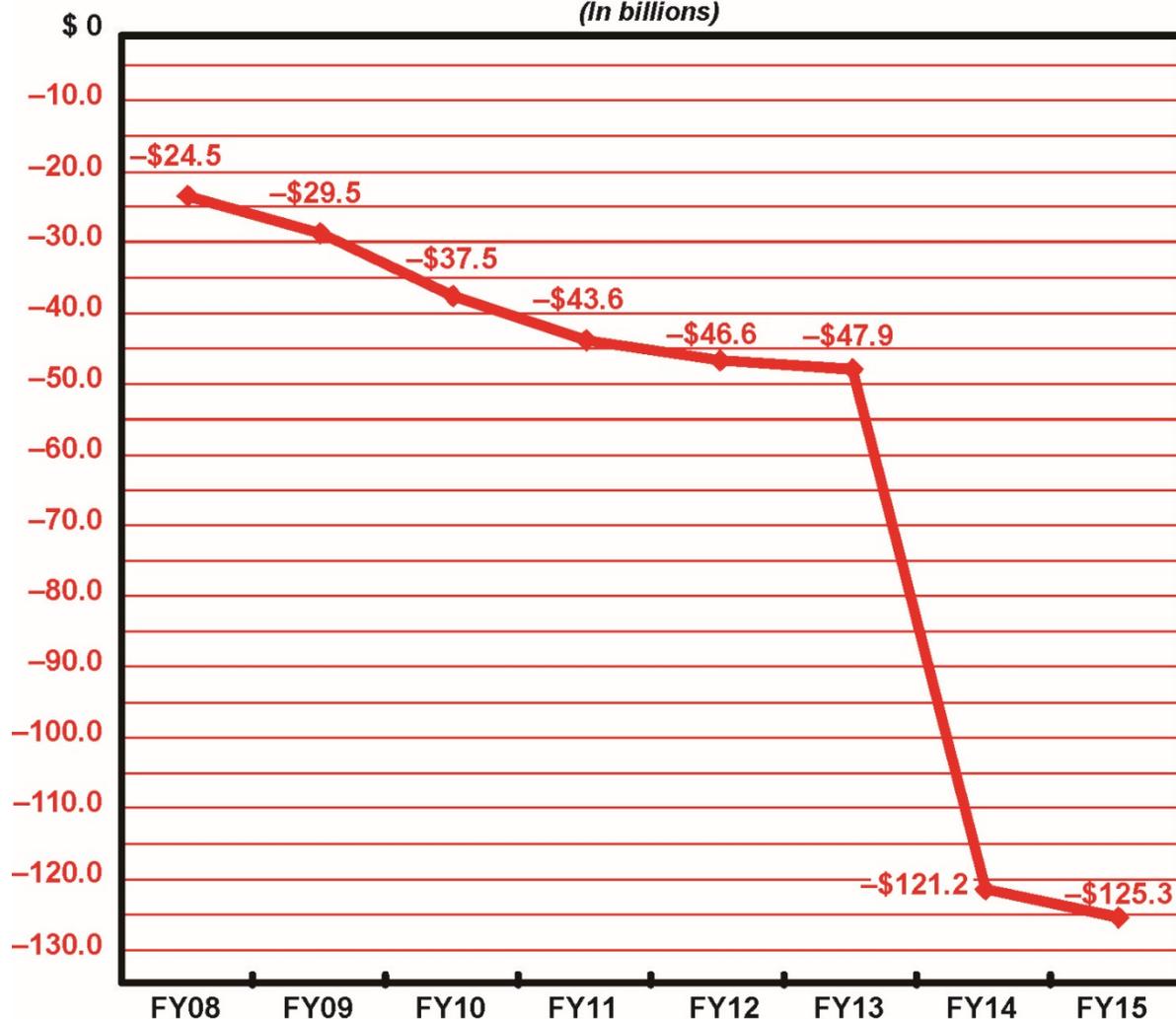
STATE OFFICIALS

| | |
|--------------------------|------------------------|
| 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 \$4.096 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 2008 through 2015. The net position balance as reported within the June 30, 2014 Governmental Activities financial statements was restated from a deficit of \$49.2 billion to a deficit of \$121.2 billion due to the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. GASB Statement No. 68 required the State of Illinois to report the State's entire net pension liability on the face of the statements.

EXHIBIT 1
STATE OF ILLINOIS
DEFICITS FOR NET POSITION OF GOVERNMENTAL ACTIVITIES
FY08-FY15
(In billions)



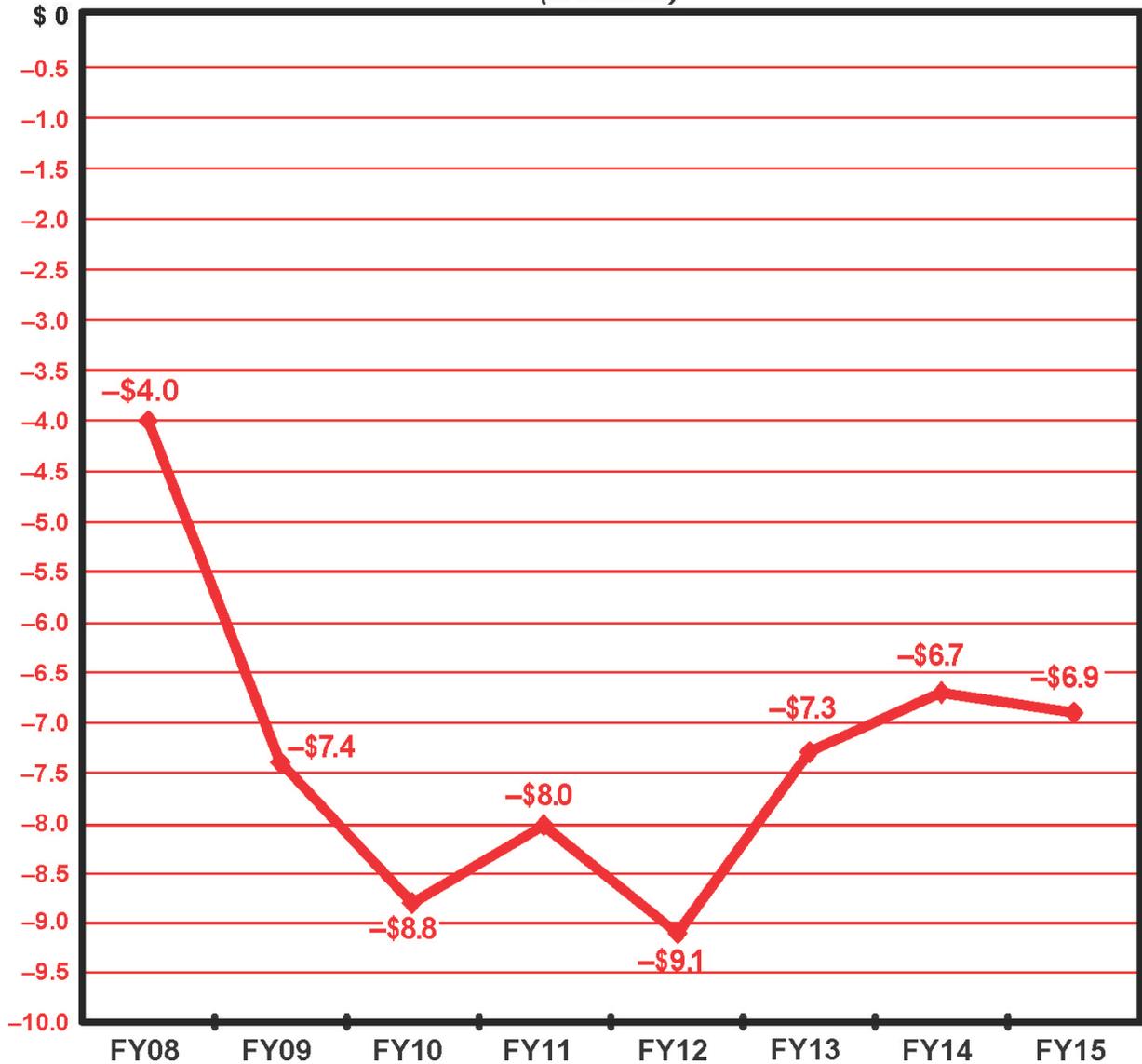
Source: Illinois' Comprehensive Annual Financial Report (2015)
Numbers reflect restatements.

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 increased at June 30, 2015 from June 30, 2014. The fund balance deficit in the State's General Fund increased by \$172 million on a GAAP basis. The June 30, 2015 deficit was \$6.9 billion. Exhibit 2 reflects the General Fund deficit for Fiscal Years 2008 through 2015.

EXHIBIT 2
STATE OF ILLINOIS
GENERAL FUND DEFICITS
FY08-FY15
(In billions)

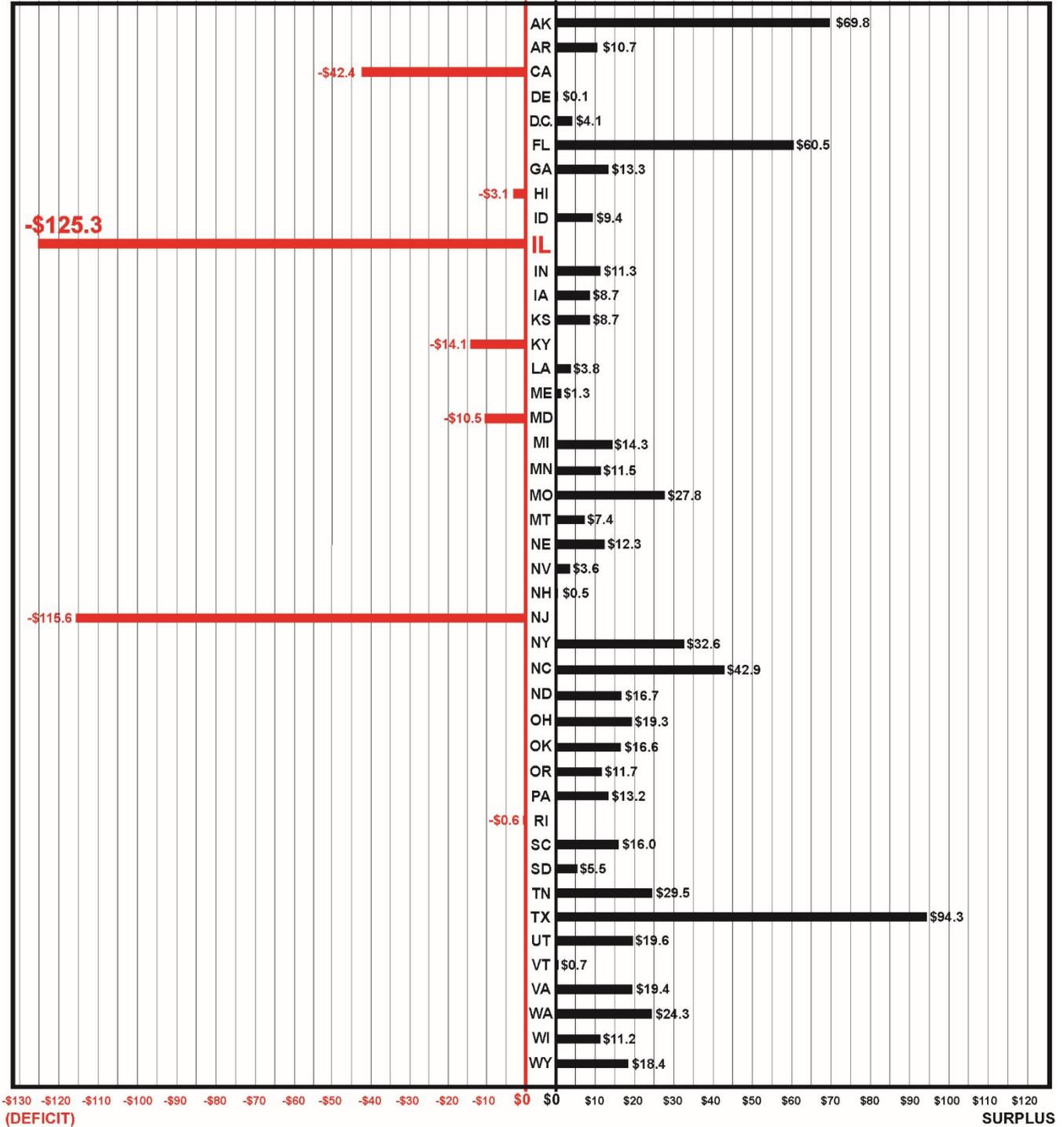


Source: Illinois' Comprehensive Annual Financial Report (2015)
Numbers reflect restatements.

STATE COMPARISON

Exhibit 3 provides an analysis of Illinois' Net Position at June 30, 2015 compared to other States.

EXHIBIT 3
STATE COMPARISON OF NET POSITION OF GOVERNMENTAL ACTIVITIES
FOR FY15
(In billions)



Source: Compiled by Illinois Auditor General's Office from Comprehensive Annual Financial Reports (CAFR) for each state, excluding Alabama, Arizona, Colorado, Connecticut, Massachusetts, Mississippi, New Mexico, and West Virginia, which were not available at March 22, 2016.

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 even though the Illinois Office of the Auditor General has repeatedly informed State agency officials that the post audit function **is not** a substitute for appropriate internal controls at State agencies.

Financial reporting process dependent on post audits

Only 16% of the 263 different financial reporting systems compliant with GAAP

The State of Illinois has a highly decentralized financial reporting process. It was reported that 88 of 90 primary units of government had 263 different financial reporting systems that are used by primary government agencies and only 16 percent of these financial reporting systems are compliant with Generally Accepted Accounting Principles (GAAP), which drastically increases the amount of time spent by agencies during the year-end GAAP conversion process. In addition, 53 percent of the financial reporting systems are not interrelated which, consequently, requires manual intervention to convert data, increasing the likelihood of errors and is time consuming.

53% of the 263 different financial reporting systems not interrelated

The financial reporting to the Office of the State Comptroller requires State agencies to prepare a series of financial reporting forms (SCO forms) designed by the Office of the State Comptroller which are utilized to prepare the CAFR. Although these SCO forms are subject to review by the Office of the State Comptroller's financial reporting staff during the CAFR preparation process and the Financial Reporting

Financial reporting process still lacks sufficient internal controls

Standards Board has adopted minimum qualifications for all new GAAP Coordinators who oversee the preparation of the SCO Forms, the current process still lacks sufficient internal controls at individual agencies. (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 basis financial information.

Governor's Office agreed with auditors

The Governor's Office agreed with our recommendation and stated that the Governor's Office and the Office of the State Comptroller will continue to work together to address the core issues of the State's inability to produce timely and accurate GAAP basis financial information. Both offices have begun a multi-year implementation of an Enterprise Resource Planning (ERP) system to develop an integrated enterprise-wide application system for financials, which will improve the State's control environment and processes to produce accurate financial statements in a timely manner.

Comptroller's Office agreed with auditors

The Comptroller's Office agreed with our recommendation and stated that they 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

13 of 24 agencies with 25 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 24 agencies of the primary government, including five pension systems and the State Board of Investment. During these audits, we noted at 13 agencies there were a total of 9 material weaknesses and 16 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.

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

Beginning balances restated

- The beginning balances in the financial statements of the primary government were restated due to the

correction of one error. The restatement was the result of an understatement of capital assets, totaling \$111.9 million.

Material misstatements identified

- Material misstatements were identified by the auditors at five agencies. The misstatements ranged from \$15.1 million to \$151.6 million. (Finding 2, pages 10-13)

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.

Comptroller's Office agreed with auditors

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.

\$4.646 billion of approved payments on hand at June 30, 2015

We noted during our financial audit of the State's financial statements that the State had transactions, totaling \$4.646 billion, on hand at June 30, 2015 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 \$2.732 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 \$126 million in interest payments during Fiscal Year 2015. (Finding 5, page 18)

\$126 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

Governor's Office agreed with auditors

unnecessary interest payments to State vendors.

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.

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

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