

**STATE OF ILLINOIS  
COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**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***

**For the Year Ended June 30, 2018**

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FINANCIAL AUDIT  
For the Year Ended June 30, 2018

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The annual financial statements of the State of Illinois for the year ended June 30, 2018, were issued under a separate cover.

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**STATE OFFICIALS**

Governor	Bruce Rauner (7/1/17 through 1/14/19)
Governor	JB Pritzker (1/14/19 through present)
Comptroller	Susana A. Mendoza
Speaker of the House	Michael J. Madigan
President of the Senate	John J. Cullerton
House Republican Leader	Jim Durkin
Senate Republican Leader	Christine Radogno (7/1/17)
Senate Republican Leader	William E. Brady (7/1/17 through present)

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**SUMMARY**

The audit of the State of Illinois' financial statements was performed in accordance with *Government Auditing Standards*. This report is an integral part of that audit.

**SUMMARY OF FINDINGS**

<u>Number of</u> Findings	<u>Current Report</u>	<u>Prior Report</u>
Repeated findings	5	5
Prior recommendations implemented or not repeated	0	0

**SCHEDULE OF FINDINGS**

<u>Item No.</u>	<u>Page</u>	<u>Description</u>	<u>Finding Type</u>
<b>FINDINGS (<i>GOVERNMENT AUDITING STANDARDS</i>)</b>			
2018-001	7	Inadequate Financial Reporting Process	Material Weakness
2018-002	10	Financial Reporting Weaknesses	Material Weakness
2018-003	16	Late Payment of Statutorily Mandated Transfers	Noncompliance
2018-004	18	Debt Covenant Violation	Noncompliance
2018-005	20	Insufficient Controls over Finances	Material Weakness

**EXIT CONFERENCE**

The Office of the State Comptroller and the Office of the Governor have waived an exit conference in correspondence from Katie Madonia, Director of Financial Reporting, on July 30, 2019 and Roma Larson, Deputy General Counsel, on August 9, 2019, respectively.

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**AGENCY RESPONSES**

Responses to the findings and recommendations were provided as follows:

Ms. Roma Larson, Deputy General Counsel, Governor's Office of Management and Budget on August 9, 2019.

Ms. Katie Madonia, Director of Financial Reporting, Office of the State Comptroller on July 30, 2019.

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OFFICE OF THE AUDITOR GENERAL  
FRANK J. MAUTINO

INDEPENDENT AUDITOR'S 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 Michael J. Madigan, Speaker of the House  
Honorable John J. Cullerton, President of the Senate  
Members of the General Assembly  
Honorable JB Pritzker, Governor  
Honorable Susana Mendoza, Comptroller

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Illinois, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the State of Illinois' basic financial statements as listed in the Table of Contents for Section II of the Illinois Comprehensive Annual Financial Report, and have issued our report thereon dated August 22, 2019.

Our report is modified to include a reference to other auditors who audited the financial statements of certain university related organizations and included an emphasis-of-matter paragraph which stated that, as discussed in Note 2 to the financial statements, the financial statements have been restated as of July 1, 2017, for the implementation of GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our report also included an emphasis-of-matter paragraph which stated the deficit for net position of governmental activities in Fiscal Year 2018 continued to increase by \$6,420,129,000, from \$182,648,945,000 at June 30, 2017, to \$189,069,074,000 at June 30, 2018. This deficit, which is presented on an accrual basis, is the excess of total liabilities and deferred inflows of resources over total assets and deferred outflows of resources and represents a deferral of current and prior year costs to future periods.

For purposes of this report, our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements,

and other matters did not include the State's discretely presented component units. Separate reports have been issued for those entities except certain university related organizations and certain other authorities, for which the financial statements were not audited in accordance with *Government Auditing Standards*. The findings, if any, included in those reports are not included herein.

## **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the State of Illinois' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State of Illinois' internal control. Accordingly, we do not express an opinion on the effectiveness of the State of Illinois' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings as items 2018-001, 2018-002, and 2018-005, that we consider to be material weaknesses.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the State of Illinois' financial statements are free from material misstatement, we performed tests of its 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as items 2018-003 and 2018-004.

## **The Office of the Governor's and Office of the State Comptroller's Responses to Findings**

The Office of the Governor's and the Office of the State Comptroller's responses to the findings identified in our audit are described in the accompanying schedule of findings. The Office of the Governor's and the Office of the State Comptroller's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the State of Illinois' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of Illinois' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**SIGNED ORIGINAL ON FILE**

FRANK J. MAUTINO  
Auditor General  
State of Illinois

Springfield, Illinois  
August 22, 2019

**SIGNED ORIGINAL ON FILE**

JANE CLARK, CPA  
Director of Financial and Compliance Audits  
Office of the Auditor General

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2018-001. **FINDING** (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 (see Finding 2018-002 for additional detail). The lack of timely financial reporting limits effective oversight of State finances and may adversely affect the State's bond rating.

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.

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 State has a highly decentralized financial reporting process due to the use of numerous financial reporting systems, many of which are not interrelated and require manual intervention to convert data. The process is also overly dependent on the post audit program even though the 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.

Annual financial reporting to the Office of the State Comptroller requires the State's 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. For the most part, these SCO forms are completed for each of the State's 811 primary government/fiduciary funds and 16 component units. The forms are completed by accounting personnel within each State agency who have varying levels of knowledge, experience, and understanding of GAAP and of the State's accounting policies and procedures. Agency personnel involved with this process are not under the organizational control or jurisdiction of the Office of the State Comptroller.

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 there are recommended 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. As a result, audit adjustments and significant internal control deficiencies relative to individual agencies' financial reporting continue to occur.

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Concepts Statement No. 1 of the Governmental Accounting Standards Board, *Objectives of Financial Reporting* (GASBCS 1, paragraph 66), states, “If financial reports are to be useful, they must be issued soon enough after the reported events to affect decisions.”

The Office of the Governor’s management stated the weaknesses are due to (1) lack of a Statewide accounting and grants management system and (2) lack of personnel adequately trained in generally accepted accounting principles, governmental accounting, and federal grants management. Without adequate financial accounting and grants management systems, agency personnel must manually perform conversions of raw data into the required financial reports in a short time frame, resulting in a greater risk of errors. The State needs a more unified, inter-related financial system capable of producing the required financial reports for all State agencies. The lack of adequate financial accounting and grants management personnel is due, in part, to a need for more stringent job qualifications in the relevant job titles to ensure that applicants have the required education and skill sets to be properly trained.

The Office of the State Comptroller’s management indicated that delays at the departmental level were caused by a lack of sufficient internal control processes in State agencies for the accumulation and reporting of financial information used to prepare the financial statements.

Failure to establish effective internal controls at all State agencies regarding financial reporting for the timely and accurate preparation of the CAFR prevents the State from completing an audit in a timely manner, delays financial reporting, and decreases the usefulness of such information. (Finding Code No. 2018-001, 2017-001, 2016-001, 2015-001, 2014-001, 2013-001, 12-1, 11-1, 10-1, 09-2, 08-2, 07-2)

### **RECOMMENDATION**

We recommend 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 GAAP basis financial information.

### **AGENCY RESPONSES**

Office of the Governor:

The Office of the Governor agrees with the recommendation. The Office of the Governor will continue to work together with the Office of the State Comptroller, and together with the individual agencies that have the most pressing challenges, to address the core issues of the State’s inability to produce timely and accurate GAAP basis financial information. The State is in the midst of a multi-year implementation of an Enterprise Resource Planning (ERP) system—an integrated enterprise-wide application system for financial accounting—which is coordinated by the Illinois

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Department of Innovation and Technology and is intended to transform Illinois' IT system to be more inter-related among agencies and responsive to the needs of the State, its employees and those it serves. A new grants management system is also currently under development. New challenges have arisen as State agencies have been making the transition from old systems to new, but a fully-operational ERP system and grants management system will improve internal controls and will better support the production of accurate financial statements in a timely manner in agencies throughout State government.

Office of the State Comptroller:

The Office of the State Comptroller accepts the recommendation. The State still faces several road blocks in the timely completion of the CAFR. The General Assembly enacted P.A. 97-0691, which extended lapse period from August 31 to December 31 for fiscal year 2013 and future fiscal years for medical assistance payments of the Department of Healthcare and Family Services. As a result of the extension, the preparation and completion of critical financial schedules will continue to be delayed. In addition, the General Assembly enacted P.A. 100-0587, which extended lapse period from August 31 to October 31 for fiscal year 2018 for all State agencies, further delaying the financial reporting process. More importantly, the CAFR completion continues to be delayed because of financial reporting issues identified during individual State agency financial and compliance audits. The CAFR cannot be finalized until these issues are resolved at the individual State agency reporting level.

The Office of the State Comptroller will continue to work with the Office of the Governor, the Auditor General's Office, and agency GAAP coordinators to improve the timeliness, quality, and processing of financial reporting for the State.

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2018-002. **FINDING** (Financial Reporting Weaknesses)

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. As reported in Finding 2018-001, the State has a decentralized financial reporting process. Primarily in response to this decentralized process, we performed audits at 27 agencies of the primary government, including the five pension systems and the Illinois State Board of Investment. During these audits, we noted deficiencies that were either material weaknesses or significant deficiencies related to the internal controls over the financial reporting process.

A *material weakness* is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

The chart below summarizes the number of material weaknesses and significant deficiencies we reported for each agency.

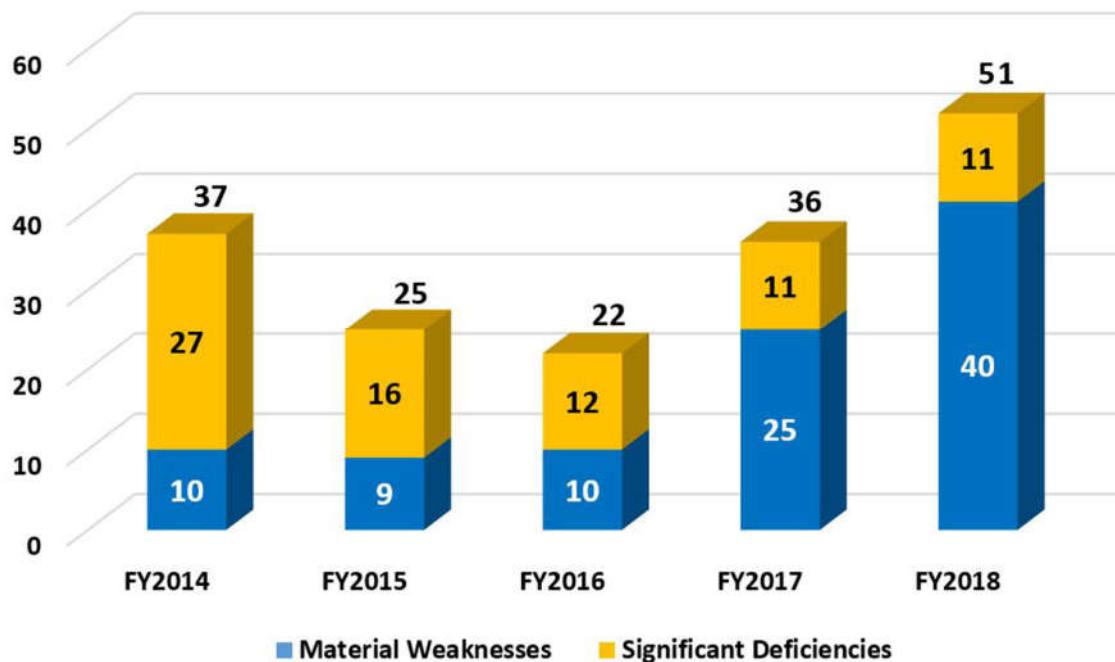
Agency	Material Weaknesses	Significant Deficiencies	Combined Total
Secretary of State	1	0	1
Office of the Treasurer – Illinois Funds	0	1	1
Office of the Treasurer – College Savings Program	1	0	1
Office of the Treasurer – Illinois ABLE Program	1	0	1
Department of Central Management Services	1	0	1
Department of Natural Resources	0	1	1
Department of Corrections	3	4	7
Department of Employment Security	7	1	8
Department of the Lottery	3	2	5
Department of Human Services	3	0	3
Department of Healthcare and Family Services	7	0	7
Department of Human Services and Department of Healthcare and Family Services *	5	0	5
Department of Human Services, Department of Healthcare and Family Services, and Department of Children and Family Services **	3	0	3
Department of Revenue	2	1	3
Department of Transportation	1	0	1
Capital Development Board	0	1	1
Illinois State Board of Investment	1	0	1
State Board of Education	1	0	1
Total	40	11	51

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\*Five findings were reported in both the Department of Human Services' and the Department of Healthcare and Family Services' departmental financial audit reports.

\*\*Three findings were reported in the Department of Human Services', the Department of Children and Family Services', and the Department of Healthcare and Family Services' departmental financial audit reports.

In addition, this chart summarizes the total material weaknesses and significant deficiencies we reported over the past five fiscal years.



Specifically, some of the more significant issues noted during the current fiscal year by the auditors included the following:

- The Department of Healthcare and Family Services (DHFS) and the Department of Human Services (DHS) (Departments) failed to execute adequate internal controls over the implementation and operation of the State of Illinois' Integrated Eligibility System (IES) Phase II. Specifically, management of the Departments did not perform essential project management functions over the implementation of IES Phase II. IES is utilized for the intake of applications and the determination of recipient eligibility for the State's human services programs. IES replaced the State's legacy recipient eligibility systems, including the Client Database System (CDB) and other ancillary systems. According to filings with the U.S. Department of Health and Human Services (HHS), the IES project was expected to cost the State of Illinois approximately \$136.9 million. As of February 9, 2018, the Departments reported to HHS that IES' actual and future projected costs will be approximately \$1.2 billion, over the life of the contract.

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We noted:

- The Departments' User Acceptance Test Plan used to implement IES Phase II into production did not document the Departments' controls over all aspects of the Departments' user testing.
- The Departments' review and approval of required contract deliverables for the implementation of IES Phase II were inadequate.
- The Departments implemented IES Phase II even though the system did not take into consideration information being retained by a third party service provider (TSP) that was sending and accepting redetermination paperwork and reporting functions for the State of Illinois (DHS Finding 2018-007 and DHFS Finding 2018-004).
- The Departments failed to establish and maintain adequate general information technology controls over IES, including security controls and change controls (DHS Findings 2018-010 and 2018-011 and DHFS Findings 2018-007 and 2018-008).
- The Departments lacked controls over eligibility determinations and retention of intake documentation for the State of Illinois' human service programs (DHS Finding 2018-008 and DHFS Finding 2018-005).
- DHFS, DHS, the Department of Children and Family Services (DCFS), and the Department on Aging (DoA) (collectively, the "Departments") failed to execute adequate internal controls over the implementation and operation of the State of Illinois' Illinois-Michigan Program Alliance for Core Technology system (IMPACT). The goal of IMPACT is to accommodate the processing of the State of Illinois' Medicaid provider enrollment determinations and all Medicaid claim payments to such providers. The IMPACT project was expected to cost the State of Illinois approximately \$103 million; however, HFS has since increased the original budget to approximately \$173 million. We noted:
  - The Departments did not have current, formal written agreements defining the roles and responsibilities of DHFS or its Delegated Agencies of the Medicaid Program.
  - DHS, DCFS, and DoA did not use IMPACT beyond formally approving providers for the purposes of granting payments of their Medicaid claims.
  - The Departments implemented IMPACT despite the inability of IMPACT to allow Illinois officials to generate customary and usual system internal control reports, including such information as provider data, security measures, or updates made to IMPACT.
  - The Departments failed to receive and review all required deliverables from the TSP over the implementation of IMPACT (DHS Finding 2018-004, DHFS Finding 2018-001, and DCFS Finding 2018-001).
  - The Departments failed to establish and maintain adequate general information technology controls over IMPACT (DHS Finding 2018-005, DHFS Finding 2018-002, and DCFS Finding 2018-002).

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- The Departments had insufficient review and documentation of provider enrollment determinations (DHS Finding 2018-006, DHFS Finding 2018-003, and DCFS Finding 2018-003).
- We noted DHFS failed to implement adequate fiscal-related monitoring controls over its Managed Care Organization (MCO) contracts. In addition, DHFS failed to exercise or enforce fiscal-related monitoring controls as provided for in the various MCO contracts (DHFS Finding 2018-010). Finally, DHFS did not maintain adequate controls over payments made to medical providers and MCOs, resulting in duplicate payments made to MCOs, payments made utilizing incorrect rates to MCOs and pharmacies, and incorrect payments made to MCOs and pharmacies (DHFS Findings 2018-011, 2018-012, and 2018-013).
- The Department of Employment Security (DES) did not have adequate controls over its accounts receivable, which caused misstatements in the DES's draft financial statements. The DES's gross taxes receivable balance was adjusted by \$10.32 million (DES Finding 2018-001). In addition, the DES's accounts receivable related to claimant overpayments included accounts that had been written off in prior years, totaling \$312.49 million, with the net balance adjusted by \$20.55 million (DES Finding 2018-002). Adjustments were made to correct these material misstatements. Further, DES also did not maintain adequate controls over its refund liabilities and account balances (DES Findings 2018-003 and 2018-004). Finally, the DES did not maintain adequate controls over changes or access to the enterprise-wide tax system, GenTax (DES Findings 2018-007 and 2018-008).

Details of all material weaknesses and significant deficiencies are reported in each agency's financial audit for the year ended June 30, 2018 (reports are available on the Auditor General's website). 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 for the Auditor General to issue an opinion on the State's basic financial statements.

In addition to the deficiencies noted above, we identified misstatements during the audit process. The following chart indicates audit adjustments identified during our testing.

<b>Opinion Unit</b>	<b>Amount (in thousands)</b>	<b>Responsible Agency</b>
Business-Type Activities	\$47,428*	Department of Employment Security
Unemployment Compensation Trust Fund	\$47,428*	Department of Employment Security

\* Amount resulted in one adjustment for the opinion unit.

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The State's decentralized reporting system and related decentralized internal control system are 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. Audit adjustments were routinely identified for the primary government's State agencies required to prepare financial statements that were not deemed material by agency management and were not posted to the financial statements. In working with the Office of the State Comptroller to finalize the State's financial statements, it is necessary to accumulate all of the uncorrected adjustments and evaluate these adjustments in total to ensure that they do not materially misstate the State's financial statements. Because of the volume of these passed adjustments, there is a continual risk that the State's financial statements could potentially be materially misstated until this accumulation and evaluation process is completed. In addition, these uncorrected adjustments require continued accumulation and evaluation in the subsequent year.

The Office of the Governor's management stated the weaknesses are due to the lack of Statewide accounting and grants management systems. The State needs a more unified, inter-related financial system capable of producing the required financial reports for all State agencies. Currently, the State has more than 100 separate and distinct accounting systems; this condition hinders the State's ability to implement standardized internal controls and business processes to ensure accurate and timely preparation of financial statements. This is compounded by the lack of personnel adequately trained in generally accepted accounting principles, governmental accounting, and federal grants management. The lack of adequate financial accounting and grants management personnel is due, in part, to a need for more stringent job qualifications in the relevant job titles to ensure that applicants have the required education and skill sets to be properly trained.

The Office of the State Comptroller's management stated the misstatements at the departmental level were caused by a lack of sufficient internal control processes in State agencies for the accumulation and reporting of financial information used to prepare the financial statements. The Office of the State Comptroller has the statutory authority to develop and prescribe accounting policies for the State, but does not have the statutory authority to monitor adherence to these policies as performed by State agencies.

In accordance with the Fiscal Control and Internal Auditing Act (30 ILCS 10/1002), each State agency's chief executive officer maintains statutory responsibility for the establishment and continuous monitoring of the internal control function for accounting and other operating policies of the officer's agency. (Finding Code No. 2018-002, 2017-002, 2016-002, 2015-002, 2014-002, 2013-002, 12-2, 11-2, 10-2, 09-1, 08-1, 07-1, 06-1, 05-1, 04-1, 03-1, 02-1)

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**RECOMMENDATION**

We recommend the State continue its 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.

**AGENCY RESPONSES**

Office of the Governor:

The Office of the Governor agrees with the recommendation. The Office of the Governor will continue to work together with the Office of the State Comptroller, and together with the State agencies facing the greatest challenges, to improve internal control procedures and reduce the likelihood of material misstatements to the financial statements. The State is in the midst of a multi-year implementation of an Enterprise Resource Planning (ERP) system—an integrated enterprise-wide application system for financial accounting—which is coordinated by the Illinois Department of Innovation and Technology and is intended to transform Illinois' IT system to be more inter-related among agencies and responsive to the needs of the State, its employees and those it serves. A new grants management system is also currently under development. New challenges have arisen as State agencies have been making the transition from old systems to new, but an operational ERP system and grants management system ultimately will improve the State's internal controls to more effectively assess the risk of material misstatements to the financial statements, and to prevent, detect and correct such misstatements on a timely basis during the financial statement preparation process.

Office of the State Comptroller:

The Office of the State Comptroller accepts the recommendation. The Office of the State Comptroller will continue to assist the Office of the Governor in their efforts to increase the quality of GAAP packages by providing enhanced training and technical assistance to State agencies.

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2018-003. **FINDING** (Late Payment of Statutorily Mandated Transfers)

The Office of the State Comptroller (Comptroller) did not make all statutorily mandated transfers between State funds within established timeframes.

The Comptroller had a system in place to identify and record inter-fund transfers it was required to make. During the fiscal year ended June 30, 2018, the Comptroller timely recorded within the Statewide Accounting Management System (SAMS) the receivables and related payables for transfers of money in the State Treasury to be made between the State of Illinois' funds. However, not all transfers were made timely. During Fiscal Year 2018, we noted 339 transfers between State funds that were made greater than 30 days after the statutorily mandated transfer date. Transfers that were made between one and 30 days after the statutorily mandated transfer date were excluded from the information provided in the following table. The following summary concerning late payment of statutorily mandated transfers highlights the delays in making such transfers in Fiscal Year 2018 compared to Fiscal Year 2017 and Fiscal Year 2016:

	Fiscal Year 2018	Fiscal Year 2017	Fiscal Year 2016
Number of late transfers	339 transfers (231 from GRF*)	472 transfers (360 from GRF*)	468 transfers (360 from GRF*)
Range of days transfers were late	31 to 447 days**	31 to 479 days**	31 to 449 days**
Total volume of late transfers, in dollars	\$1.36 billion (\$790 million from GRF*)	\$3.31 billion (\$2.58 billion from GRF*)	\$3.37 billion (\$2.64 billion from GRF*)
Late transfers outstanding as of and paid after June 30	\$1.14 billion (\$583 million from GRF*)	\$2.14 billion (\$1.42 billion from GRF*)	\$1.51 billion (\$808 million from GRF*)

\*GRF means the State of Illinois' General Revenue Fund.

\*\*This analysis was prepared as of October 23, 2018, October 23, 2017, and October 31, 2016, for Fiscal Year 2018, Fiscal Year 2017, and Fiscal Year 2016, respectively. Some transfers were completed after these dates.

Further, the following table contains the number and amount of late transfers still outstanding as of November 13, 2018, relating to Fiscal Year 2017 and Fiscal Year 2016.

	Fiscal Year 2017	Fiscal Year 2016
Number of late transfers outstanding as of 11/13/2018	282	50
Amount of late transfers outstanding as of 11/13/2018	\$1.306 billion	\$446 million

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The transfers noted above are mandated by various State statutes that contain the required funds, amounts, and timeline.

Comptroller management stated, as it did during the prior examinations, that the late payment of transfers occurred because of cash management decisions and prioritization that was required due to the lack of available cash in the State Treasury. Further, some statutory provisions relating to transfers contain language such as “as soon as practicable” or “as soon as possible” which management feels should give them more time to complete the transfers.

Failure to make inter-fund transfers within applicable timeframes represents noncompliance with State law and untimely transfers of monies may have delayed the receiving fund’s use of appropriated funds. (Finding Code No. 2018-003, 2017-003, 2016-003, 2015-003, 2014-003, 2013-003, 12-3, 11-3, 10-3, 09-3)

**RECOMMENDATION**

We recommend the Office of the State Comptroller make transfers within timeframes established by applicable statute. While we realize that lack of available funds in the State Treasury requires prioritization and cash management decisions, we recommend the Office of the State Comptroller continue in its efforts to make transfers in as timely a manner as possible.

**AGENCY RESPONSE**

Office of the State Comptroller:

The Office of the State Comptroller accepts the recommendation. The Office of the State Comptroller will continue in its effort to make the required transfers to the extent possible given all the competing payments from limited resources in the State treasury. Unfortunately, due to continued fiscal circumstances that are outside of the control of the Office of the State Comptroller, this repeated finding is outgrowth from the fact that the state did not have a complete budget for two years and is still facing a significant backlog of bills in the billions. In order to manage under this dire fiscal situation, the Office of the State Comptroller must continue to engage in cash management strategies that can maximize the use of limited state funds while also attempting to minimize the consequences of not having enough resources to address various pending vouchers and transfers held at the Office of the State Comptroller. Until the backlog is adequately addressed, it will linger for several months and years to come.

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2018-004. **FINDING** (Debt Covenant Violation)

The Illinois Student Assistance Commission (Commission) Illinois Designated Account Purchase Program (IDAPP) was not in compliance with one of the covenants relating to the Commission's revolving line of credit agreement.

During the audit of Fiscal Year 2018 financial statements, IDAPP was in violation of one of the debt covenants related to the Commission's revolving credit (loan) agreement. In addition, the Three-Year Asset Backed Revolving Credit Facility (Facility) matured on July 27, 2010, and has not been repaid. Per the agreement, the default ratio is set at a maximum three-month rolling average of 5.0% or a maximum of 6.25% for any settlement period. We reviewed the monthly reports noting that nine of these months rose above at least one of these ratios, ranging from 5.19% to 8.43% for the three-month average and 7.36% to 9.58% for the settlement period.

As a result of the debt covenant violation and the maturity of the Facility, the bank has certain remedies available to it under the terms of the loan agreement, principal of which would be rights to call the loan and take possession of the collateral (the underlying student loan portfolio). The bank has been made aware of the default ratio issues and the maturity of the loan and has not communicated to IDAPP any intent to exercise the remedies available to it under the terms of the loan agreement. The balance of the line of credit with the bank was \$113,656,827 at June 30, 2018.

According to Commission management, the default ratio issues are due to the poor performance of the portfolio. The portfolio continues to experience a high level of delinquent accounts. The line of credit has not been refinanced because of the conditions in the private loan credit market.

As a result of the violation, the bank may have certain remedies under the terms of the loan agreement, principal of which would be the right to call the loan and take possession of the collateral (the underlying student loan portfolio of IDAPP). (Finding Code No. 2018-004, 2017-004, 2016-004, 2015-004, 2014-004, 2013-004, 12-4, 11-4, 10-6, 09-3)

**RECOMMENDATION**

We recommend IDAPP continue to monitor the loan covenant violations and continue seeking remedies from the lender involved.

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**AGENCY RESPONSE**

Office of the Governor:

The Office of the Governor agrees with the recommendation. The Office of the Governor will work with the Commission to monitor the loan covenant violation and pursue appropriate remedies from the lender.

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2018-005. **FINDING** (Insufficient Controls over Finances)

The State of Illinois did not have sufficient controls over its finances. This condition increases the risk that liabilities will not be properly recorded. Further, this condition increases risk and diminishes the oversight and authority of the budgeting and appropriation process.

As disclosed in Footnote 19 B, we noted the State had transactions, totaling \$7.492 billion, on hand at June 30, 2018, 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 \$3.199 billion was owed to external parties; the remaining balance was related to intra-governmental transactions and statutorily mandated transfers. The external parties include State vendors, State universities, local schools, and local governments. The majority of these "held-payments" were payable from the General Revenue Fund.

The State's inadequate financial reporting process as described in Finding 2018-001 was designed in 1981 under the assumption that cash payments would be made at the time the expenditures were processed by the Comptroller. Since this was not the case at year end, extra effort was required by the accountants and the auditors to ensure the "held-payments" were appropriately accounted for. In addition, due to the State not being able to pay external vendors in a timely manner, the State processed for payment (on a cash basis) approximately \$997.619 million in interest payments during Fiscal Year 2018, and the State has processed \$127.793 million during Fiscal Year 2019 as of July 31, 2019.

Economic conditions, as well as years of unbalanced budgets, appear to be the cause of the above condition.

Sound business practices require the State to have adequate controls over its finances and budget process. (Finding Code No. 2018-005, 2017-005, 2016-005, 2015-005, 2014-005, 2013-005, 12-5, 11-5, 10-7)

**RECOMMENDATION**

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

**AGENCY RESPONSE**

Office of the Governor:

The Office of the Governor agrees with the recommendation. The Office of the Governor will continue to work together with the General Assembly, and together with

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the Office of the State Comptroller and the Office of the State Treasurer, to improve the State's financial controls in an effort to reduce payment delays and unnecessary interest costs.