



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

ILLINOIS DEPARTMENT OF REVENUE

**Financial Audit
 For the Year Ended June 30, 2015**

Release Date: January 28, 2016

FINDINGS THIS AUDIT: 2				AGING SCHEDULE OF REPEATED FINDINGS			
	<u>New</u>	<u>Repeat</u>	<u>Total</u>	<u>Repeated Since</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>
Category 1:	0	0	0	2012		15-001	
Category 2:	1	1	2				
Category 3:	<u>0</u>	<u>0</u>	<u>0</u>				
TOTAL	1	1	2				
FINDINGS LAST AUDIT: 1							

INTRODUCTION

This digest covers our financial audit of the Department of Revenue (Department) for the year ended June 30, 2015. A two year compliance attestation examination and a one year financial statement audit will be performed for the period(s) ending June 30, 2016. The auditors identified 2 findings involving the internal control over financial reporting. The findings are presented in the report beginning at page 66. Following is a summary of one finding included in this report digest.

SYNOPSIS

- **(15-001)** The Department's initial year-end financial reporting in accordance with generally accepted accounting principles (GAAP) to the Illinois Office of the Comptroller contained inaccuracies.

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.

{Financial data is summarized on next page.}

ILLINOIS DEPARTMENT OF REVENUE
FINANCIAL AUDIT
For the Year Ended June 30, 2015

FINANCIAL INFORMATION - Governmental funds (in thousands)	FY 2015	FY 2014
REVENUES		
Program revenue: charges for service.....	\$ 63,227	\$ 48,792
Program revenue: operating grants.....	1,123	574
General revenue: taxes.....	33,885,792	34,982,466
General revenue: interest and other.....	16,673	43,850
Total revenues.....	<u>33,966,815</u>	<u>35,075,682</u>
EXPENDITURES		
General government.....	272,613	240,284
Health and social services.....	13,032	13,075
Employment and economic development.....	5,000	5,000
Environment and business regulation.....	6,214	7,945
Intergovernmental.....	5,322,192	5,005,768
Capital outlays.....	3,903	3,481
Total expenditures.....	<u>5,622,954</u>	<u>5,275,553</u>
OTHER SOURCES (USES)		
Appropriations from State resources.....	189,223	185,364
Transfers in.....	685,284	826,066
Transfers out.....	(650,803)	(513,987)
Receipts collected & transmitted to the State treasury.....	(28,201,882)	(29,552,044)
Lapsed appropriations.....	(9,457)	(13,107)
Amount of SAMS transfer in/out.....	(796,250)	(1,267,796)
Total other sources (uses).....	<u>(28,783,885)</u>	<u>(30,335,504)</u>
Net change in fund balance.....	(440,024)	(535,375)
Fund balance (deficit) July 1 (as restated for 2015).....	(1,195,590)	(664,436)
Fund balance (deficit) June 30.....	<u>\$ (1,635,614)</u>	<u>\$ (1,199,811)</u>
SELECTED ACCOUNT BALANCES - Governmental funds (in thousands)		
	June 30, 2015	June 30, 2014
ASSETS		
Cash and cash equivalents & investments.....	\$ 1,099,365	\$ 1,336,998
Taxes receivable, net.....	1,464,453	1,584,233
Intergovernmental and other receivables, net.....	19,482	18,263
Due from other State funds.....	354,580	349,084
Loans and notes receivables, long term.....	42,550	42,393
Inventories.....	338	557
Unexpended appropriations.....	13,135	14,496
Total assets.....	<u>\$ 2,993,903</u>	<u>\$ 3,346,024</u>
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES		
Accounts payable and other liabilities.....	\$ 498,711	\$ 446,082
Income tax refunds payable.....	1,210,471	1,267,403
Intergovernmental payables.....	1,262,040	1,169,944
Unearned revenue.....	852,596	771,355
Due to other funds - Department and State.....	520,388	553,943
Unavailable revenue.....	285,311	337,108
Total liabilities and deferred inflows of resources.....	<u>4,629,517</u>	<u>4,545,835</u>
FUND BALANCE (DEFICIT)		
Fund balance (deficit).....	<u>(1,635,614)</u>	<u>(1,199,811)</u>
Total liabilities, deferred inflows of resources and fund balance (deficit).....	<u>\$ 2,993,903</u>	<u>\$ 3,346,024</u>
DEPARTMENT DIRECTOR		
During Audit Period: Brian A. Hamer (through 01-19-2015), Constance Beard (effective 01-20-2015)		
Currently: Constance Beard		

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

INACCURACIES IN THE DEPARTMENT'S YEAR-END FINANCIAL REPORTING PROCESS

During the audit of the Department's June 30, 2015 financial statements, the auditors noted errors regarding the reporting of financial information. A summary of some of the errors identified are as follows:

Analysis of the percentages used in the calculation of uncollectible taxes receivable balances during the fiscal year not performed

- During testing of the Department's taxes receivable, it was noted the Department did not perform an analysis of the percentages used in the calculation of uncollectible taxes receivable balances during the fiscal year. Prior to the GenTax processing system being placed in service during fiscal year 2007 the Department had a methodology for determining the aging categories and percentages on an annual basis. The Department ceased performing the annual analysis after GenTax was put in service because the same information as used previously was not readily available.

A small change to the allowance percentages could have a material impact on the Department's financial statements

The Department continues to use the same percentages through fiscal year 2015 with no analysis to determine if the percentages should be adjusted based upon current information. As the Department reports \$2.6 billion in taxes receivable and a \$921 million allowance for uncollectible taxes, a small change to the allowance percentages could have a material impact on the Department's financial statements and could cause the net taxes receivable balances to be misstated.

Department personnel indicated they are attempting to update the accounts receivable analysis after the rollout of the final taxes (June 30, 2015) and general ledger implementation planned for March 1, 2016.

The original calculation for one segment of unearned revenue contained errors resulting in an overstatement of \$21.7 million

- During testing of the Department's unearned revenue, the Department determined its original calculation for unearned revenue related to business income taxpayer refunds carried forward for credit on future returns contained errors. The program used to generate the data to calculate the unearned revenue for the Department's financial statements contained errors. Upon reanalyzing the data, the Department determined unearned revenue was overstated by \$21.7 million. The misstatement was not considered material by the Department and no adjustment was made to the financial statements.

Department personnel stated the calculation of the credit carry forward estimate requires analyzing detailed transaction data of multiple tax return types. A system report is used to facilitate this process and an update was made during the year that inadvertently caused it to not be properly populated.

A negligence penalty was incorrectly deducted from an account balance twice understating tax receivable by \$19.5 million

- Auditor testing identified one sales tax (ROT) account where the negligence penalty was incorrectly deducted from the account balance twice during the Department's audit process understating the tax receivable balance by \$19.5 million. The duplication of the negligence penalty was caused by a processing indicator not being applied to the account within the tax system. The effect of this understatement was not considered material by the Department and no adjustment was made to the financial statements.

The exceptions noted have the potential to misstate the Department's financial statements. Accurate preparation of the Department's financial information for GAAP and financial reporting purposes is important due to the impact adjustments have on the Statewide financial statements. (Finding 1, pages 66-68) **This Finding has been repeated since 2012.**

We recommended the Department take steps to improve the review process of the underlying data that helps compile the financial statements. In addition, the Department should work with the appropriate parties to establish an accounting / financial reporting system that is integrated with its operational systems to reduce errors associated with manual intervention.

The Department agreed with the finding and recommendation. The Department indicated they are taking steps to improve the financial reporting process and the underlying data used to compile the financial statements. The Department recognizes that human error will always be inherent in manual compilation processes and strives to allocate sufficient resources for the review of financial data within the time allowed for GAAP financial reporting.

Department agreed with Auditors

The Department also noted they are currently working to convert from an outdated receipt and fund deposit allocation system to the general ledger module of their integrated tax system. The Department will continue to work with the Governor's Office and the Illinois Office of the Comptroller through the ERP project to implement a statewide, integrated general ledger system. Together these solutions will assist the Department to streamline processes and help eliminate manual calculation errors. *(For the previous Department response, See Digest Footnote #1)*

OTHER FINDING

The remaining finding is reportedly being given attention by the Department. Auditors will review the Department's progress toward implementation of all the recommendations in the next engagement.

AUDITOR'S OPINION

The auditors stated the basic financial statements of the Department as of and for the year ended June 30, 2015 were fairly presented in all material respects.

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

FJM:RPU

SPECIAL ASSISTANT AUDITORS

Our Special Assistant Auditors for this audit were Sikich LLP.

DIGEST FOOTNOTES

#1 - INACCURACIES IN THE DEPARTMENT'S YEAR-END FINANCIAL REPORTING PROCESS

2014: The Department agrees that it should always be taking steps to improve the financial reporting process and the underlying data used to compile the financial statements. The Department recognizes that human error will always be inherent in manual compilation processes and strives to allocate significant resources for the review of financial data in the short time allowed for GAAP financial reporting deadlines. The Department is currently working to convert an antiquated receipt and fund deposit allocation system from DOS databases and spreadsheets to a GenTax general ledger module. While this is not a full, integrated general ledger needed to calculate and prepare all information for GAAP reporting, this will reduce some of the manual calculation/transposition errors.

The Department will continue to work with the Governor's Office and Illinois Office of the Comptroller to implement a statewide, integrated general ledger system which will further assist in eliminating many manual calculation errors.