



# ILLINOIS Audit ADVISORY

*Emerging and Potential Audit Issues*

**William G. Holland**  
AUDITOR GENERAL

## AUDITOR GENERAL'S MESSAGE

Since 2003, each issue of the Audit Advisory has highlighted problems associated with the State's financial reporting system. Recognizing that financial reporting problems result in inaccuracies, inefficiencies, and delays that negatively impact the ability of State decision-makers to have timely and accurate information, as well as potentially jeopardizing the State's federal funding, the Senate passed Resolution Number 609 directing my Office to conduct a management audit of the State's financial reporting system. This issue of the Advisory discusses these financial reporting issues and solicits your input into addressing this problem.

In these difficult budget times, we look for ways to assist our staffs to effectively do their jobs with limited resources. To that end, this issue of the Audit Advisory contains a listing of dates when certain reports must be filed. Audits routinely contain findings that required reports were not submitted on a timely basis. Hopefully the listing included in the Advisory will prove to be a useful tool for management to ensure that required reports are being timely filed, thereby reducing the number of findings my Office needs to report in future years.

Also included is a summary of high risk areas, as well as a brief article containing tips on interactions with auditors which, if followed, should help make for a more productive and efficient audit.

WILLIAM G. HOLLAND

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## LACK OF STATEWIDE FINANCIAL REPORTING SYSTEM

The State of Illinois' current financial reporting process does not allow the State to prepare a complete and accurate Comprehensive Annual Financial Report (CAFR) or the Schedule of Expenditures of Federal Awards (SEFA) in a timely manner. Reporting issues at various individual agencies caused the State's CAFR to not be released until July in 2009 and June in 2010. The Statewide Single Audit has been released in August 2009 and July 2010, significantly past the 9 month fiscal year end deadline imposed by the federal government.

Although the deficiencies relative to the CAFR and SEFA financial reporting processes have been reported by our Office for a number of years, problems continue with the State's ability to provide accurate and timely external financial reporting. The State has not been able to solve these problems or make substantive changes to the system to effectively remediate these financial reporting weaknesses.

The Comprehensive Annual Financial Report (CAFR) and Related Report on Internal Control and Compliance for the period ending June 30, 2009 contained a finding on untimely financial reporting. This finding has been repeated since 2007 and is similar to a finding in the Single Audit which has been repeated since 2002.

In discussing this condition with the Office of the Governor, they stated that there are over 100 separate decentralized agency financial systems in the State and that the lack of an enterprise accounting system results in widely varied controls rather than a uniform set of controls to carry out the accounting policy set by the Comptroller. The decentralized nature of the State's accounting systems and lack of a general ledger system results in time consuming, manual tabulations by accounting personnel who may lack the qualifications and systems to report accurate financial information on a timely basis.

*See LACK on Page 4*

## AUDIT OF STATE'S FINANCIAL REPORTING SYSTEM

In March 2010, the Illinois State Senate passed Resolution Number 609 directing the Office of the Auditor General to conduct a management audit of the State's financial reporting system. As part of our audit, we sent a survey to all agencies that are part of the State's primary government.

Since the input of all is valued, we welcome any additional comments you might have regarding the State's financial reporting system. Examples of input that would be helpful include:

- The most significant problems or limitations with the current system;

- Examples of what works well;
- Specific examples of duplicative, outdated financial reporting processes; and
- Suggestions on how the process could be improved.

Should you have any perspectives or comments regarding the State's financial reporting problems and/or suggestions on how they could be best addressed, please feel free to send them to Mr. Joe Butcher, the OAG manager of this audit, at oag23@mail.state.il.us. ■



# Is YOUR Agency

Our audit findings reveal that many agencies routinely miss recurring reporting deadlines. While some of these reports are ministerial in nature, failure to comply not only subjects an agency to an audit finding but also suggests a lack of management controls over legal requirements. Additionally, as more agencies struggle to get by with less staff, anticipating and making plans in advance to meet upcoming deadlines becomes more critical.

From a sampling of our recent audits, we've compiled a list of due dates for reports that most State agencies are required to submit.

DUE DATE	REPORT	REPORT RECIPIENT	SOURCE OF REQUIREMENT
Jan. 1	Agency Workforce	Secretary of State & Governor	State Employment Records Act (5 ILCS 410/20)
Jan. 15	Travel Headquarters (TA-2)	Legislative Audit Commission	State Finance Act (30 ILCS 105/12-3)
Jan. 15	Identification of State agency employee responsible for distribution of agency publications	Illinois State Library Documents Section	Illinois Administrative Code (23 Ill. Adm. Code 3020.150)
May 1	Evaluation of internal fiscal and administrative controls (FCIAA Certification)	Auditor General	Fiscal Control and Internal Auditing Act (30 ILCS 10/3003)
May 1	Statements of Economic Interests	Secretary of State	Governmental Ethics Act (5 ILCS 420/4A-105)
July 1 – July 31	Proof of driver's license and liability insurance for employees assigned a State vehicle	Agency Director	Illinois Vehicle Code (625 ILCS 5/7-601(c))
July 15	Travel Headquarters (TA-2)	Legislative Audit Commission	State Finance Act (30 ILCS 105/12-3)
July 31	Annual Real Property Utilization	Central Management Services	State Property Control Act (30 ILCS 605/7.1(b))
Aug. 1	Agency Fee Imposition	State Comptroller	State Comptroller Act (15 ILCS 405/16.2) and SAMS Procedure 33.16.20
<b>Aug. 15 – Aug. 31*</b>	<b>General deadline for GAAP reporting packages</b>	<b>State Comptroller</b>	<b>SAMS Procedure 27.10.10</b>
<b>11/15*</b>	<b>GAAP basis financial statements (incl. footnote disclosures)</b>	<b>State Comptroller</b>	<b>SAMS Procedure 27.10.10</b>

\* Critical deadline for completion of the State's Comprehensive Annual Financial Report and Statewide Single Audit. See accompanying article on page 1 of this Audit Advisory.

State agencies are required to fulfill some requirements on an annual basis but the date for completion is not set in statute. Agencies should establish tickler files to ensure these requirements are met each year:

Annual Requirement	Source of Requirement
Evaluation of each employee	Illinois Administrative Code (80 Ill. Adm. Code 302.270 (d))
Physical Inventory of State Equipment to CMS	Illinois Administrative Code (44 Ill. Adm. Code 5010.460)
Ethics Training	State Officials and Employees Ethics Act (5 ILCS 430/5-10 (a))

# LATE for an Important DATE?

Other deadlines are not fixed dates but instead are triggered by an event or occurrence. A sampling of those requirements that our audit experience shows are often missed by agencies follows:

Timeframe	Triggering Event	Action	Source of Requirement
Prior to authorizing travel	Use of private vehicle on State business	Obtain statement from State employee certifying he/she is duly licensed and has statutory minimum insurance coverage	Illinois Vehicle Code (625 ILCS 5/10-101(b)) and Illinois Administrative Code (80 Ill.Adm.Code 3000.300 (f) (1))
Day of receipt	Any single item of receipt exceeding \$10,000	Deposit	State Officers and Employees Money Disposition Act (30 ILCS 230/2)
Within 24 hours	An accumulation of receipts totalling \$10,000 or more	Deposit	State Officers and Employees Money Disposition Act (30 ILCS 230/2)
Within 48 hours	An accumulation of receipts exceeding \$500 but less than \$10,000	Deposit	State Officers and Employees Money Disposition Act (30 ILCS 230/2)
Within 3 days	Accident in State vehicle	File report (Form SR-1) with law enforcement and CMS	Illinois Administrative Code (44 Ill.Adm.Code 5040.520)
Within 3 business days	Award of contract through emergency purchase	Post notice in the online electronic Procurement Bulletin	Illinois Procurement Code (30 ILCS 500/15-25 (c))
Within 5 business days (21 working days if for a commercial purpose)	Receipt of request for public records	Grant or deny unless timeframe is extended	Freedom of Information Act (5 ILCS 140/3 (d) and 3.1)
Within 10 days	Award of contract through emergency purchase	File emergency purchase affidavit with Chief Procurement Officer and Auditor General	Illinois Procurement Code (30 ILCS 500/20-30 (c))
Within 15 days	Grant or contract liability greater than \$10,000 incurred	File copy with State Comptroller	Illinois Procurement Code (30 ILCS 500/20-80 (b))
Within 15 days	Execution of a real property lease	File a copy with the Secretary of State	State Finance Act (30 ILCS 105/9)
Within 30 days	Receipt of vendor bill	Review and approve or deny	State Prompt Payment Act (30 ILCS 540) and Illinois Administrative Code (74 Ill.Adm.Code 900.70)
Within 30 days	Acquisition, change or deletion of equipment	Adjust property records	Illinois Administrative Code (44 Ill.Adm.Code 5010.400)
Within 30 days	New employee hired	Take ethics training	State Officials and Employees Ethics Act (5 ILCS 430/5-10 (c))
Within 45 days	End of grant period	Receive unused grant funds back from grantee	Grant Funds Recovery Act (30 ILCS 705/4 (d))
Within 60 days	Travel expense incurred by State employee	Submit request for reimbursement	Internal Revenue Service Publication 535 and Accounting Bulletins numbers 134, 135 and 137

The above requirements are not applicable to all agencies and represent only a sampling of some of the deadlines that we have noted as often being overlooked by State agencies. We hope, however, that the above lists can be used by State agency management to identify and monitor staff efforts to comply with applicable laws, rules and procedures. ■

# HIGH RISK AREAS

The four high risk areas highlighted in this issue of the Audit Advisory include the following: 1) Contracting Processes; 2) Subrecipient Monitoring; 3) Untimely Financial Reporting; and 4) Fraud and Abuse.

## 1. CONTRACTING PROCESSES

The contracting process poses significant risks for State agencies and is susceptible to fraud and abuse. Consequently, an agency's system of internal controls related to contracting needs to be strong, monitored, and enforced.

## 2. SUBRECIPIENT MONITORING

State agencies' failure to adequately monitor subrecipients has been a central finding in the State's Single Audit for years. The FY 2008 Single Audit had 27 findings and the FY 2009 Single Audit had 25 findings related to agencies' deficiencies in monitoring subrecipients. Agencies covered by the Single Audit expended \$23.7 billion in federal funding in FY 2009, of which \$5.2 billion was passed through to subrecipients.

It is not sufficient for agencies to simply pass funding on to third parties.

Rather, a system must be established to monitor how those funds are being spent and ensure these monies are being spent for the specified purpose. Subrecipient monitoring includes many aspects, such as reviewing and receiving grant or audit reports, as well as some level of on-site reviews or inspections.

## 3. UNTIMELY FINANCIAL REPORTING

Untimely financial reporting poses significant risks to the State of Illinois. The issue of untimely financial reporting is discussed on page 1 of the Audit Advisory.

## 4. FRAUD AND ABUSE

Each State agency needs to have a fraud detection program. Recent audits have identified several instances where, due to a lack of adequate internal controls and oversight, public funds have been used for undocumented or improper purposes. Agency managers have the responsibility to conduct internal vulnerability assessments of their operations to identify areas where misappropriation of State assets could occur. ■

## TIPS TO HELP EXPEDITE AN AUDIT

- If you don't understand what the auditors are requesting, ask the auditors immediately. Don't wait until the request is due.
- Review data before providing it to auditors to make sure it is what they are requesting. Incomplete or inaccurate data not only delays the audit but also raises red flags concerning the agency's ability or willingness to cooperate with the audit process.
- Auditors have access to confidential information within the audit's scope. When providing confidential information to auditors, mark it confidential and inform auditors as to the reason it is confidential. **However, do not e-mail confidential information to auditors unless it is encrypted.**
- If you have significant questions or concerns regarding a finding, don't wait until the exit conference to bring it to the auditors' attention.

## LACK • *Continued from page 1*

In discussing these conditions with Office of Comptroller management, they indicated delays were caused by a separation in responsibility for the State's internal control procedures among agencies and component units.

The Comptroller's Office has the statutory authority to request submission of financial information but does not currently have the ability to enforce those submissions on a timely basis from other State agencies.

Failure to establish effective internal controls at all State agencies regarding

financial reporting for the preparation of the CAFR and the SEFA prevents the State from completing an audit in accordance with timelines set forth in OMB Circular A-133 and may result in the suspension of federal funding. Further, delays in financial reporting decrease the usefulness of such information. ■

### Office of the Auditor General

- Iles Park Plaza, 740 East Ash Street  
Springfield, Illinois 62703-3154
- Michael A. Bilandic Building,  
160 N. LaSalle Street, Suite S-900  
Chicago, Illinois 60601-3109

Phone: 217-782-6046  
Fax: 217-785-8222  
TTY: 1-888-261-2887  
E-mail: [auditor@mail.state.il.us](mailto:auditor@mail.state.il.us)  
Website: [www.auditor.illinois.gov](http://www.auditor.illinois.gov)