

ILLINOIS Audit ADVISORY

Emerging and Potential Audit Issues



William G. Holland
AUDITOR GENERAL

AUDITOR GENERAL'S MESSAGE

For years I have been stressing the need to improve the timeliness of the State's annual financial reports. Last year's Audit Advisory contained a letter I wrote to the Governor and Comptroller expressing frustration with problems experienced by my auditors with agencies' preparation of financial reports, including errors and delays. The letter went on to note the direct impact these problems were having on the timeliness of the audit process and explicitly stated actions I would take if these problems continued.

This year we saw a marked improvement in the issuance of the Statewide financial statements. I am grateful for everyone's hard work that contributed to the more timely release. Pages 2 and 3 of this Advisory contain a letter I wrote this year to the Governor and Comptroller expressing my appreciation for the hard work of all those involved in the process. The letter notes, however, that additional, significant work remains.

This issue of the Advisory also highlights the new "Super Circular" issued by the federal OMB, intended to streamline existing OMB circulars into one circular.

A handwritten signature in black ink, appearing to read "WILLIAM G. HOLLAND".

WILLIAM G. HOLLAND
September 2014

TIMELINESS OF THE STATE'S FINANCIAL REPORTING IMPROVES

Something happened on March 12, 2014 that had not happened for six years – the audit on the Statewide financial statements was issued prior to the month of June. Last year's Audit Advisory contained a letter from the Auditor General which stated that the untimely issuance of the Statewide financial audit was unacceptable and must be addressed.

This year's Audit Advisory contains a March 13, 2014 letter from the Auditor General which expresses his sincere appreciation for the improvements in the timeliness of the CAFR (see pages 2 and 3 for a copy of the letter). The letter acknowledges the hard work and cooperation of staff in the State Comptroller's Office, the Governor's Office, the Governor's Office of Management and Budget, the various State agencies, and the Auditor General's Office.

The letter notes, however, that additional improvements are needed to further improve the timeliness and accuracy of the State's financial reporting. ■

HERE COMES THE SUPER CIRCULAR!

On December 26, 2013, "OMB Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards" was published in the Federal Register. The federal Office of Management and Budget notes that this guidance, referred to as the "Super Circular", streamlines the language from eight existing OMB circulars into one consolidated set of guidance in the Code of Federal Regulations.

By combining eight previously separate sets of OMB guidance into one, the OMB has attempted to eliminate numerous overlapping duplicative and conflicting provisions of guidance that were written separately over the years. The Federal Register noted that the reform of OMB guidance will improve the integrity of the financial management and operation of federal programs and strengthen

accountability for federal dollars by improving policies that protect against waste, fraud, and abuse. At the same time, the Register notes the reforms will increase the impact and accessibility of programs by minimizing time spent complying with unnecessarily burdensome administrative requirements, and so re-orient recipients toward achieving program objectives.

The Circular also makes significant changes to Single Audit requirements. For example, the Single Audit threshold will be raised from \$500,000 to \$750,000. The questioned cost threshold will be raised from \$10,000 to \$25,000 and the questioned cost section requires a description of how the questioned costs were calculated. The audit provisions are effective for fiscal years beginning on or after December 26, 2014. ■

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OFFICE OF THE AUDITOR GENERAL
WILLIAM G. HOLLAND

March 13, 2014

Honorable Pat Quinn
Governor
207 State House
Springfield, IL 62706

Honorable Judy Baar Topinka
State Comptroller
201 State House
Springfield, IL 62706

Dear Governor Quinn and Comptroller Topinka:

Yesterday, March 12, our audit on the Statewide financial statements was released. By way of comparison, last year's audit of the Statewide financial statements was released on June 20, 2013. This three month improvement was made possible by the hard work and cooperation of staff in the State Comptroller's Office, the Governor's Office, the Governor's Office of Management and Budget, and the various State agencies, as well as in my own office.

The primary purpose of this communication is to express my appreciation. I recognize the preparation, compilation and audit of the Statewide financial statements is an enormous effort for all involved and each of you and your staffs is to be commended.

I would be remiss, however, in leaving you with the impression that issues related to the State's financial reporting process have been resolved. You may recall my communication to you of last June 20 in which I expressed concern that the current financial reporting process is overly reliant on errors and omissions being identified through the external post-audit process. Unfortunately, this continues to be the case. In conjunction with the June 30, 2013 Statewide financial audit, we conducted financial audits of 24 agencies of the State's primary government. During the course of those audits, we identified a total of 14 material weaknesses and 15 significant deficiencies at 11 of those agencies (see Finding 2013-002 in the *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*). A restatement was required at one agency for correction of a prior period error, for a total adjustment of nearly \$12 million. In addition, misstatements were identified at six different agencies, with adjustments ranging from a low of \$11.5 million to a high of \$202 million.

While the above results are improved from the prior year's report, we continue to experience delays in completing our audit process due to financial reporting issues at various State agencies. Some of the delays due to financial reporting issues were at the Illinois Gaming

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RECYCLED PAPER • SOYBEAN INKS

(Continued on next page)

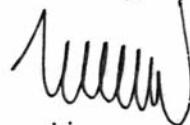
Board and the Departments of Central Management Services, Human Services, Revenue and Lottery.

It continues to be our goal to release the Statewide financial statement audit within six months of fiscal year end (i.e., December 31). This goal is affected by the State's multitude of financial reporting systems, decentralized financial reporting process, large number of primary government/fiduciary funds, and human resource limitations. This goal will be further impacted by the adoption of new pronouncements issued by the Government Accounting Standards Board (GASB) that will increase the time and effort necessary to prepare financial reports in accordance with accounting principles generally accepted in the United States of America (GAAP). For the year ending June 30, 2014, these pronouncements include GASB Statement Numbers 65, 67 and 70.

I thank you for your past efforts and respectfully request your continued vigilance to help ensure the State's financial reporting is timely and accurate.

As always, if you have any questions, please give me a call at 217/782-3536.

Yours truly,



WILLIAM G. HOLLAND
Auditor General

cc: Ryan Croke, Chief of Staff, Office of the Governor
Nancy Kimme, Chief of Staff, Office of the Comptroller
Jerry Sterner, Director, Office of Management and Budget
Steve Valasek, Assistant Comptroller, Office of the Comptroller
Daniel W. Cadigan, Member, Financial Reporting Standards Board
William Crowley, Member, Financial Reporting Standards Board
Robert Grogan, Member, Financial Reporting Standards Board
Larry Lascody, Member, Financial Reporting Standards Board
Don William Templeman, Member, Financial Reporting Standards Board
Sean Vinck, Member, Financial Reporting Standards Board

AUDITOR GENERAL ELECTED PRESIDENT OF NASACT

At its annual meeting in August 2014, Illinois' Auditor General, William Holland, was elected President of the National Association of State Auditors, Comptrollers and Treasurers (NASACT). NASACT is a national organization whose mission is to assist state leaders to enhance and promote effective and efficient management of governmental resources. It accomplishes this mission through education and training, information sharing, advocacy, and member service. Previously, in 2003-2004, Auditor General Holland was President of the National State Auditors Association, one of the three bodies which NASACT encompasses.

PUZZLED BY AUDITING TERMS??

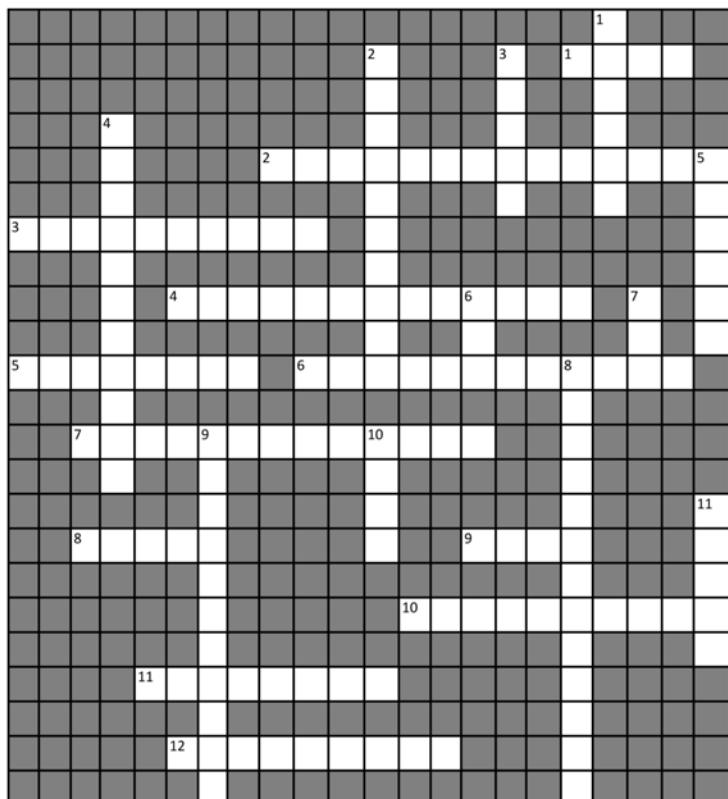
Who ever said auditors don't know how to have a good time?! Here is a crossword puzzle which contains terms related to auditing and/or the Office of the Auditor General. Good luck!! (*Answers can be found at <http://www.auditor.illinois.gov/Other-Public-Documents/audit-advisories.asp>.*)

ACROSS:

1. The organization that sets generally accepted accounting principles for governmental entities.
2. Audits enhance this, by helping to ensure that government officials are held responsible for their actions.
3. Auditing standards require auditors have this. Also referred to as a "questioning mind".
4. Not an audit. Typically done by law enforcement organizations.
5. Used as the benchmark by auditors to compare performance against. Examples are laws, policies, procedures.
6. What auditors must possess, both in actuality and appearance.
7. Evidence collected by auditors that support audit conclusions (hint: not workingpapers).
8. The boundary of the audit; typically a fiscal year, agency, or program.
9. To add a column of numbers.
10. The primary way auditors obtain testimonial evidence.
11. Should be kept out of the audit process.
12. The guiding principles auditors must follow when conducting audits.

DOWN:

1. Taken by auditors from the population of transactions. Types include random, judgmental, stratified.
2. The highest, best opinion that can be given in a financial audit.
3. The audit standards promulgated by the Government Accountability Office for government auditors, including the Office of the Auditor General.



4. It makes the audit process go much easier and reduces auditor's 3 Across.
5. The color of the GAO's book containing Government Auditing Standards.
6. To check a number in a workpaper back to the source document.
7. Abbreviation for the bipartisan legislative commission that holds hearings on audit reports.
8. Another term for a program audit.
9. Refers to the importance or significance of an amount, transaction, or exception found.
10. Marks auditors put on a workpaper that show auditing actions taken.
11. One of the 5 elements in a finding. It is the reason why an exception occurred.

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