STATE OF ILLINOIS

OFFICE OF THE AUDITOR GENERAL

ANNUAL COMPREHENSIVE 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, 2021

FRANK J. MAUTINO

AUDITOR GENERAL

STATE OF ILLINOIS
ANNUAL COMPREHENSIVE FINANCIAL REPORT
FINANCIAL AUDIT
For the Year Ended June 30, 2021

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STATE OFFICIALS

Governor	JB Pritzker
Comptroller	Susana A. Mendoza
Speaker of the House (01/13/21 – Present)	Emanuel Chris Welch
Speaker of the House (07/01/20 – 01/12/21)	Michael J. Madigan
President of the Senate	Don Harmon
House Republican Leader	Jim Durkin
Senate Republican Leader (01/13/21 – Present)	Dan McConchie
Senate Republican Leader (01/01/21 – 01/12/21)	Vacant
Senate Republican Leader (07/01/20 – 12/31/20)	William E. Brady

STATE OF ILLINOIS
ANNUAL COMPREHENSIVE FINANCIAL REPORT
FINANCIAL AUDIT
For the Year Ended June 30, 2021

REPORT REQUIRED UNDER *GOVERNMENT AUDITING STANDARDS*

SUMMARY

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

Based on their audit, the auditors expressed a qualified opinion on the business-type activities, issued a disclaimer of opinion on the Unemployment Compensation Trust Fund, and expressed unmodified opinions on the governmental activities, the General Fund, the Water Revolving Fund, the Prepaid Tuition Fund, and the aggregate remaining fund information of the State of Illinois' basic financial statements, issued under a separate cover.

SUMMARY OF FINDINGS

The auditors identified four matters involving the State's internal control over financial reporting that they considered to be material weaknesses. Further, the auditors identified three noncompliance matters.

Item No.	Page	Last/First Report	Description	Finding Type
			Current Findings	
2021-001	7	2020/2007	Inadequate Financial Reporting Process	Material Weakness and Noncompliance
2021-002	11	2020/2002	Financial Reporting Weaknesses	Material Weakness
2021-003	17	2020/2009	Late Payment of Statutorily Mandated Transfers	Noncompliance
2021-004	19	2020/2010	Insufficient Controls Over Finances	Material Weakness
2021-005	21	2020/2020	Inadequate Controls over Pandemic Unemployment Assistance	Material Weakness and Noncompliance

2021-006	23	2020/2020	Lack of Controls over Census Data	Significant Deficiency

Prior Finding Not Repeated

A	26	2020/2009	Debt Covenant Violation

EXIT CONFERENCE

The Office of the Governor waived an exit conference in a correspondence from Alexis Sturm, Director of the Governor's Office of Management and Budget, on June 14, 2022. The responses to the recommendations were provided by Kristina Dion, Deputy General Counsel of the Governor's Office of Management and Budget, in a correspondence dated June 16, 2022.

The Office of Comptroller waived an exit conference in a correspondence from Katie Madonia, Director of Financial Reporting, on June 7, 2022. The responses to the recommendations were provided by Katie Madonia, Director of Financial Reporting, in a correspondence dated June 9, 2022.

SPRINGFIELD OFFICE:
ILES PARK PLAZA
740 EAST ASH • 62703-3154
PHONE: 217/782-6046
FAX: 217/785-8222 • TTY: 888/261-2887
FRAUD HOTLINE: 1-855-217-1895

CHICAGO OFFICE:
MICHAEL A. BILANDIC BLDG. · SUITE S-900
160 NORTH LASALLE · 60601-3103
PHONE: 312/814-4000
FAX: 312/814-4006
FRAUD HOTLINE: 1-855-217-1895

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 Emanuel Chris Welch, Speaker of the House
Honorable Don Harmon, President of the Senate
Members of the General Assembly
Honorable JB Pritzker, Governor
Honorable Susana Mendoza, Comptroller
State of Illinois

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, 2021, and the related notes to the financial statements, which collectively comprise the State of Illinois' basic financial statements, and we have issued our report thereon dated June 21, 2022.

That report contained a disclaimer of opinion on the Unemployment Compensation Trust Fund due to our inability to obtain sufficient and appropriate audit evidence to provide a basis for an audit opinion on the financial statements of the Unemployment Compensation Trust Fund. Accordingly, we do not express an opinion on these financial statements. Our report also contained a qualified opinion on business-type activities as we were unable to obtain sufficient appropriate audit evidence to conclude the financial statements of the business-type activities were free from material misstatement. Our report is also modified to include a reference to other auditors who audited the financial statements of certain university related organizations. Further, our report included an emphasis-of-matter paragraph which stated, as discussed in Note 2 to the financial statements, the State of Illinois restated beginning balances to correct errors in the Other Postemployment Benefits (OPEB) liability and related deferred inflows and outflows of resources. Our report also included an emphasis-of-matter paragraph which stated, as discussed in Note 2 to the financial statements, the State of Illinois restated beginning balances resulting from the implementation of GASB Statement No. 84, *Fiduciary Activities*. Lastly, our report included an emphasis-of-matter paragraph which stated the deficit for net position of governmental activities continued to increase during Fiscal Year 2021. The deficit increased by $1,703,649,000, from $197,542,484,000 at June 30, 2020, to

INTERNET ADDRESS: OAG.AUDITOR@ILLINOIS.GOV

$199,246,133,000 at June 30, 2021. 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.

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 financial statements. 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 2021-001, 2021-003 and 2021-005.

Internal Control Over Financial Reporting

Management of the State of Illinois is responsible for establishing and maintaining effective internal control over financial reporting (internal control).

In planning and performing our audit of the financial statements, we considered the State of Illinois' 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.

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 have not been identified. However, as described in the accompanying Schedule of Findings, we did identify certain deficiencies in internal control that we consider to be material weaknesses and a significant deficiency.

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. We consider the deficiencies described in the accompanying Schedule of Findings as items 2021-001, 2021-002, 2021-004, and 2021-005 to be material weaknesses.

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. We consider the deficiencies described in the accompanying Schedule of Findings as item 2021-006 to be a significant deficiency.

The Office of the Governor's and the Illinois Office of Comptroller's Responses to the Findings

The Office of the Governor's and the Illinois Office of 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 Illinois Office of 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

SIGNED ORIGINAL ON FILE

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

Springfield, Illinois
June 21, 2022

2021-001. **FINDING** (Inadequate Financial Reporting Process)

The State of Illinois' (State) current financial reporting process does not allow the State to prepare a complete and accurate Annual Comprehensive Financial Report in a timely manner. Reporting issues at various individual agencies caused delays in finalizing the financial statements (see Finding 2021-002 for additional detail). The lack of timely financial reporting limits effective oversight of State finances. In addition, the Office of Comptroller (Comptroller) had weaknesses in the internal controls over its change control and information technology environment.

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 the 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 (Governor) and towards the Comptroller.

The 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 Comptroller requires the State's agencies to prepare a series of financial reporting forms (SCO forms) designed by the Comptroller, which are utilized to prepare the Annual Comprehensive Financial Report. For the most part, these SCO forms are completed for each of the State's 823 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 both generally accepted accounting principles (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 Comptroller.

Although these SCO forms are subject to review by the Comptroller's financial reporting staff during the Annual Comprehensive Financial Report 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.

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."

In addition, we noted the Comptroller had information security weaknesses and inadequate processes and procedures for network changes and system development, including authorizations, approvals, segregation of duties, and backout and mitigation plans.

The *Security and Privacy Controls for Information Systems and Organizations* (Special Publication 800-53, Fifth Revision) published by the National Institute of Standards and Technology (NIST), System and Information Integrity and Configuration Management sections, require entities to maintain systems at the highest level as well as to test, validate, and document changes to the system (including approvals) before finalizing the implementation of changes and limit privileges to change system components.

The Governor's management (the Governor) indicated the lack of a fully implemented enterprise-wide system for financial accounting and a Statewide grants management system hindered the State's ability to prepare a complete and accurate Annual Comprehensive Financial Report in a timely manner. The Governor noted these systems were in development at the time of the auditor's review. The Governor stated that because the systems were not fully implemented at the time of the audit, agencies relied on accounting staff who, in some cases, required further training in GAAP, governmental accounting procedures, and grants management to ensure they were qualified to prepare accurate and timely reports. Further, the Governor noted that the lack of the necessary Statewide systems led to agency personnel having to repeat methods from the past: they were required to manually convert raw data into required financial reports, which can lead to a greater risk of errors and time-consuming manual reconciliation.

The Comptroller's management indicated delays at the department 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 State's financial statements. They also indicated the information security weaknesses were due to insufficient written documentation of processes and procedures.

Failure to establish effective internal controls at all State agencies regarding financial reporting for the timely and accurate preparation of the Annual Comprehensive Financial Report prevents the State from completing an audit in a timely manner, delays financial reporting, and decreases the usefulness of such information. Improper information security controls increases the risk of inaccurate and unauthorized changes, unauthorized access, and heightens the vulnerability of existing or emerging threats. (Finding Code No. 2021-001, 2020-001, 2019-001, 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 Governor and the Comptroller continue to work together to resolve the State's inability to produce timely and accurate GAAP-basis financial information. In addition, we recommend the Comptroller improve controls over information security, maintain adequate documentation of network changes, ensure policies and procedures are adequate and reflect the current operating environment, and ensure proper segregation of duties between the programmers.

AGENCY RESPONSES

Office of the Governor:
The Office of the Governor (Governor) agrees with the recommendation. The Governor will continue to work with the Comptroller, and individual State 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 agencies under the Governor are in the midst of a multi-year implementation of an Enterprise Resource Planning (ERP) system—an integrated enterprise-wide system that includes a financial accounting component. Currently, 65 State agencies, representing approximately 99.7% of the budget under the Governor's purview, have "gone live" and begun using the financial accounting component of ERP. On July 1, 2022, 8 additional agencies will be added to ERP, such that all agencies that were originally included in the implementation plan for the new system will have the opportunity to utilize ERP's accounting functions. Agencies will continue to assess how ERP can support them in the production of timely and accurate GAAP reporting. Further, the Governor anticipates that all agencies subject to the Grant Accountability and Transparency Act will join the Statewide grants management system, currently under development, in Fiscal Year 2024. The system will pull data from ERP, promoting consistency across State systems. Upon full implementation, the two systems are expected to improve internal controls and will better support the agencies' production of accurate and timely financial statements. The Governor notes that he does not possess the authority to direct or control the financial reporting processes within the other constitutional offices.

Office of Comptroller:
The Comptroller accepts the recommendation. The State still faces several roadblocks in the timely completion of the Annual Comprehensive Financial Report. 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. Public Act 96-1501 extended the lapse period to October 31 for Fiscal Year 2021 for medical payments of the Department of Veterans' Affairs and medical, childcare, and substance abuse treatment payments of the Department of Human Services. As a result of these extensions, the preparation and completion of critical financial schedules will continue to be delayed. In addition, the General Assembly enacted P.A. 102-0016, which extended lapse period from August 31 to

September 30 for Fiscal Year 2021 for all State agencies, further delaying the financial reporting process. More importantly, the Annual Comprehensive Financial Report completion continues to be delayed because of financial reporting issues identified during individual State agency financial and compliance audits. The report cannot be finalized until these issues are resolved at the individual State agency reporting level.

The Comptroller will continue to work with the Governor's Office, the Auditor General's Office, and agency GAAP coordinators to improve the timeliness, quality, and processing of financial reporting for the State. In addition, the Comptroller will work to improve written documentation of processes and procedures as they relate to information systems.

2021-002. **FINDING** (Financial Reporting Weaknesses)

The State of Illinois (State) 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 (GAAP). As reported in Finding 2021-001, the State has a decentralized financial reporting process. Primarily in response to this decentralized process, we performed 24 audits at 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.

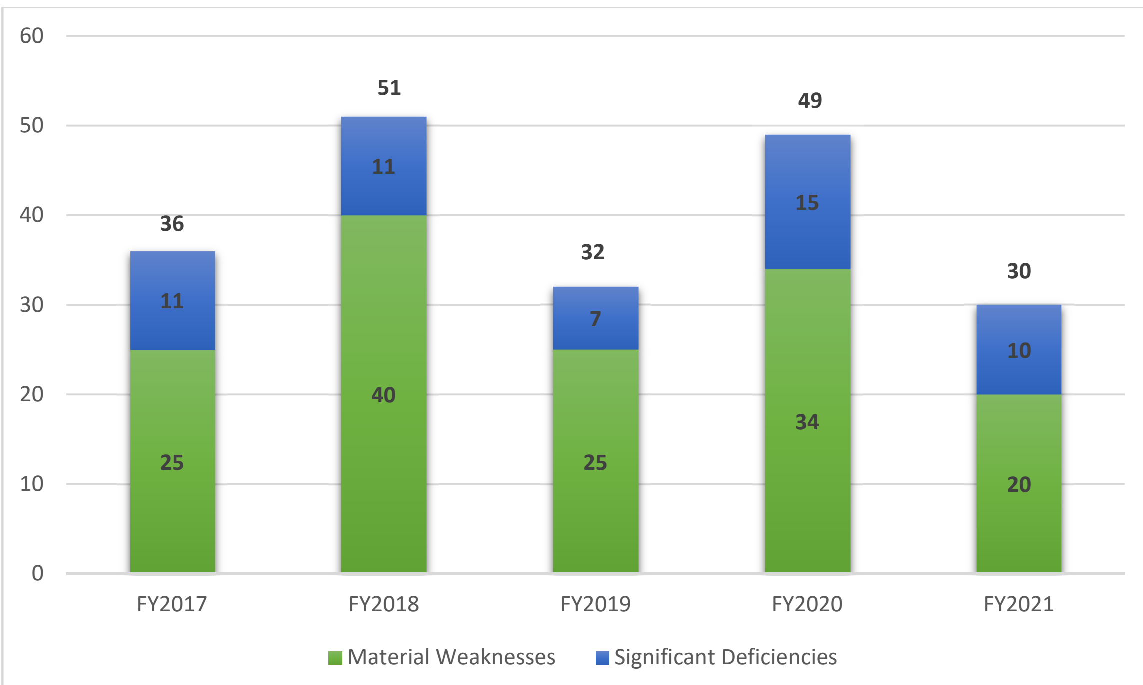
Agency	Material Weaknesses	Significant Deficiencies	Combined Total
Secretary of State	1	1	2
Office of the Treasurer – Fiscal Officer Responsibilities	1	0	1
Office of the Treasurer – Illinois Funds	1	0	1
Department of Central Management Services	0	2	2
Department of Central Management Services – Community College Health Insurance Security Fund	0	1	1
Department of Employment Security	3	0	3
Department of Human Services	3	0	3
Department of the Lottery	1	4	5
Department of Healthcare and Family Services	1	0	1
Department of Human Services and Department of Healthcare and Family Services *	6	0	6
Capital Development Board	0	1	1
Environmental Protection Agency	1	0	1
State Board of Education	1	0	1
Department of Central Management Services, Department of Healthcare and Family Services, Department of the Lottery, Department of Transportation, Capital Development Board,	0	1	1

Environmental Protection Agency, State Board of Education, and Student Assistance Commission**			
Secretary of State, Department of Human Services, and Department of Revenue**	1	0	1
Total	**20**	**10**	**30**

** Six findings were reported in the departmental financial audit reports for both the Department of Human Services and the Department of Healthcare and Family Services.*

*** Eleven agencies had not performed census data reconciliations. To ensure the total is not inflated due to these issues, we have listed each agency in the agency column and included one in the material weakness or significant deficiency column, respectively. These errors are discussed further in Finding 2021-006.*

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 operation of the State of Illinois' Integrated Eligibility System

(IES). IES is utilized for the intake of applications and the determination of recipient eligibility for the State's human services programs.

We noted the following problems:

- The Departments failed to implement adequate security controls over IES, including environment and access controls. Further, the Departments had insufficient internal controls over changes to the IES and recipient data. In addition, the Departments lacked adequate disaster recovery controls over the IES (DHS Findings 2021-005, 2021-006, and 2021-007 and DHFS Findings 2021-001, 2021-002, and 2021-003).

- The Departments had not entered into a detailed agreement with the Department of Innovation and Technology (DoIT) to ensure roles and responsibilities for the IES were formally documented (DHS Finding 2021-008 and DHFS Finding 2021-004).

- The Departments failed to execute adequate internal controls over the operation of the State of Illinois' Illinois Medicaid Program Advanced Cloud 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.

  We noted the following problems:

  - The Departments did not have current, formal written agreements defining the roles and responsibilities of DHS or DHFS within the Medicaid Program (DHS Finding 2021-009 and DHFS Finding 2021-006).

  - DHS did not use IMPACT as the book of record or rely on it to verify their providers met certain Medicaid requirements prior to approving them to provide services. In fact, DHS was performing procedures to determine if the providers met these requirements outside of IMPACT (DHS Finding 2021-009).

  - The Departments had insufficient review and documentation of provider enrollment determinations (DHS Finding 2021-009 and DHFS 2021-006).

  - The Departments failed to establish and maintain adequate general information technology controls over IMPACT (DHS Finding 2021-010 and DHFS Finding 2021-005).

- The State Board of Education (Board) did not exercise adequate internal control over the State's Evidence-Based Funding Formula. The system used to determine enrollments was not coded to eliminate duplicates. As a result of this error, the Board made a significant overpayment to one school district and underpayments to other school districts.

Details of all material weaknesses and significant deficiencies are reported in each agency's financial audit for the year ended June 30, 2021 (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.

Opinion Unit	Amount (in thousands)	Responsible Agency
Business-Type Activities	\$332,524	Environmental Protection Agency
Water Revolving Fund	\$332,524	Environmental Protection Agency
Fiduciary Funds	\$15,696	Treasurer – Illinois Funds

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 Comptroller (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 (Governor) management stated the identified weaknesses and deficiencies at the agency level were due to a lack of internal control processes within the individual agencies and the lack of personnel adequately trained in GAAP, governmental accounting, and federal grants management. Further, the Governor stated the lack of a centralized financial accounting system and grants management system hindered the State's ability to implement Statewide internal controls to ensure accurate and timely completion of financial statements. Finally, the Governor noted that while it can recommend that agencies under its jurisdiction follow accounting policies developed by the State, it does not have the authority to ensure adherence to such policies for constitutional officers outside of its jurisdiction.

The 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. Further, they stated the Comptroller has the statutory authority to develop and prescribe accounting policies for the State, but it 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. 2021-002, 2020-002, 2019-002, 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)

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 (Governor) agrees with the recommendation. The Governor will continue to work with the Office of Comptroller and the State agencies under its jurisdiction to improve Statewide internal control procedures and reduce the likelihood of material misstatements to the financial statements. The State agencies under the Governor are in the midst of a multi-year implementation of an Enterprise Resource Planning (ERP) system—an integrated enterprise-wide system that includes a financial accounting component. Currently, 65 State agencies, representing approximately 99.7% of the budget under the Governor's purview, have "gone live" and begun using the financial accounting component of ERP. On July 1, 2022, 8 additional agencies will be added to ERP, such that all agencies that were originally included in the implementation of the new system will have the opportunity to utilize ERP's accounting functions. Agencies will continue to assess how ERP can support them and help them to assess the risk of material misstatements and identify such misstatements during the reporting process. Further, the Governor anticipates that all agencies subject to the Grant Accountability and Transparency Act will join the Statewide grants management system, currently under development, in Fiscal Year 2024. The system will pull data from ERP, promoting

consistency across State systems. Upon full implementation, the two systems are expected to improve internal controls and will better support the agencies' ability to avoid misstatements in the financial reporting process.

Office of Comptroller:
The Comptroller accepts the recommendation. The Comptroller 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.

2021-003. **FINDING** (Late Payment of Statutorily Mandated Transfers)

The Office of 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, 2021, 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 State of Illinois' (State) funds. However, not all transfers were made timely. During Fiscal Year 2021, we noted 346 transfers between State funds made greater than 30 days after the statutorily mandated transfer date. Transfers 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 of making such transfers in Fiscal Year 2021 compared to Fiscal Year 2020 and Fiscal Year 2019:

	Fiscal Year 2021	Fiscal Year 2020	Fiscal Year 2019
Number of late transfers	346 transfers (185 from GRF*)	323 transfers (170 from GRF*)	335 transfers (233 from GRF*)
Range of days transfers were late	31 to 398 days**	31 to 443 days**	31 to 448 days**
Total volume of late transfers, in dollars	$1.28 billion ($355 million from GRF*)	$1.20 billion ($339 million from GRF*)	$1.27 billion ($630 million from GRF*)
Late transfers outstanding as of and paid after June 30	$1.07 billion ($162 million from GRF*)	$999.41 million ($275 million from GRF*)	$1.20 billion ($570 million from GRF*)

**GRF means the State of Illinois' General Revenue Fund.*
***This analysis was prepared as of October 19, 2021 for Fiscal Years 2021, 2020, and 2019, respectively. Some transfers were completed after these dates.*

Further, the following table contains the number and amount of late transfers still outstanding as of October 19, 2021, relating to Fiscal Year 2021, Fiscal Year 2020, and Fiscal Year 2019.

	Fiscal Year 2021	Fiscal Year 2020	Fiscal Year 2019
Number of late transfers outstanding as of 10/19/2021	204	111	83
Amount of late transfers outstanding as of 10/19/2021	$1.01 billion	$651 million	$415 million

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 prior examinations, due to continued fiscal circumstances outside of the control of the Comptroller, the Comptroller must continue to engage in cash management strategies maximizing 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 being held. Additionally, in both the prior and current examination, Comptroller management stated 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 transfers and the Comptroller believes this language in the statute acknowledges transfers may require to be cash managed.

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. 2021-003, 2020-003, 2019-003, 2018-003, 2017-003, 2016-003, 2015-003, 2014-003, 2013-003, 12-3, 11-3, 10-3, 09-3)

RECOMMENDATION

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

OFFICE OF COMPTROLLER'S RESPONSE

The Comptroller accepts the recommendation. The Comptroller will make efforts to transfer funds more timely; however, daily management of cash flow for timely payments to vendors will also factor into that effort.

2021-004. **FINDING** (Insufficient Controls over Finances)

The State of Illinois (State) did not have sufficient controls over its finances which 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 $5.883 billion, on hand at June 30, 2021, 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 $1.463 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 2021-001 was designed in 1981 under the assumption that cash payments would be made at the time the expenditures were processed by the Illinois Office of Comptroller. Since this was not the case at year end, extra effort was required by the accountants and the auditors to ensure "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 $118.835 million in interest payments during Fiscal Year 2021.

The Office of the Governor indicated, as they did during the prior period, 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. 2021-004, 2020-005, 2019-005, 2018-005, 2017-005, 2016-005, 2015-005, 2014-005, 2013-005, 12-5, 11-5, 10-7)

RECOMMENDATION

We recommend the Office of 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.

OFFICE OF THE GOVERNOR'S RESPONSE

The Office of the Governor (Governor) agrees with the recommendation. The Governor will continue to work together with the General Assembly, the Illinois Office of 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. Improved fiscal management and balanced budgets have significantly decreased the amount of approved but unpaid transactions, reducing the delays in payments. During the audit period and subsequent to the audit period, the Governor, in coordination with the Comptroller, Treasurer, and legislative leaders, has taken steps to direct additional State revenues towards held payments, which will reduce unnecessary interest costs and improve the State's financial performance.

2021-005. **FINDING** (Inadequate Controls over Pandemic Unemployment Assistance)

The Illinois Department of Employment Security (IDES) failed to maintain adequate controls over Pandemic Unemployment Assistance systems and failed to maintain accurate and complete claimant data.

During the audit of Fiscal Year 2021 Unemployment Compensation Trust Fund financial statements, we noted the following problems related to the COVID-19 Pandemic:

- The IDES contracted with a service provider for a system for issuing Pandemic Unemployment Assistance (PUA). The IDES did not obtain a System and Organization Controls (SOC) review of the system from the service provider; therefore, we conducted testing over the general Information Technology (IT) controls of the system. During testing, we noted the system had weaknesses regarding change control and user access. Further, the IDES had not developed a disaster recovery plan in order to recover the system in the event of a disaster. (IDES Finding 2021-001)

  The *Security and Privacy Controls for Information Systems and Organizations* (Special Publication 800-53, Fifth Revision) published by the National Institute of Standards and Technology (NIST) requires entities to obtain assurance over internal controls for services provided, sanctions the appropriateness of access rights, enforces logical restrictions with changes to systems, and makes compulsory the development of a detailed disaster recovery plan.

- From June 2021 through January 2022, the IDES attempted to provide complete and accurate PUA claimant data in order to determine if the claimants were properly determined eligible. After several attempts and considerable manipulation of the data to make the data more auditable and organized, it was determined complete and accurate PUA claimant data could not be provided. Therefore, auditors were unable to conduct detailed testing to determine whether the PUA claimants were entitled to benefits. (IDES Finding 2021-002)

  The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use and misappropriation, and maintain accountability over the State’s resources.

According to IDES management, the PUA system limitations, data entry errors, and competing priorities resulted in the weaknesses.

As a result of the IDES’s failure to obtain a SOC report or ensure general IT controls were suitably designed and operating effectively over the system, we were unable to rely on the PUA system with respect to claimant eligibility and whether benefit payments were made in accordance with federal requirements. Failure to accurately document PUA eligibility resulted in potentially ineligible claimants receiving benefits. Due to the absence of complete and accurate information to support the eligibility of paid and accrued claimants, some amounts in the financial statements could not be audited. Accordingly, the auditors issued a disclaimer of opinion on the financial statements of the Unemployment Compensation Trust Fund. In addition, the auditor's opinion on the business-type activities was qualified. (Finding Code No. 2021-005, 2020-006)

RECOMMENDATION

We recommend IDES work to improve its controls over Pandemic Unemployment Assistance systems, eligibility, and financial reporting.

OFFICE OF THE GOVERNOR'S RESPONSE

As a result of the COVID-19 Pandemic, the State's unemployment rate jumped to a historically high rate of 17.4 percent in April 2020. While unemployment rates began to fall through Fiscal Year 2021, implementing federal programs created in response to the unprecedented COVID-19 public health emergency strained the resources of IDES, as well as those of unemployment agencies across the country. The United States Department of Labor (DOL) Office of Inspector General noted that both DOL and states struggled to implement federal pandemic unemployment programs and specifically noted that the DOL guidance and oversight failed to ensure states implemented the federal programs promptly and accurately. Despite these challenges, throughout 2021, IDES took significant steps to improve internal controls over the stand-alone PUA system and PUA financial reporting and implemented updated federal guidance regarding PUA eligibility. While PUA program eligibility ended in September 2021, the Department continues to work with eligible individuals through the State's unemployment insurance program, while at the same time integrating additional identity verification and identity management tools to safeguard the program's resources. The Governor has supported the Department's efforts and will continue to work with the IDES, the General Assembly, DOL, and the Congressional Delegation to support the integrity of all federal and State unemployment insurance programs administered by IDES.

2021-006. **FINDING** (Lack of Controls over Census Data)

The State of Illinois (State) did not develop a reconciliation process to provide assurance census data submitted by its agencies to its pension and other postemployment benefits (OPEB) plans was complete and accurate.

Census data is demographic data (date of birth, gender, years of service, etc.) of the active, inactive, or retired members of a pension or OPEB plan. The accumulation of inactive or retired members' census data occurs before the current accumulation period of census data used in the plan's actuarial valuation (which eventually flows into the State's financial statements), meaning the plan is solely responsible for establishing internal controls over these records and transmitting this data to the plan's actuary. In contrast, responsibility for active members' census data during the current accumulation period is split between the plan and each member's current employer(s). Initially, employers must accurately transmit census data elements of their employees to the plan. Then, the plan is responsible for recording and retaining these records for active employees and transmitting this census data to the plan's actuary.

We noted the State's employees are members of one of the State's three retirement systems (State Employees' Retirement System (SERS), General Assembly Retirement System (GARS), or Judges' Retirement System (JRS)) for their pensions and the State Employees Group Insurance Program sponsored by the State of Illinois, Department of Central Management Services (CMS) for their OPEB. In addition, we noted these plans have characteristics of different types of pension and OPEB plans, including single employer plans and cost-sharing multiple employer plans.

During testing, we noted the State's design of its internal control structure did not include a process to annually reconcile census data recorded by the plan from each employer's transmissions during the year back to the supporting records retained by the agency/employer. There has been no initial complete reconciliation of census data recorded by the SERS, GARS, and JRS to the agency/employer internal records to establish a base year of complete and accurate census data. After establishing a base year, the agencies/employers have not developed a process to annually obtain from SERS, GARS, and JRS the incremental changes recorded in the census data during the year and reconcile these changes back to their internal supporting records. We worked with our special assistant auditors to conduct sample testing of census data transactions at several significant primary government agencies as part of their financial statement audits. Due to the lack of a reconciliation process, we noted census data exceptions (agency-level reports are available on the Auditor General's website) across the State's primary government which should have been identified and corrected during an annual reconciliation process. We worked with the plan actuaries to project the impact of the noted exceptions on the actuarial valuations and determined the exceptions did not materially impact the State's financial statements.

For employers participating in plans with multiple-employer and cost-sharing characteristics, the *Audit and Accounting Guide: State and Local Governments* (AAG-SLG) (§ 13.177 for pensions and § 14.184 for OPEB) published by the American Institute of Certified Public Accountants notes the determination of net pension/OPEB liability, pension/OPEB expense, and the associated deferred inflows and deferred outflows of resources depends on employer-provided census data reported to the plan being complete and accurate along with the accumulation and maintenance of this data by the plan being complete and accurate. To help mitigate the risk of the plan's actuary using incomplete or inaccurate census data within similar agent multiple-employer plans, the AAG-SLG (§ 13.181 (A-27) for pensions and § 14.141 for OPEB) recommends an employer annually reconcile its active members' census data to a report from the plan of census data submitted to the plan's actuary, by comparing the current year's census data file to both the prior year's census data file and its underlying records for changes occurring during the current year.

The Office of Comptroller's management stated that census data exceptions were caused by a lack of sufficient reconciliation procedures at State agencies to ensure accuracy of census data submitted to its pension and OPEB plans.

The Governor's Office management stated the census data exceptions were due to a lack of a formal annual reconciliation process at the agency-level to ensure accuracy of census data. Individual State agencies have procedures in place to minimize census data errors, but to date, there is no required formal annual reconciliation procedure.

Failure to reconcile active members' census data held by the plan to the agency/employer's records could result in the plan's actuary relying on incomplete or inaccurate census data in the calculation of the State's pension and OPEB balances, which could result in a misstatement of these amounts. (Finding Code No. 2021-006, 2020-007)

RECOMMENDATION

We recommend the Office of the Governor and Office of Comptroller work with the State agencies to develop an annual process to reconcile its active members' census data from its agency/employer's underlying records to a report from each plan of census data submitted to the plan's actuary. After completing an initial full reconciliation, the State may limit the annual reconciliation to focus on the incremental changes to the census data file from the prior actuarial valuation, provided no risks are identified that incomplete or inaccurate reporting of census data may have occurred during prior periods.

AGENCY RESPONSES

Office of the Governor:

The Office of the Governor (Governor) accepts the recommendation. Several State agencies already have numerous edit checks, reconciliation procedures, and internal controls to prevent error. Notably, some agencies selected for census data testing had no census data exceptions, and for those agencies that did have exceptions, the exceptions did not materially impact the current financial statement. The Governor acknowledges, however, that the State should work toward eliminating risk factors that could result in misstatements and miscalculations in the future. SRS took the lead to implement a Statewide annual census data reconciliation process in Fiscal Year 2022. Through this process, agencies will be responsible for annually reviewing significant census data elements and comparing with prior fiscal years' data to ensure accuracy.

Office of Comptroller:
The Comptroller accepts the recommendation. Several State agencies that were selected for sample testing of census data had no exceptions, and as indicated in the finding, the exceptions that were noted in the census data testing at other agencies did not materially impact the State's financial statements. State agencies, as well as the pension and OPEB plans, have numerous edit checks, reconciliation procedures, and internal controls that help minimize errors. However, the Comptroller agrees that a formal reconciliation process across all State agencies should be developed. SERS, GARS, and JRS began implementing a census data reconciliation process early in Fiscal Year 2022. As of the date of this response, GARS has completed a full reconciliation of their active member population, JRS is near completion of a full reconciliation of their active member population, and SERS, which has approximately 63,000 active members, expects to have reconciled over 85% of the population by the end of Fiscal Year 2022.

A. **FINDING** (Debt Covenant Violation)

During the prior examination, 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 current examination, the Commission was in compliance with the agreement covenants due to the Department of Education pausing loan payments and making the determination that no loans may be in default. (Finding Code No. 2020-004, 2019-004, 2018-004, 2017-004, 2016-004, 2015-004, 2014-004, 2013-004, 12-4, 11-4, 10-6, 09-3)