



State of Illinois  
Annual Comprehensive Financial  
Report

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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, 2025**

Performed as Special Assistant Auditors for the  
Auditor General, State of Illinois

State of Illinois  
 Annual Comprehensive Financial Report  
 FINANCIAL AUDIT  
 For the Year Ended June 30, 2025

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Other Reports Issued Under a Separate Cover

The annual financial statements of the State of Illinois as of and for the year ended June 30, 2025, have been issued under a separate cover.

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State Officials

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Governor	JB Pritzker
Comptroller	Susana A. Mendoza
Speaker of the House	Emanuel Chris Welch
President of the Senate	Don Harmon
House Republican Leader	Tony McCombie
Senate Republican Leader	John Curran

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Report Required Under *Government Auditing Standards*

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**Summary**

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

Based on their audit, the auditors expressed an unmodified opinion of the State of Illinois' basic financial statements, issued under a separate cover.

**Summary of Findings**

<u>Item No.</u>	<u>Page</u>	<u>Last/First Reported</u>	<u>Description</u>	<u>Finding Type</u>
<b>Current Findings</b>				
2025-001	6	2024/2002	Financial Reporting Weaknesses <sup>1</sup>	Material Weakness and Noncompliance
2025-002	10	New	Noncompliance with Federal Grant Regulations	Significant Deficiency and Noncompliance
2025-003	13	2024/2022	Failure to Implement Adequate IT Controls	Significant Deficiency

**Exit Conference**

The State waived an exit conference in correspondence from Janis Van Durme, ACFR Internal Control Unit Director, Governor's Office of Management and Budget, and Kathleen Madonia, Deputy Assistant Comptroller, Financial Reporting, Office of Comptroller on May 29, 2026. The joint management responses to the recommendations were provided by Janis Van Durme, ACFR Internal Control Unit Director, Governor's Office of Management and Budget, in a correspondence dated May 29, 2026.

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<sup>1</sup> Note: Findings 2024-001 and 2024-002 were repeated and combined into Finding 2025-001.



3051 Hollis Dr., 3rd Floor  
Springfield, IL 62704  
217.793.3363

**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 Christopher B. Meister, Auditor General  
Honorable JB Pritzker, Governor  
Honorable Susana A. Mendoza, Comptroller  
Honorable Don Harmon, President of the Senate  
Honorable Emanuel Chris Welch, Speaker of the House  
Members of the General Assembly

As Special Assistant Auditors for the Auditor General, 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 governmental activities, the business-type activities, the aggregate discretely presented component units, the General Fund, the Unemployment Compensation Trust Fund, the Water Revolving Fund, and the aggregate remaining fund information of the State of Illinois, as of and for the year ended June 30, 2025, 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 9, 2026.

Our report includes a reference to other auditors who audited the financial statements of the discretely presented component units and the financial statements of the Teachers' Retirement System, General Assembly Retirement System, Judges' Retirement System, State Employees' Retirement System, State Universities Retirement System, Teacher Health Insurance Security Fund, Community College Health Insurance Security Fund, Public Treasurers' External Investment Pool Fund, College Savings Pool Fund, Local Government Health Insurance Reserve Fund, State Lottery Fund, Illinois Prepaid Tuition Fund, Illinois Designated Account Purchase Program Fund, and Railsplitter Tobacco Settlement Authority as described in our report on the State of Illinois' financial statements. This report does not include the results of the other auditors. For the 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 results reported by the other auditors.

Further, our report included emphasis of matters paragraphs which stated:

- As discussed in Note 1 to the financial statements, effective for the year ended June 30, 2025, the State of Illinois adopted provisions of GASB Statement No. 101, *Compensated Absences*, and GASB Statement No. 102, *Certain Debt Risk Disclosures*.
- As discussed in Note 2 to the financial statements, the State of Illinois restated beginning balances for a change in accounting principle.
- The deficit for net position of governmental activities decreased during Fiscal Year 2025. The deficit decreased by \$10,780,982,000 from \$159,554,208,000 at June 30, 2024, to \$148,773,226,000 at June 30, 2025. 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.

### **Report on 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 as a basis for designing 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 preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings as items 2025-001 through 2025-003 we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

*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 item 2025-001 to be a material weakness.

*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 items 2025-002 and 2025-003 to be significant deficiencies.

## **Report on 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 2025-001 and 2025-002.

## **The State of Illinois' Responses to the Findings**

*Government Auditing Standards* requires the auditor to perform limited procedures on the State of Illinois' responses to the findings identified in our audit and described in the accompanying Schedule of Findings. The State of Illinois' responses were not subjected to the other 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 *Governmental Auditing Standards* in considering the State of Illinois' internal controls and compliance. Accordingly, this communication is not suitable for any other purpose.

**Signed Original on File**

Springfield, Illinois

June 9, 2026

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Schedule of Findings – Current Findings

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2025-001     **FINDING** (Financial Reporting Weaknesses)

Deficiencies in the State of Illinois' (State) financial reporting processes resulted in agencies incorrectly preparing and submitting financial data, leading to material misstatements, misclassifications, and delayed completion of the Annual Comprehensive Financial Report (ACFR), thereby limiting effective oversight of State finances.

The State's annual financial reporting process requires State agencies to prepare and submit a series of financial reporting forms (SCO forms), which are used by the Illinois Office of Comptroller (Comptroller) to compile the State's ACFR. In preparing this information, agencies utilize various financial reporting systems, many of which are not interrelated and require manual intervention to convert data. Financial reporting information is prepared under multiple agency-level processes and control environments by accounting personnel with varying levels of knowledge, experience, and understanding of generally accepted accounting principles and the State's accounting policies and procedures. Consequently, the State's financial reporting process is dependent on the accuracy and completeness of information generated by numerous agency-level systems and controls, limiting management's ability to prevent or detect deficiencies in agency-reported financial information prior to inclusion in the State's financial statements. Since this finding was first noted during the State's Fiscal Year 2002 financial audit, State management has been unsuccessful in fully implementing a corrective action plan to remediate all deficiencies that potentially exist in the extensive financial reporting process.

Based on risks of material misstatement identified at the Statewide level, auditors performed procedures over significant classes of transactions, account balances, and disclosures of the State's primary government included in the ACFR.

During this testing, the following deficiencies were identified by auditors and communicated with management. The identified misstatements were corrected by management.

- \$1,015,440,000 of costs related to the Medicare Part D drug rebates owed to managed care organizations were improperly reported. The misclassification resulted in an overstatement of Health and Social Services Expenditures and Other Revenues in the General Fund. This activity should have been reclassified from revenue to expenditures with no impact on the State's position.
- \$47,432,000 of unemployment cash receipts and payments on the Statement of Cash Flows were improperly recorded due to the errors in the calculation of reportable receipts and disbursements.

In addition to the misstatements identified by the auditors, the State subsequently performed further analysis to correct errors in the financial reporting process and to update estimated amounts to actual. As a result, during the engagement, an agency proposed six additional

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adjusting entries affecting the General Fund, which resulted in a decrease of \$440,000,000 to Intergovernmental Receivables, an increase of \$1,015,000,000 to Intergovernmental Payables, a decrease of \$455,000,000 to Unavailable Revenue, and an increase of \$1,000,000,000 to Health and Social Services Expenditures. The proposed adjustments were subsequently made by management.

Furthermore, the following deficiencies were identified by auditors and communicated with management. The misstatements associated with these deficiencies did not rise to the level requiring audit adjustments; as such, management elected not to make the adjustments.

- As described in Finding 2025-002, advance draws of federal funds resulted in \$278,519,000 cash on hand at June 30, 2025 in excess of its current program needs reported in the Aggregate Remaining Funds. The State incorrectly reported cash on hand related to these advance draws as Intergovernmental Payables rather than Unearned Revenue, resulting in misclassification of liabilities in the State's financial statements for the fiscal year ended June 30, 2025.
- \$4,232,561 of loans and notes receivable in the Water Revolving Fund were misclassified between current and noncurrent categories, and \$7,665,063 of the restricted portion of the loans and notes receivable balances was misclassified between current and noncurrent categories.
- Component unit activity was improperly classified by \$25,272,000 between Investments and Restricted Investments and \$42,897,000 between Capital Grants and Contributions and Operating Grants and Contributions.
- Capital asset reporting weaknesses, including errors in system-generated reports, untimely reporting of capital asset additions, and improper accrual of liabilities associated with capital assets, as well as the untimely transfer of completed Construction in Progress (CIP) projects to the appropriate capital asset categories due to deficiencies in interagency reporting, resulted in capital asset-related costs being improperly reported across multiple fiscal years. The table below summarizes the proposed correcting entry for Governmental Activities, after conversion of Aggregate Remaining Funds balances from the modified accrual basis to accrual basis.

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Financial Statement Line	Debit (Credit)
Capital Assets Being Depreciated, Net (Beginning)	\$ 98,301,000
Capital Assets Not Being Depreciated (Beginning)	2,037,000
Net Investment in Capital Assets (Beginning)	(100,338,000)
Capital Assets Being Depreciated, Net	239,177,000
Capital Assets Not Being Depreciated	(33,834,000)
Accounts Payable and Accrued Liabilities	31,675,000
Transportation (Expenditure)	(237,018,000)

The aforementioned deficiencies, as well as the decentralized financial reporting structure of the State, delayed the completion of the audit of the State’s ACFR.

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

The *Internal Control Integrated Framework* published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) requires management to establish and maintain a system of internal control designed to provide reasonable assurance regarding the reliability of financial reporting. Under COSO, effective internal control over financial reporting requires that controls be properly designed, implemented, and operating effectively, including controls to ensure financial information is complete, accurate, and prepared and reviewed on a timely basis so that material misstatements are prevented, or detected and corrected, prior to the issuance of the financial statements.

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 that, among other things, revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State’s resources. In addition, State law assigns responsibility to each State agency’s chief executive officer for the establishment and continuous monitoring of the agency’s internal control system (30 ILCS 10/1002).

Finally, the State’s management team is responsible for implementing timely corrective action on all of the findings identified during a financial audit.

State management indicated the errors noted above were due to human error and the complexity associated with accounting for the various transactions.

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The State's decentralized reporting system and related decentralized internal control system are not adequate to reduce the likelihood that a material misstatement of the State's financial statements could occur and not be detected during the normal course of business. Failure to establish effective internal controls at all State agencies regarding financial reporting for the timely and accurate preparation of the ACFR prevents the State from completing an audit in a timely manner, delays financial reporting, and decreases the usefulness of such information (Finding Code No. 2025-001, 2024-001, 2024-002, 2023-001, 2023-002, 2022-001, 2022-002, 2021-001, 2021-002, 2020-001, 2020-002, 2019-001, 2019-002, 2018-001, 2018-002, 2017-001, 2017-002, 2016-001, 2016-002, 2015-001, 2015-002, 2014-001, 2014-002, 2013-001, 2013-002, 12-1, 12-2, 11-1, 11-2, 10-1, 10-2, 09-1, 09-2, 08-1, 08-2, 07-1, 07-2, 06-1, 05-1, 04-1, 03-1, 02-1).

**RECOMMENDATION**

We recommend that management continue to work together to resolve the State's inability to produce timely and accurate generally accepted accounting principles (GAAP)-basis financial information. Further, 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.

**STATE RESPONSE**

Management accepts the recommendation. As noted above by the auditors, the State still faces several roadblocks in the timely completion of the Annual Comprehensive Financial Report due to its decentralized reporting process. Management has made and will continue to make progress in the reviewing and monitoring of its internal control procedures surrounding financial reporting in hopes of promoting as much consistency across 116 State agencies while still taking into consideration the specific accounting requirements of approximately 30 industries those agencies administer. Furthermore, management has taken and will continue to take steps to increase staffing and training for agency fiscal offices to improve the GAAP preparation processes. Lastly, where applicable, management will continue to work with State agency staff and members of the Illinois General Assembly to explore potential corrective action steps to produce timelier and accurate initial submissions on the SCO forms.

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2025-002 **FINDING** (Noncompliance with Federal Grant Regulations)

The State of Illinois (State) did not comply with requirements from the Cash Management Improvement Act (CMIA) Agreement and the Code of Federal Regulations (CFR) Title 31, Subpart B (31 CFR § 205.33) related to drawing down federal grant revenue.

During January 2025, the Illinois State Board of Education (ISBE) drew down \$1,819,646,420 of federal funds. These funds were drawn from federal assistance programs with Assistance Listing Numbers (ALN)<sup>1</sup> covered by the CMIA Agreement between the State and the Secretary of the Treasury, United States Department of the Treasury, as well as federal assistance programs with ALNs not listed in the CMIA, thus governed by 31 CFR § 205.33. The following table outlines these draws by CMIA and CFR noncompliance, as well as federal agency.

Federal Agency	Established Funding Technique in CMIA	Notification of Change in Funding Technique to Federal Agency	Number of Grants	Dollar Amount of Draws
<b>Noncompliance with CMIA</b>				
U.S. Department of Education	Pre-Issuance, Payment Schedule-Quarterly, and Reimbursement	No	10	\$ 1,268,026,270
U.S. Department of Agriculture	Pre-Issuance and Payment Schedule-Quarterly	No	6	247,513,880
<b>Noncompliance with 31 CFR § 205.33</b>				
U.S. Department of Education			26	288,790,767
U.S. Department of Agriculture			7	13,024,571
U.S. Department of Health and Human Services			6	2,290,932
<b>Grand Total</b>			<b>55</b>	<b>\$ 1,819,646,420</b>

As a result of the advance draws of \$1,819,646,420, ISBE had \$278,519,000 cash on hand at June 30, 2025 in excess of its current program needs. Additionally, the agency incorrectly reported cash on hand related to these advance draws as Intergovernmental Payables rather than Unearned Revenue, resulting in misclassification of liabilities in the State's financial statements for the Fiscal Year Ended June 30, 2025 and increasing the risk of material

<sup>1</sup> Formerly referred to as CFDA (Catalog of Federal Domestic Assistance) Number.

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misstatement. However, the dollar amounts of this misclassification did not rise to the level of requiring an adjustment.

Section 3.2 of the CMIA Agreement between the State and the Secretary of the Treasury, United States Department of the Treasury requires the State to notify the U.S. Department of the Treasury, Bureau of the Fiscal Service (Fiscal Service) in writing within 30 days of the time the State becomes aware of a change that involves changes in funding techniques.

Section 6.2 of the CMIA Agreement between the State and the Secretary of the Treasury, United States Department of the Treasury outlines the funding techniques to be implemented for all transfers of funds between the federal government and the State. The noncompliance noted involved the following funding techniques:

Funding Technique Name	Description
Payment Schedule - Quarterly	The State shall request funds such that they are deposited in a State account on the median business day of the quarter. The amount of the request shall be a prorated share of the lesser of the annual grant divided by 4, or the total amount of federal funds expected to be paid out for the program purposes during the year divided by four.
Pre-Issuance	The State shall request funds such that they are deposited in a State account not more than three business days prior to the day the State makes a disbursement. The amount of the request shall be the amount the State expects to disburse.
Reimbursement Funding	The State shall request funds once a month, after reports containing the amount of actual cash outlays for direct programs costs are available and deposited into a special state fund.

The Code of Federal Regulations (CFR) Title 31, Subpart B applies to all Federal assistance programs listed in the Catalog of Federal Domestic Assistance (CFDA)<sup>2</sup> that are not included in a Treasury-State Agreement. CFR Title 31, Subpart B (31 CFR § 205.33) states a state must minimize the time between the drawdown of federal funds from the federal government and their disbursement for federal program purposes. The timing and amount of fund transfers must be as close as is administratively feasible to a state's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs.

Governmental Accounting Standards Board (GASB) Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, states that recipients should recognize receivables and revenues when all applicable eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements are met should be reported as deferred revenues by recipients.

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<sup>2</sup> Now referred to as Assistance Listing Number (ALN)

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Management stated the decision to perform the advance draws in January 2025, contrary to established funding techniques or incurring all related grant expenditures, was made due to the uncertainty caused by the January 27, 2025, issuance of federal Office of Management and Budget Memorandum M-25-13. Memorandum M-25-13 directed all federal agencies to “identify and review federal financial assistance programs” for compliance with the policy objectives reflected in a series of newly issued presidential executive orders. Memorandum M-25-13 further directed that “Federal agencies **must temporarily pause** all activities related to obligation or disbursement of all Federal financial assistance...” (emphasis in original). The scope of this order created imminent risk that federal funding owed to the State under existing federal awards would not be made available within the timeframes contemplated in the CMIA Agreement. Management indicated the changes in funding techniques were not communicated to the applicable federal agencies due to oversight caused by the urgency of the matter.

In addition, management indicated that the liability was originally recorded the way it was because it was always the intent of management to provide any funds drawn down for funds not utilized back to the federal government once federal funding was reinstated. Management stated ISBE proactively attempted to return funds drawn down for funds not utilized to the relevant federal agencies following legal challenges to and the rescission of Memorandum M-25-13 by Memorandum M-25-14. Management stated those attempts were unsuccessful for a majority of the funds. The State incurred eligible reimbursable expenditures subsequent to these attempts to return the funds.

Advance draws performed by the agency caused the agency to be noncompliant with several agreements and regulations as noted above. Further, the advance draws resulted in the agency holding significant amounts of federal cash on hand at fiscal year-end, increasing the risk of improper cash management and causing a significant increase in the agency’s interest liability to the federal government. Finally, misclassification of the liability at year end results in inaccurate financial reporting in the State’s financial statements (Finding Code No. 2025-002).

**RECOMMENDATION**

We recommend that management implement and enforce procedures to ensure federal grant drawdowns comply with the Cash Management Improvement Act and applicable federal regulations, including the Code of Federal Regulations.

**STATE RESPONSE**

Management accepts the recommendation. While management agrees maintaining adequate internal controls over the administration of its federal grants is imperative to ensure compliance with federal grant agreements, in this instance, the federal government took unprecedented actions management could not have anticipated. As a result, and because the federal government did not outline an alternative path to address its own noncompliance with the original stated grant agreements, management took expedited action to guard against disastrous repercussions to its fundamental responsibility of protecting the State’s educational system.

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2025-003      **FINDING** (Failure to Implement Adequate Information Technology Controls)

The State of Illinois (State) failed to implement adequate general Information Technology (IT) controls related to its applications and failed to implement adequate controls over its service providers.

To determine whether internal controls over applications and data used to fulfill the State's mission and provide accountability were appropriate, we tested Information Technology General Controls (ITGCs) for 15 agencies significant to the State's Annual Comprehensive Financial Report (ACFR). Within the 15 agencies tested, we tested ITGCs for 14 applications assessed to have a material impact on the State's financial information and/or operations. Access provisioning and change management procedures were tested for each application.

Access Provisioning

Of the 15 Agencies tested, two (13%) were unable to provide a complete and accurate population of new hires and one (7%) was unable to provide a complete and accurate population of terminations during Fiscal Year 2025. Due to this limitation, we were unable to conclude the populations of new hires and terminations were sufficiently precise and detailed under the professional standards promulgated by the American Institute of Certified Public Accountants (AU-C § 500.08). Even given the population limitations, we tested the State's access provisioning procedures for a sample of 757 users across 14 applications. Our sample of 757 users was comprised of 553 existing users, 157 newly-hired users, and 47 users with administrative rights. We noted the following exceptions:

- Access rights were inappropriate or not needed to perform their job duties for 27 of 553 (5%) existing users' access to the application.
- Documentation of approval of users' access to applications could not be provided for two of 157 (1%) newly-hired users.
- The user did not need access to the application for one of 157 (1%) newly-hired users.
- An annual review of user access was not performed by five agencies (33%) across five of 14 (36%) applications tested.

Lastly, of the 12 agencies for which the Department of Innovation and Technology (DoIT) maintains their security software Resource Access Control Facility (RACF) mainframe ID's, four (33%) agencies did not respond to the DoIT Security Software Coordinator's annual follow up of RACF ID's or provide documentation that a review was performed.

Change Management

Change control is the systematic approach to managing changes to an IT environment, applications, or data. The purpose is to prevent unnecessary and/or unauthorized changes, ensure all changes are documented, and minimize any disruptions due to system changes. We tested a sample of 165 changes across 14 applications.

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For one of the 14 (7%) applications tested, the agency was unable to produce a complete and accurate population of changes related to the application tested. Due to this limitation, we were unable to conclude the agency's population was sufficiently precise and detailed under the Professional Standards promulgated by the American Institute of Certified Public Accountants (AU-C § 500.08). Even given the population limitation, which hindered our ability to conclude whether the selected sample was representative of the population as a whole, we did not note any exceptions specific to the sample of changes tested.

Service Providers

The State utilized service providers for medical plan coverage and payments, claims processing, benefits solutions, plan administration, hosting services, credit card processing, data entry, banking services, and software as a service.

We evaluated management's oversight of service providers across nine agencies whose activities are reported in the State ACFR. We identified 34 unique service providers supporting financial reporting and systems integral to financial operations. Because several providers deliver multiple distinct services, we reviewed a total of 47 System and Organization Controls (SOC) reports, SOC 1 and/or SOC 2, corresponding to those services. Our procedures assessed whether agencies obtained current SOC reports, performed timely reviews, evaluated complementary user entity controls (CUECs), addressed coverage gaps (e.g., bridge letters), evaluated the use of subservice providers and documented the disposition of exceptions.

We noted the following in our testing:

- An appropriate SOC report was not received by one agency (11%) for two (6%) service providers. Thus, an adequate review of the testing performed and conclusions reached by the service providers' auditors could not be performed.
- The period covered by the SOC report and any subsequent bridge letter obtained did not cover part or all of the audit period for nine of 47 reports (19%), affecting six of 34 service providers (18%) of three agencies (33%).
- Two agencies (22%) did not provide a formal, documented review of the SOC report for six of 47 reports (13%).
- Two agencies' (22%) reviews of the SOC report listed the CUECs; however, they did not evaluate whether CUECs were in place at the agency for four of 47 reports (9%).
- Two agencies (22%) did not document the impact of the subservice providers, noted in the SOC report, on the agencies' operations for four of 47 reports (9%).
- One agency (11%) did not document the impact on its operations of the exceptions noted in one of 47 (2%) SOC reports.

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), Access Control and Configuration Management sections, require entities to

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maintain proper internal controls over the security of the environment, which includes applications, ensuring access is appropriate, ensuring access reviews are conducted periodically, and ensuring applications are modified in a manner that promotes consistency, integrity, and security.

The *Security and Privacy Controls for Information Systems and Organizations* (Special Publication 800-53, Fifth Revision) published by NIST, System and Services Acquisition section and Assessment, Authorization and Monitoring section requires entities to establish contractual requirements for external service providers and continuously monitor their compliance with security and privacy obligations. This includes defining roles, responsibilities, and processes for oversight, as well as implementing tools and reporting mechanisms to ensure providers meet agreed-upon standards. Additionally, organizations must maintain an ongoing monitoring strategy for all systems, including those managed externally, by conducting regular assessments and promptly addressing identified risks.

Additionally, 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 that revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

State management indicated the deficiencies noted were due to manual processes employed without proper oversight, staffing shortages, and lack of knowledge to perform the required activities due to staffing turnover.

ITGCs help prevent unauthorized access, data breaches, and operational disruptions and include software implementation, user account creation, and data management. Strong ITGCs increase the integrity and reliability of information. Failure to implement adequate ITGCs could lead to unauthorized access, unauthorized changes and security risks to the applications and data. Without adequate monitoring of service providers, the State does not have assurance that the service providers' internal controls are adequate and operating effectively (Finding Code No. 2025-003, 2024-003, 2023-005, 2022-006).

**RECOMMENDATION**

We recommend management implement adequate general IT controls related to the State's environment, applications, and service providers.

**STATE RESPONSE**

Management accepts the recommendation. Management will continue to work with State agencies to improve ITGCs related to their environments and applications and to implement adequate controls over their service providers. Agencies continue to train management and staff on the acquisition, review, and implementation of controls cited in SOC reports and to document procedures related to the same. In addition, the Governor's Office of Management and Budget, in consultation with the Department of Innovation and Technology (DoIT) and the Department of

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Central Management Services, is continuing to develop new policies and trainings on ITGC responsibilities and functions of State agencies.