STATE OF ILLINOIS
COMPREHENSIVE ANNUAL 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, 2020

STATE OF ILLINOIS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FINANCIAL AUDIT
For the Year Ended June 30, 2020

TABLE OF CONTENTS

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FINANCIAL AUDIT
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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 (07/01/19 – 01/12/21)	Michael J. Madigan
President of the Senate (01/19/20 – Present)	Don Harmon
President of the Senate (07/01/19 – 01/19/20)	John J. Cullerton
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 (07/01/19 – 12/31/20)	William E. Brady

REPORT REQUIRED UNDER *GOVERNMENT AUDITING STANDARDS*

SUMMARY

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

Based on their audit, the auditors expressed qualified opinions on the business-type activities, aggregate discretely presented component units, and Unemployment Compensation Trust Fund and 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 five 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	
2020-001	7	2019/2007	Inadequate Financial Reporting Process	Material Weakness
2020-002	10	2019/2002	Financial Reporting Weaknesses	Material Weakness
2020-003	17	2019/2009	Late Payment of Statutorily Mandated Transfers	Noncompliance
2020-004	20	2019/2009	Debt Covenant Violation	Noncompliance
2020-005	21	2019/2010	Insufficient Controls Over Finances	Material Weakness
2020-006	23	New	Inadequate Controls over Pandemic Unemployment Assistance	Material Weakness and Noncompliance

Item No.	Page	Last/First Report	Description	Finding Type
			CURRENT FINDINGS	
2020-007	26	New	Lack of Controls over Census Data	Material Weakness

EXIT CONFERENCE

The Office of the Governor waived an exit conference in a correspondence from John Morse, Deputy General Counsel, on July 20, 2021. The responses to the recommendations were provided by John Morse, Deputy General Counsel, in a correspondence dated August 11, 2021.

The Office of the Comptroller waived an exit conference in a correspondence from Katie Madonia, Director of Financial Reporting, on July 21, 2021. The responses to the recommendations were provided by Katie Madonia, Director of Financial Reporting, in a correspondence dated July 21, 2021.

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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

Report on the Financial Statements

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, 2020, 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 August 12, 2021.

That report contained qualified opinions on the Unemployment Compensation Trust Fund and the Business-Type Activities due to material weaknesses in internal control over a new benefit system, for which we were unable to obtain sufficient appropriate audit evidence to conclude whether Pandemic Unemployment Assistance (PUA) and Federal Pandemic Unemployment Compensation (FPUC) benefit programs' payables, receivables, revenues and expenses were free from material misstatement. In addition, our report contains a qualified opinion on the State's discretely aggregately presented component units due to a likely material understatement of the Illinois State Toll Highway Authority's Other Postemployment Benefit liability. 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 the deficit for net position of governmental activities continued to increase during Fiscal Year 2020. The deficit increased by $4,673,018,000, from $193,079,823,000 at June 30, 2019, to $197,752,841,000 at June 30, 2020. This deficit, which is presented on an accrual basis, is the excess of total liabilities and deferred

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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 determination of financial statement amounts. 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 and Responses as items 2020-003, 2020-004, and 2020-006.

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.

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. 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.

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. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as items 2020-001, 2020-002, 2020-005, 2020-006, and 2020-007, that we consider to be material weaknesses.

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 and Responses. 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
August 12, 2021

2020-001. **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 Comprehensive Annual Financial Report in a timely manner. Reporting issues at various individual agencies caused delays in finalizing the financial statements (see Finding 2020-002 for additional detail). The lack of timely financial reporting limits effective oversight of State finances and may adversely affect the State's bond rating.

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 Office of Comptroller (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 Comprehensive Annual Financial Report. For the most part, these SCO forms are completed for each of the State's 820 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 Comprehensive Annual 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."

The Governor's management indicated the weaknesses are due to (1) lack of a Statewide accounting and grants management system and (2) lack of personnel adequately trained in GAAP, governmental accounting, and federal grants management. Management also indicated without adequate financial accounting and grants management systems, agency personnel must manually perform conversions of raw data into the required financial reports in a short time frame, resulting in a greater risk of errors. In addition, management indicated the State needs a more unified, inter-related financial system capable of producing the required financial reports for all State agencies, and the lack of adequate financial accounting and grants management personnel is due, in part, to a need for more stringent job qualifications in the relevant job titles to ensure that applicants have the required education and skill sets to be properly trained.

The Comptroller's management indicated delays 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 State's financial statements.

Failure to establish effective internal controls at all State agencies regarding financial reporting for the timely and accurate preparation of the Comprehensive Annual Financial Report prevents the State from completing an audit in a timely manner, delays financial reporting, and decreases the usefulness of such information. (Finding Code No. 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.

AGENCY RESPONSES

Office of the Governor:
The Office of the Governor (Governor) agrees with the recommendation. The Governor will continue to work together with the Illinois Office of Comptroller, and together with the individual 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 is in the midst of a multi-year implementation of an Enterprise Resource Planning (ERP) system—an integrated enterprise-wide application system for financial accounting—which is coordinated by the Illinois Department of Innovation and Technology and is intended to transform Illinois' IT system to be more inter-related among agencies and responsive to the needs of the State, its employees and those it serves. As of

July 1, 2021, 59 agencies, representing approximately 91% of the budget under the Governor's purview, are using the ERP system. A new grants management system is also under development. New challenges have arisen as State agencies have been making the transition from old systems to new, but a fully-operational ERP system and grants management system will improve internal controls and will better support the production of accurate financial statements in a timely manner in agencies throughout State government.

Office of Comptroller:
The Comptroller accepts the recommendation. The State still faces several roadblocks in the timely completion of the Comprehensive Annual 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. As a result of the extension, the preparation and completion of critical financial schedules will continue to be delayed. In addition, the General Assembly enacted P.A. 101-0636, which extended lapse period from August 31 to September 30 for fiscal year 2020 for all State agencies, further delaying the financial reporting process. More importantly, the Comprehensive Annual 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.

2020-002. **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 2020-001, the State has a decentralized financial reporting process. Primarily in response to this decentralized process, we performed 29 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.

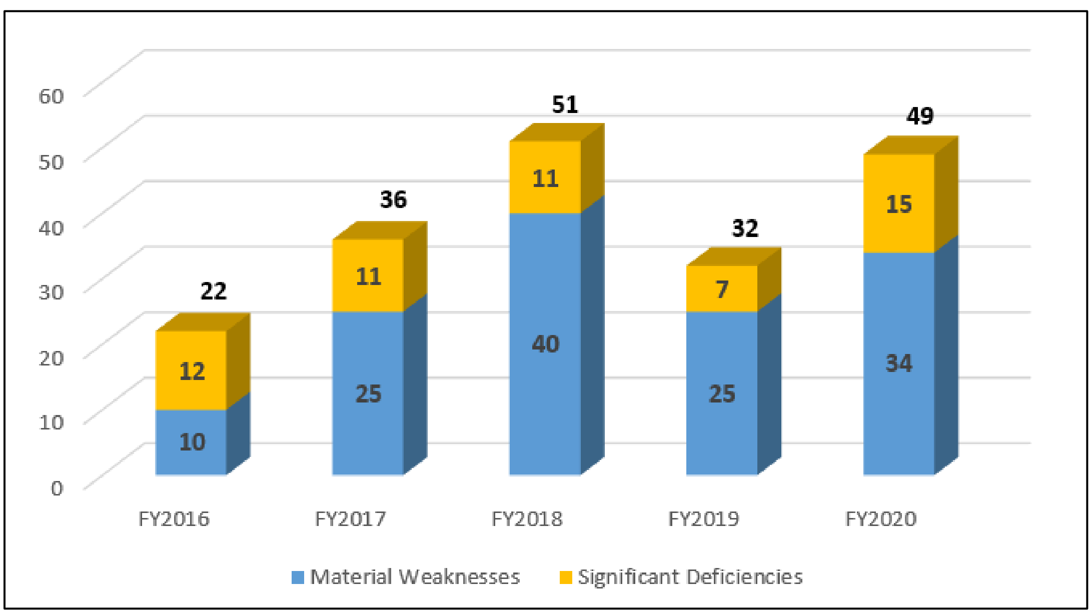
The chart below summarizes the number of material weaknesses and significant deficiencies we reported for each agency.

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
Office of the Treasurer – College Savings Program	0	1	1
Office of the Treasurer – Illinois Secure Choice Savings Program	0	1	1
Department of Central Management Services	0	1	1
Department of Central Management Services – Teacher Health Insurance Security Fund	0	1	1
Department of Central Management Services – Community College Health Insurance Security Fund	0	1	1
Department of Children and Family Services	2	0	2
Department of Natural Resources – Capital Assets	1	0	1
Department of Corrections	4	3	7
Department of Employment Security	6	1	7
Department of Human Services	4	0	4
Department of the Lottery	1	3	4
Department of Healthcare and Family Services	2	0	2
Department of Human Services and Department of Healthcare and Family Services *	6	0	6
Department of Human Services; Department of Healthcare and Family Services; and Department of Children and Family Services **	2	0	2
Department of Revenue	0	1	1
Capital Development Board	1	0	1

Railsplitter Tobacco Settlement Authority	1	0	1
Secretary of State, Department of Children and Family Services, Department of Corrections, Department of Healthcare and Family Services, Department of the Lottery, Capital Development Board, and Environmental Protection Agency***	1	0	1
Department of Central Management Services, Department of Human Services, Department of Revenue, Department of Transportation, State Board of Education, and Illinois Student Assistance Commission ***	0	1	1
Total	**34**	**15**	**49**

** Six findings were reported in both the Department of Human Services' and the Department of Healthcare and Family Services' departmental financial audit reports.*
*** Two findings were reported in the Department of Human Services', the Department of Healthcare and Family Services', and the Department of Children and Family Services' departmental financial audit reports.*
**** Thirteen agencies had not performed census data reconciliations and seven of those had errors noted in the agency financial audit reports relating to Census Data. To ensure the total is not inflated due to these issues, we have listed each agency in the agency column and included 1 in the material weakness or significant deficiency column, respectively. These errors are discussed further in Finding 2020-007.*

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 lacked controls over eligibility determinations and redeterminations (DHS Finding 2020-005 and DHFS Finding 2020-001).

  - The Departments did not maintain adequate internal controls to ensure applications for benefits were approved or denied timely. In addition, the Departments had a significant backlog of eligibility redeterminations for recipients (DHS Finding 2020-006 and DHFS Finding 2020-002).

  - 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 2020-007, 2020-008, and 2020-009 and DHFS Findings 2020-003, 2020-004, and 2020-005).

  - 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 2020-010 and DHFS Finding 2020-006).

- The Departments (as defined above and including the Department of Children and Family Services (DCFS)) 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, DCFS, or DHFS within the Medicaid Program (DHS Finding 2020-011, DHFS Finding 2020-008, and DCFS Finding 2020-005).

  - DHS and DCFS 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 2020-011 and DCFS Finding 2020-005).

  - The Departments had insufficient review and documentation of provider enrollment determinations (DHS Finding 2020-012, DHFS 2020-008, and DCFS Finding 2020-004).

  - The Departments failed to establish and maintain adequate general information technology controls over IMPACT (DHS Finding 2020-012, DCFS Finding 2020-004, and DHFS Finding 2020-007).

- The Department of Corrections (DOC) did not have adequate controls over capital assets.

  We noted the following problems:

  - DOC did not update its property records timely or accurately. There was \$1.3 million in additions and \$13.16 million in Capital Development Board (CDB) transfers which were not included in the Enterprise Resource Planning (ERP) records. There were also duplicate entries of \$58 thousand in ERP (DOC Finding 2020-002).

  - DOC did not record capital assets of \$47.01 million and related accumulated depreciation of \$21.77 million for the transfer of Joliet Treatment Center to DOC from the Department of Juvenile Justice (DOC Finding 2020-002).

  - DOC assessed a closed facility as temporarily impaired, but did not disclose the carrying value of the assets totaling \$40.84 million (DOC Finding 2020-002).

  - DOC failed to maintain adequate fiscal controls and proper financial reporting over the Offender 360 project. Specifically, DOC did not maintain sufficient and complete documentation to support the cost of the Offender 360 project through Fiscal Year 2020 or capitalize the costs for the development of Offender 360 and did not maintain sufficient records to determine the development costs related to the Offender 360 project. Total cumulative costs incurred related to this project through Fiscal Year 2020 amounted to \$103.776 million based on DOC's listing of invoices and staffing cost estimates that had not been analyzed to identify properly capitalizable amounts (DOC Finding 2020-004).

- The Illinois Department of Employment Security (IDES) did not have adequate controls over financial reporting.

  We noted the following problems:

  - The IDES did not prepare timely monthly bank reconciliations for the period of October 2019 through June 2020. The completion of the untimely reconciliations resulted in an adjustment to the general ledger of an increase to cash of $10.7 million (IDES Finding 2020-004).

  - The IDES did not have sufficient internal controls over the determination of accruals related to the Unemployment Insurance (UI) program, which required the IDES to reverse its original accrual and record an adjustment for $264 million to record the UI payable based on claimants who certified their eligibility prior to year-end, but were paid after year-end (IDES Finding 2020-005).

  - The IDES did not have adequate controls over the estimation of the allowance for doubtful accounts, which required an adjustment to IDES's allowance balance by $123 million (IDES Finding 2020-006).

Details of all material weaknesses and significant deficiencies are reported in each agency's financial audit for the year ended June 30, 2020 (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	$58,077	Department of Employment Security
Unemployment Compensation Trust Fund	$58,077	Department of Employment Security

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 management indicated the weaknesses are due to the lack of Statewide accounting and grants management systems, and the State needs a more unified, inter-related financial system capable of producing the required financial reports for all State agencies. Management indicated the State currently has more than 100 separate and distinct accounting systems; this condition hinders the State's ability to implement standardized internal controls and business processes to ensure accurate and timely preparation of financial statements and is compounded by the lack of personnel adequately trained in GAAP, governmental accounting, and federal grants management. Management also indicated the lack of adequate financial accounting and grants management personnel is due, in part, to a need for more stringent job qualifications in the relevant job titles to ensure that applicants have the required education and skill sets to be properly trained.

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 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. 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 together with the Illinois Office of Comptroller, and together with the State agencies facing the greatest challenges, to improve internal control procedures and reduce the likelihood of material misstatements to the financial statements. The State is in the midst of a multi-year implementation of an Enterprise Resource Planning (ERP) system—an integrated enterprise-wide application system for financial accounting—which is coordinated by the Illinois Department of Innovation and Technology and is intended to transform Illinois' IT system to be more inter-related among agencies and responsive to the needs of the State, its employees and those it serves. As of July 1, 2021, 59 agencies, representing approximately 91% of the budget under the Governor's purview, are using the ERP system. A new grants management system is also under development. New challenges have arisen as State agencies make the transition from old systems to new, but an operational ERP system and grants management system ultimately will improve the State's internal controls to more effectively assess the risk of material misstatements to the financial statements, and to prevent, detect, and correct such misstatements on a timely basis during the financial statement preparation 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.

2020-003. **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, 2020, 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 the State of Illinois' (State) funds. However, not all transfers were made timely. During Fiscal Year 2020, we noted 323 transfers between State funds that were made greater than 30 days after the statutorily mandated transfer date. Transfers that were 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 in making such transfers in Fiscal Year 2020 compared to Fiscal Year 2019 and Fiscal Year 2018:

	Fiscal Year 2020	Fiscal Year 2019	Fiscal Year 2018
Number of late transfers	323 transfers (170 from GRF*)	335 transfers (233 from GRF*)	339 transfers (231 from GRF*)
Range of days transfers were late	31 to 443 days**	31 to 448 days**	31 to 447 days**
Total volume of late transfers, in dollars	$1.2 billion ($339 million from GRF*)	$1.27 billion ($630 million from GRF*)	$1.36 billion ($790 million from GRF*)
Late transfers outstanding as of and paid after June 30	$999.4 million ($275 million from GRF*)	$1.20 billion ($570 million from GRF*)	$1.14 billion ($583 million from GRF*)

**GRF means the State of Illinois' General Revenue Fund.*

***This analysis was prepared as of November 13, 2020, October 23, 2019, and October 23, 2018, for Fiscal Year 2020, Fiscal Year 2019, and Fiscal Year 2018, respectively. Some transfers were completed after these dates.*

Further, the following table contains the number and amount of late transfers still outstanding as of November 13, 2020 relating to Fiscal Year 2020, Fiscal Year 2019, and Fiscal Year 2018.

	Fiscal Year 2020	Fiscal Year 2019	Fiscal Year 2018
Number of late transfers outstanding as of 11/13/2020	184	156	104
Amount of late transfers outstanding as of 11/13/2020	$944.9 million	$844.5 million	$698.3 million

The transfers noted above are mandated by various State statutes that contain the required funds, amounts, and timeline.

In the prior examination, Comptroller management stated the late payment of transfers occurred due to cash management decisions and required prioritization due to the lack of available cash in the State Treasury. In the current examination, Comptroller management stated statutory transfers can be made timely only if adequate funds are available. 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". The Comptroller believes this language in 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. 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 statute. 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. Unfortunately, due to these continued fiscal constraints, the timely transfer of funds will not be able to be done before prioritized payments and debt payments.

2020-004. **FINDING** (Debt Covenant Violation)

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 audit of Fiscal Year 2020 financial statements, IDAPP was in violation of one of the debt covenants related to the Commission's revolving credit (loan) agreement. In addition, the Three-Year Asset Backed Revolving Credit Facility (Facility) matured on July 27, 2010, and has not been repaid. Per the agreement, the default ratio is set at a maximum three-month rolling average of 5.0% or a maximum of 6.25% for any settlement period. We reviewed the monthly reports noting that ten of these months rose above at least one of these ratios, ranging from 5.36% to 5.78% for the three-month average and 6.34% to 10.24% for the settlement period.

As a result of the debt covenant violation and the maturity of the Facility, the bank has certain remedies available to it under the terms of the loan agreement, principal of which would be rights to call the loan and take possession of the collateral (the underlying student loan portfolio). The bank has been made aware of the default ratio issues and the maturity of the loan and has not communicated to IDAPP any intent to exercise the remedies available to it under the terms of the loan agreement. The balance of the line of credit with the bank was $78,156,827 at June 30, 2020.

According to Commission management, the default ratio issues are due to the poor performance of the portfolio. The portfolio continues to experience a high level of delinquent accounts. The line of credit has not been refinanced because of the conditions in the private loan credit market.

As a result of the violation, the bank may have certain remedies under the terms of the loan agreement, principal of which would be the right to call the loan and take possession of the collateral (the underlying student loan portfolio of IDAPP). (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)

RECOMMENDATION

We recommend IDAPP continue to monitor the loan covenant violations and continue seeking remedies from the involved lender.

OFFICE OF THE GOVERNOR'S RESPONSE

The Office of the Governor (Governor) agrees with the recommendation. The Governor will work with the Commission to monitor the loan covenant violation and pursue appropriate remedies from the lender.

2020-005. **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 $9.264 billion, on hand at June 30, 2020, 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 $3.971 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 2020-001 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 $152.117 million in interest payments during Fiscal Year 2020.

The Office of the Governor indicated 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. 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.

2020-006. **FINDING** (Inadequate Controls over Pandemic Unemployment Assistance)

The Illinois Department of Employment Security (IDES) failed to maintain adequate controls over Pandemic Unemployment Assistance systems, eligibility, and financial reporting.

During the audit of Fiscal Year 2020 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). As of June 30, 2020, the IDES has issued $1.1 billion through the system. 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 2020-001)

  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.

- The IDES failed to ensure PUA claimants met eligibility requirements. Some of the more significant issues noted included:
  - The IDES did not validate wages for all claimants receiving more than the minimum weekly payment. The total amount paid for PUA above the minimum was $96.9 million.
  - The IDES failed to validate 4,579 claimants' identities, but still paid $41.7 million dollars in payments to these claimants.
  - The IDES paid benefits of $344 thousand to 35 deceased individuals. (IDES Finding 2020-002)

  The Code of Federal Regulations (Code) (20 C.F.R. 625.6(e)) requires IDES to validate wages for claimants receiving more than the minimum weekly amount within 21 calendar days of the initial filing. The United States Department of Labor, Unemployment Insurance Program Letter (UIPL) No. 16-20, dated April 5, 2020, requires states to maintain program integrity. Specifically, the programs and provisions in the CARES Act operate in tandem with the fundamental eligibility requirements of the Federal-State UI program and must be adhered to. States must ensure that individuals only receive benefits in accordance with these statutory provisions.

- The IDES failed to implement adequate controls over the PUA processes. Some of the more significant issues noted included:
  - 164 claimants were between ages of birth and 13 years resulting in $1.5 million in payments.
  - 31 claimants were either assigned more than one claimant ID or had more than one Social Security Number associated with their ID. (IDES Finding 2020-003)

  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.

- The IDES did not have sufficient internal controls over the determination of PUA accruals and eligibility related to the accruals. IDES management was unable to determine when claimants met all eligibility requirements as limitations within the system did not track all necessary data for this analysis. Additionally, there was a large backlog of unprocessed paperwork filed by claimants which would need to be considered to determine when a claimant became eligible. The large increase in volume of claims led to this backlog not being processed timely, compounding the issue. Despite these limitations, management recorded their best estimate of amounts owed at year-end ($149 million). (IDES Finding 2020-005)

  GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions* states providers should recognize liabilities and expenses from voluntary nonexchange transactions when all applicable eligibility requirements, including time requirements, are met. As a provider, the Department provides benefits to claimants. As a recipient of Federal awards pertaining to the PUA program, Statement No. 33 states recipients should recognize receivables and revenues when all applicable eligibility requirements, including time requirements, are met. As a recipient, the Department receives Federal funding pertaining to the PUA program.

According to IDES management, the implementation of multiple new pandemic related federal Unemployment Insurance programs resulted in significant strain on outdated information technology systems and insufficient skilled staffing resources.

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 adequate information to support the eligibility of paid and accrued claimants, some amounts in the financial statements could not be audited. Accordingly, the auditor's opinions on the financial statements of the Unemployment Compensation Trust Fund and the Business-Type Activities were qualified. (Finding Code No. 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

The Office of the Governor (Governor) accepts the recommendation. Implementing responses to the unprecedented COVID-19 public health emergency strained the resources of IDES, as well as those of other federal and state unemployment agencies. The United States Department of Labor (DOL) Office of Inspector General has 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 programs promptly and accurately. IDES has undertaken and continues to engage in an ongoing effort to provide needed relief with fidelity. To that end, the Governor will continue to work with IDES and the General Assembly to improve the implementation of federal pandemic Unemployment Insurance programs.

2020-007. **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, JRS, and CMS 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, GRS, JRS, and CMS 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 (1) employer-provided census data reported to the plan being complete and accurate along with (2) 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 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.

The Office of Comptroller's management indicated 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.

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. 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 those that did have 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. A statewide, formal reconciliation procedure could greatly reduce or eliminate census data exceptions in future audits. The Governor will continue to work with the Office of the Comptroller, State agencies, and the pension systems to assist in efforts underway to create such a procedure.

Office of Comptroller:
The Office of 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 Office of Comptroller agrees that a formal reconciliation process across all State agencies should be developed. The pension and OPEB plans have begun to develop this process and the Office of Comptroller plans to assist them in their efforts to ensure census data submissions are accurate.