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, 2019

STATE OF ILLINOIS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FINANCIAL AUDIT
For the Year Ended June 30, 2019

TABLE OF CONTENTS

	Page
State Officials	1
Government Auditing Standards Report	
Summary	2
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*	4
Schedule of Findings and Responses	7
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, 2019, have been issued under a separate cover.	

STATE OF ILLINOIS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FINANCIAL AUDIT
For the Year Ended June 30, 2019

STATE OFFICIALS

Governor (01/14/19 – Present)	JB Pritzker
Governor (07/01/18 – 01/14/19)	Bruce Rauner
Comptroller	Susana A. Mendoza
Speaker of the House	Michael J. Madigan
President of the Senate (01/19/20 – Present)	Don Harmon
President of the Senate (07/01/18 – 01/19/20)	John J. Cullerton
House Republican Leader	Jim Durkin
Senate Republican Leader	William E. Brady

STATE OF ILLINOIS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FINANCIAL AUDIT
For the Year Ended June 30, 2019

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 an unmodified opinion on the State of Illinois' financial statements, issued under a separate cover.

SUMMARY OF FINDINGS

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

Item No.	Page	Last Reported	Description	Finding Type
			CURRENT FINDINGS	
2019-001	7	2018	Inadequate Financial Reporting Process	Material Weakness
2019-002	10	2018	Financial Reporting Weaknesses	Material Weakness
2019-003	16	2018	Late Payment of Statutorily Mandated Transfers	Noncompliance
2019-004	18	2018	Debt Covenant Violation	Noncompliance
2019-005	19	2018	Insufficient Controls over Finances	Material Weakness

EXIT CONFERENCE

The Illinois Office of Comptroller and the Office of the Governor waived an exit conference in a correspondence from Katie Madonia, Director of Financial Reporting, on April 1, 2020, and Roma Larson, Deputy General Counsel, on April 1, 2020, respectively.

The responses to the findings and recommendations were provided as follows:

Ms. Katie Madonia, Director of Financial Reporting, Illinois Office of Comptroller on April 8, 2020.

Ms. Roma Larson, Deputy General Counsel, Governor's Office of Management and Budget on April 8, 2020.

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

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

OFFICE OF THE AUDITOR GENERAL
FRANK J. MAUTINO

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable Michael J. Madigan, 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, 2019, 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 April 23, 2020.

Our report is modified to include a reference to other auditors who audited the financial statements of certain university related organizations and included an emphasis-of-matter paragraph which stated that, as discussed in Note 2 to the financial statements, the State of Illinois restated the beginning balance of the Illinois State Toll Highway Authority resulting from the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our report also included an emphasis-of-matter paragraph which stated the deficit for net position of governmental activities continued to increase during Fiscal Year 2019. The deficit increased by $4,010,749,000, from $189,069,074,000 at June 30, 2018, to $193,079,823,000 at June 30, 2019. This deficit, which is presented on an accrual basis, is the excess of total liabilities and deferred inflows of resources over total assets and deferred outflows of resources and represents a deferral of current and prior year costs to future periods.

For purposes of this report, our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements,

INTERNET ADDRESS: OAG.AUDITOR@ILLINOIS.GOV

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 as items 2019-003 and 2019-004.

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 as items 2019-001, 2019-002, and 2019-005, 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. 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
April 23, 2020

2019-001. **FINDING** (Inadequate Financial Reporting Process)

The State of Illinois' current financial reporting process does not allow the State to prepare a complete and accurate Comprehensive Annual Financial Report (CAFR) in a timely manner. Reporting issues at various individual agencies caused delays in finalizing the financial statements (see Finding 2019-002 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 Illinois 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 CAFR. For the most part, these SCO forms are completed for each of the State's 806 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 CAFR 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 stated 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 stated 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 stated 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 CAFR prevents the State from completing an audit in a timely manner, delays financial reporting, and decreases the usefulness of such information. (Finding Code No. 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. A new grants management system is also currently 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.

Illinois Office of Comptroller:

The Illinois Office of Comptroller (Comptroller) accepts the recommendation. The State still faces several road blocks in the timely completion of the CAFR. 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. 101-0010, which extended lapse period from August 31 to October 31 for fiscal year 2019 for all State agencies, further delaying the financial reporting process. More importantly, the CAFR completion continues to be delayed because of financial reporting issues identified during individual State agency financial and compliance audits. The CAFR cannot be finalized until these issues are resolved at the individual State agency reporting level.

The Comptroller will continue to work with the Office of the Governor, the Auditor General's Office, and agency GAAP coordinators to improve the timeliness, quality, and processing of financial reporting for the State.

2019-002. **FINDING** (Financial Reporting Weaknesses)

The State of Illinois 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 2019-001, the State has a decentralized financial reporting process. Primarily in response to this decentralized process, we performed 26 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.

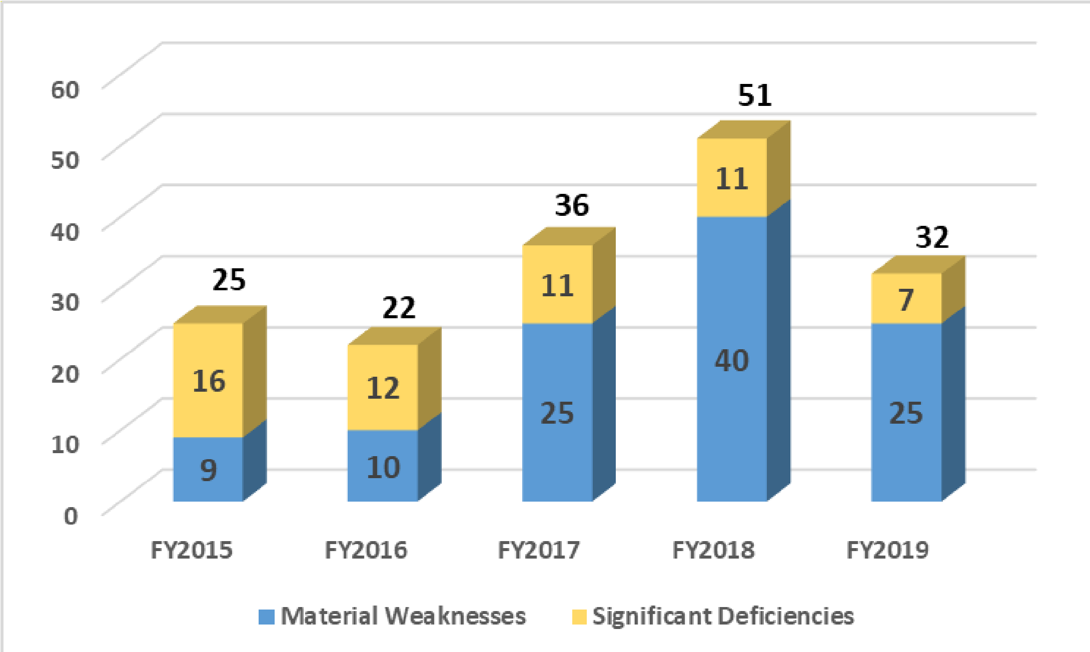
A *material weakness* is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant 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	0	1
Office of the Treasurer – Illinois Funds	0	1	1
Office of the Treasurer – Illinois ABLE Program	1	0	1
Office of the Treasurer – Illinois Secure Choice Savings Program	1	0	1
Department of Employment Security	3	2	5
Department of Human Services	4	0	4
Department of the Lottery	3	1	4
Department of Healthcare and Family Services	2	1	3
Department of Human Services and Department of Healthcare and Family Services *	7	1	8
Department of Revenue	1	0	1
Department of Transportation	0	1	1
Environmental Protection Agency	1	0	1
State Board of Education	1	0	1
Total	**25**	**7**	**32**

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

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) Phase II. 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, redeterminations, and mid-point reporting requirements (DHS Finding 2019-005 and DHFS Finding 2019-001).

  - 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 2019-006, 2019-008, and 2019-009 and DHFS Findings 2019-002, 2019-004, and 2019-005).

  - 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 2019-010 and DHFS Finding 2019-006).

- 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 2019-007 and DHFS Finding 2019-003).

- The Departments failed to execute adequate internal controls over the operation of the State of Illinois' Illinois-Michigan Program Alliance for Core 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:

  - The Departments did not have current, formal written agreements defining the roles and responsibilities of DHFS or DHFS' delegated agencies within the Medicaid Program (DHS Finding 2019-011 and DHFS Finding 2019-009).

  - DHS did not use IMPACT as the book of record or rely on it to verify their providers met certain Medicaid requirements prior to approving them to provide services. In fact, DHS was performing procedures to determine if the providers met these requirements outside of IMPACT (DHS Finding 2019-011).

  - The Departments had insufficient review and documentation of provider enrollment determinations (DHS Finding 2019-011 and DHFS Finding 2019-009).

  - The Departments failed to establish and maintain adequate general information technology controls over IMPACT (DHS Finding 2019-012 and DHFS Finding 2019-010).

- We noted the following problems at the Department of Employment Security (DES):

  - DES did not have adequate controls over the estimation of the allowance for doubtful accounts, which required an adjustment to DES' gross taxes receivable balance by $99.12 million (DES Finding 2019-001).

  - DES' refunds payable contained amounts that were already paid, resulting in an adjustment of $18.17 million (DES Finding 2019-002).

  - DES did not maintain adequate controls over the balance of penalties and interest receivable, which required an adjustment of $17.33 million (DES Finding 2019-003).

  - DES booked write offs prior to obtaining the Attorney General's approval, resulting in an adjustment of $14.94 million (DES Finding 2019-004).

- The Department of Transportation (DOT) did not have adequate controls over financial reporting, as noted below:

  - DOT failed to record revenue and a corresponding receivable for certain federally reimbursable payroll costs. As a result, the DOT's Road Fund accounts receivable and revenue were adjusted by $35.47 million (DOT Finding 2019-001).

  - DOT's underlying accounts receivable calculation and supporting records inappropriately allocated amounts to accounts receivable and revenue, resulting in an adjustment of $12.13 million (DOT Finding 2019-001).

Details of all material weaknesses and significant deficiencies are reported in each agency's financial audit for the year ended June 30, 2019 (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**
Governmental Activities	$35,468	Department of Transportation
Business-Type Activities	$98,796	Department of Employment Security
Road Fund	$23,337	Department of Transportation
Unemployment Compensation Trust Fund	$98,796	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 Illinois 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 stated 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 stated 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 stated 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 noted that while the Comptroller has the statutory authority to develop and prescribe accounting policies for the State, it does not have the statutory authority to monitor adherence to these policies as performed by State agencies.

In accordance with the Fiscal Control and Internal Auditing Act (30 ILCS 10/1002), each State agency's chief executive officer maintains statutory responsibility for the establishment and continuous monitoring of the internal control function for accounting and other operating policies of the officer's agency. (Finding Code No. 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. A new grants management system is also currently at the user accepted training stage for phase 1 pre-award and the phase 2 post-award is currently 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.

Illinois Office of Comptroller:

The Illinois Office of Comptroller (Comptroller) accepts the recommendation. The Comptroller will continue to assist the Office of the Governor in their efforts to increase the quality of GAAP packages by providing enhanced training and technical assistance to State agencies.

2019-003. **FINDING** (Late Payment of Statutorily Mandated Transfers)

The Illinois 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, 2019, 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' funds. However, not all transfers were made timely. During Fiscal Year 2019, we noted 335 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 2019 compared to Fiscal Year 2018 and Fiscal Year 2017:

	Fiscal Year 2019	Fiscal Year 2018	Fiscal Year 2017
Number of late transfers	335 transfers (233 from GRF*)	339 transfers (231 from GRF*)	472 transfers (360 from GRF*)
Range of days transfers were late	31 to 448 days**	31 to 447 days**	31 to 479 days**
Total volume of late transfers, in dollars	$1.27 billion ($630 million from GRF*)	$1.36 billion ($790 million from GRF*)	$3.31 billion ($2.58 billion from GRF*)
Late transfers outstanding as of and paid after June 30	$1.20 billion ($570 million from GRF*)	$1.14 billion ($583 million from GRF*)	$2.14 billion ($1.42 billion from GRF*)

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

***This analysis was prepared as of October 23, 2019, October 23, 2018, and October 23, 2017, for Fiscal Year 2019, Fiscal Year 2018, and Fiscal Year 2017, respectively. Some transfers were completed after these dates.*

Further, the following table contains the number and amount of late transfers still outstanding as of October 23, 2019, relating to Fiscal Year 2018 and Fiscal Year 2017.

	Fiscal Year 2018	Fiscal Year 2017
Number of late transfers outstanding as of 10/23/2019	141	130
Amount of late transfers outstanding as of 10/23/2019	$743 million	$1.004 billion

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

Comptroller management stated, as it did during the prior examinations, that the late payment of transfers occurred because of cash management decisions and prioritization that was required due to the lack of available cash in the State Treasury. Further, some statutory provisions relating to transfers contain language such as "as soon as practicable" or "as soon as possible" which management feels should give them more time to complete the transfers.

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. 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.

COMPTROLLER'S RESPONSE

The Illinois Office of Comptroller (Comptroller) accepts the recommendation. The Comptroller will continue in its effort to make the required transfers to the extent possible given all the competing payments from limited resources in the State Treasury. Unfortunately, due to continued fiscal circumstances that are outside of the control of the Comptroller, this repeated finding is outgrowth from the fact that the State did not have a complete budget for two years and is still facing a significant backlog of bills in the billions. In order to manage under this dire fiscal situation, the Comptroller must continue to engage in cash management strategies that can maximize 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 held at the Comptroller. Until the backlog of unpaid bills is significantly reduced, the timeliness of lower prioritized transfers will continue to be an audit finding.

2019-004. **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 2019 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 5.60% to 7.61% for the three-month average and 7.39% to 9.29% 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 $93,356,827 at June 30, 2019.

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. 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.

2019-005. **FINDING** (Insufficient Controls over Finances)

The State of Illinois 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 $10.078 billion, on hand at June 30, 2019, 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 $5.100 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 2019-001 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 $202.705 million in interest payments during Fiscal Year 2019.

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. 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, and together with 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.