LEGISLATIVE AUDIT COMMISSION

Management Audit
Of the
State's Financial Reporting System
February 2011

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RECOMMENDATIONS - 5

Background

In the 1970s, the Comptroller's Uniform Statewide Accounting System (CUSAS) was developed. CUSAS was intended to serve as the central system for collecting and reporting statewide financial information. However, the system had little in the way of financial management and reporting capabilities. Many State agencies devised their own internal accounting systems. In 1982, the first Comprehensive Annual Financial Report (CAFR) was issued which covered fiscal year 1981. In 1985, the Office of the Auditor General released a special inquiry report which stated that the varying accounting systems resulted in an inability to compile reliable statewide fiscal information in a timely manner and also resulted in duplication of effort. The report recommended that a new and improved central accounting system be implemented.

The Statewide Accounting Management System (SAMS) was implemented on July 1, 1997, and is used by the Office of the Comptroller for processing the State's accounting transactions. Despite the implementation of SAMS more than 13 years ago, many of the same problems noted in the Auditor General's 1985 report continue to exist today.

Financial records are maintained on different bases of accounting. The differences generally come down to when a transaction is recognized. In Illinois, most State agencies maintain records throughout the year on a cash basis. On a cash basis, revenues are recorded when received and expenditures are recorded when paid.

The Office of the Comptroller prescribes, for financial reporting, that transactions must be reported in accordance with Generally Accepted Accounting Principles (GAAP). This means instead of reporting on a cash basis, transactions are reported using the modified accrual basis of accounting. Under this basis of accounting, revenues are recognized in the period they become available and measurable, and expenditures are recognized in the period the associated liability is incurred. Accrual accounting is an attempt to match revenues and expenses and place them in the same period. GAAP reporting provides a more complete picture of an entity's true financial position by capturing expenses that the government owes but has not yet paid, as well as revenue which it is owed but has not yet received.

Since most State agencies maintain records on a cash basis, these records must be converted to a GAAP basis for year-end financial reporting purposes. This is the GAAP reporting process and this is a very labor intensive process for the individual agencies.

Agencies submit GAAP reporting packages to provide the Comptroller with the necessary financial data to prepare the Comprehensive Annual Financial Report (CAFR). Generally, GAAP reporting packages are due between August 15 and August 31 except for some complex, federally funded agencies, component units, and pension packages (due September 30).

The State of Illinois' current financial reporting process does not allow the State to prepare a complete and accurate CAFR or the Schedule of Expenditures of Federal Awards (SEFA) in a timely manner. Failure to submit GAAP packages in a timely fashion along with failing to submit GAAP packages accurately have been major reasons for the delays in completing the CAFR. Eighteen percent of agencies responded that the systems used do not allow the agency to complete GAAP packages in a timely fashion. This 18% included four of the largest seven agencies based on FY10 appropriated expenditures and cumulatively accounted for 28% of the State's total FY10 appropriated expenditures.

The delays in releasing the CAFR are significant for a number of different reasons:

- **State Financial Management/Oversight Adversely Affected.** When financial reports are not available, legislative and oversight officials are forced to use outdated information or unaudited numbers.
- **Negative Factor Affecting Bond Ratings.** The audited financial statements contained in the CAFR are one of the primary documents used by the bond rating agencies when assessing the State's financial condition. Illinois' untimely financial reports have been highlighted as negative factors in two recent reports issued by Moody's.
- **Noncompliance with Governmental Accounting Standards Board (GASB) Concepts Statement No. 1 Objectives of Financial Reporting.** Regarding timeliness, it states "If financial reports are to be useful, they must be issued soon enough after the reported events to affect decisions…." The untimely release of the State's CAFR is not in compliance with the most basic of financial reporting objectives.

Since 2000, Illinois has not completed the Statewide Single Audit within the required nine month deadline and has shown no improvement towards meeting the deadline. The delay in completing and submitting the Statewide Single Audit is significant for a number of different reasons:

- **Noncompliance with Federal Single Audit Time Requirements.** The federal government requires most entities that receive federal awards to have an audit conducted which must be submitted within nine months after the end of the fiscal year.
- **Negative Impact on Federal Funding.** Each year, the State of Illinois depends heavily on funding received from the federal government. In fiscal year 2009, Illinois expended $23.7 billion in federal awards. Officials from the federal Department of Health and Human Services noted that untimely financial

reporting could have an effect on the amount of discretionary funding received. In May 2010, the Illinois Student Assistance Commission received a letter from the U.S. Department of Education regarding the single audit. The letter stated that if the audit was not submitted within 15 days, it would be classified as missing. The letter further stated that the Secretary of Education may "…suspend the payment of account maintenance fees, default fees, and claims to an entity that does not submit its audit within the required time period."

- **Hampers Oversight and Adds to the Cost of Administering the Programs.** One result of late reporting is increased scrutiny from the federal government. Increased scrutiny has several effects including making it more costly for the State to administer the program.

On March 4, 2010, the Illinois Senate adopted Senate Resolution Number 609 which directed the Auditor General to conduct an audit of the State's financial reporting system including, but not limited to, the following determinations:

- An analysis of the State's current financial reporting procedures, practices, and systems, including the number of different systems used by the various State agencies, an estimate of the cost of maintaining those systems, and whether those systems are compliant with generally accepted accounting principles applicable to government; and
- A survey of other states to determine their methods of financial reporting and any advantages or disadvantages to those methods, with particular emphasis on those states, if any, with centralized automated reporting systems.

Auditors surveyed all other states and the District of Columbia and received responses from 34 of 51 of the states surveyed. Illinois was one of only three states that reported having a decentralized financial reporting system. Including Illinois, three of 34 states (9%) responding had a decentralized financial reporting system. Twenty-one of 34 states (62%) had a centralized financial reporting system but it was not GAAP compliant. This means that the preparer of the CAFR does a conversion or reconciliation process for GAAP reporting. Eight of 34 states (24%) had a centralized financial reporting system that generated GAAP compliant information. This type of system is the most desirable option.

Auditors recommended that the Governor's Office and the Office of the Comptroller develop and implement a plan to correct the problems with the current financial reporting process and begin overhauling the Stat's financial reporting system.

Report Conclusions

The State of Illinois' financial reporting "system" is comprised of over 260 individual financial systems, many of which are not interrelated, are antiquated, and are costly to operate. The lack of a centralized financial reporting system has considerable negative consequences, including untimely financial reporting of the true financial position of the State. The lack of timely financial reporting limits effective oversight of State finances, adversely affects the State's bond rating, and jeopardizes federal funding. Specifically the auditors found the following:

- Agencies reported using 263 different financial reporting systems.
- Agencies reported that only 16% of the systems are compliant with Generally Accepted Accounting Principles (GAAP).
- Half of the financial reporting systems in use at State agencies are more than 10 years old.
- Fifty-three percent of the financial reporting systems are not interrelated which consequently requires manual intervention to convert data from one system so it can be used in another.
- The total estimated cost of maintaining the systems in fiscal year 2010 was not determinable. Agencies provided cost estimates totaling $24 million which covered only 56% of the systems.

In addition to the lack of a centralized GAAP compliant financial reporting system, other factors have an adverse impact on the timeliness and accuracy of financial reporting:

- The Comptroller's Office is responsible for financial reporting but does not have authority over the agencies from which it collects information. Furthermore, there is no penalty if the agencies do not cooperate with the Comptroller. The Comptroller's Office and the Governor's Office should work together to establish financial reporting target completion dates and ensure that such dates are met.
- The State of Illinois has a complex fund structure that utilized an estimated 900 funds in FY09. A complex fund structure increases the level of effort necessary to account for and report transactions and increases the risk of errors and omissions.
- Many State agencies have a lack of competent trained staff in the area of financial reporting and reported that the personnel system impedes their ability to hire qualified staff.

RECOMMENDATIONS

1. **The Governor's Office should work with agency fiscal staff to ensure that agencies have the staff needed in the area of financial reporting. The Governor's Office should also work with Central Management Services to make any needed adjustments to the current personnel system so that agencies can obtain qualified staff.**

Findings: Sufficient staff which are qualified and adequately trained in financial reporting are critical for any reporting system to be successful. Previous findings issued by the Office of the Auditor General have stated that agency personnel involved with the financial reporting process may lack the qualifications, time, support, and training necessary to timely and accurately report year end accounting information. The Governor's Office agreed with this finding noting: "The decentralized nature of the State's accounting systems and lack of a general ledger system results in time consuming, manual tabulations by accounting personnel who lack the qualifications and systems to report accurate financial information on a timely basis."

In the survey, auditors asked agencies staffing related questions and received similar overall responses to each question. Exhibit 2-6 shows the questions, the number responding yes, and the percent of those responding. Not all agencies provided responses to each question. Approximately one of every three agencies responded that a lack of staff and a lack of trained staff impacted their ability to complete year-end reporting in a timely and accurate manner. Six of the largest 10 agencies—DCFS, DOC, DHFS, DHS, DOR and DOT, based on FY10 appropriated expenditures, responded yes to these staffing questions. Specific comments included:

Exhibit 2-6
STAFFING RELATED QUESTIONS

Question	Yes	Percent
Has a lack of staff impacted your agency's ability to complete year-end reporting in a timely and accurate manner?	24 (of 74)	32%
Has a lack of trained staff impacted your agency's ability to complete year-end reporting in a timely and accurate manner?	23 (of 74)	31%
Does the State's current personnel system impede your agency's ability to hire qualified staff in the area of financial reporting?	23 (of 71)	32%
Would additional training from the Comptroller's Office on GAAP reporting be beneficial?	25 (of 75)	33%

Source: OAG analysis of agency surveys.

- **Due to prior staff having left and not been replaced, other staff is forced to recreate what was done in the prior year without any guidance.** (Department on Aging)

- **Staff vacancies and turnover resulted in both shortages of people to do the tasks and inexperience in the process.** (Department of Corrections)

- **Our staff is down 55%. No one thoroughly trained.** (Illinois Emergency Management Agency)

- **New employees and lack of trained staff and having no experienced GAAP people any longer creates a huge learning curve.** (Governor's Office of Management and Budget)

- **This is a specialized skill that is not needed all year, so it is done by untrained/under trained staff.** (Law Enforcement Training and Standards Board)

- **We have people trying to assist with year-end packages that have no idea what accrual accounting or even a payable/receivable are. We have people who believe federal billing is the only accountability they have for their grants. Getting accurate info out of untrained people is excruciatingly difficult.** (Department of Natural Resources)

- **Until two years ago the fiscal staff had no accountants.** (Workers' Compensation Commission)

Approximately one of three agencies, including seven of the largest ten agencies, responded that the State's personnel system impeded the agency's ability to hire qualified staff. Specific comments included:

- **The current personnel system impedes our ability to hire qualified staff. Years of service are considered equivalent to education whereas special skills and qualifications are needed for financial reporting staff.** (Healthcare and Family Services)

- **Current title used for accountants are PSA Option 2, which does not require a bachelor's in accounting. It allows the candidate to have equivalent experience…CMS titles have not kept pace with changes in the industry, such as increasing the number of years of college from a bachelor's degree to the 5 year requirement to sit for the CPA exam. An entry level accounting job title which would require the applicant to meet the CPA candidate requirements would be very advantageous.** (Department of Human Services)

- **Because we promote through titles and we don't hire outside state employees getting qualified, knowledgeable, competent people is nearly impossible.** (Department of Natural Resources)

- **Union agreements make selection of qualified staff difficult and untimely.** (Department of Transportation)

About one of every three agencies also felt that additional training from the Comptroller's Office would be beneficial.

<u>Governor's Office Response</u>: The Governor's Office concurs with the Office of the Auditor General's recommendation. The Governor's Office of Management and Budget has worked with the fiscal staff of other agencies to draft job descriptions for accountants. These job descriptions are written to assure that staff hired into accountant positions will have the required educational and work experience to compile GAAP financial reports. These positions have been submitted to Central Management Services and are awaiting CMS action. The process of creating and filling positions in the agencies with qualified people is a long-term strategy. The task to have these positions approved and to work with agencies to hire qualified people will take time. In the interim, GOMB is happy to partner with the Comptroller's Office to provide assistance to agencies. Providing training and support is outlined in the Comptroller's response to recommendation number three.

The Governor's Office will also work with the Department of Central Management Services to evaluate improvements that can be made to the personnel system and all of its components. The end result would be to make the system more efficient and responsive to the needs of the state.

Governor's Office Updated Response: Since submitting our original responses to the Office of Auditor General's findings, there have been a number of corrective steps undertaken by the administration in cooperation with the Comptroller.

We have determined that the personnel problem exists not only with respect to financial reporting and accounting positions but also with Information Technology programming and project management positions. To implement a comprehensive solution for our financial accounting systems, the State will need staff to deal with the innumerable complexities of programming and managing the installation of an ERP system

GOMB has worked with CMS' Bureau of Personnel to rewrite position descriptions. CMS has identified several hurdles that must be overcome before these positions can be established. CMS believes they will be successful in creating positions allowing agencies to hire accountants knowledgeable about financial reporting.

2. **The Governor's Office and the Office of the Comptroller should develop and implement a plan to correct the problems with the current financial reporting process and begin overhauling the State's financial reporting system. During this process, they should examine the results of the auditors' agency survey and obtain input from affected parties.**

Findings: One major impact of the current financial reporting system is that year end financial reporting is not completed in a timely fashion. In Illinois, year end financial reporting consists primarily of the Comprehensive Annual Financial Report (CAFR) and the Statewide Single Audit.

In the last three years, Illinois' CAFR was not completed until approximately one year after the end of the fiscal year. In contrast, many businesses prepare quarterly reports, as well as annual reports that are issued within two or three months of the end of the fiscal year. The delays in releasing the CAFR are significant for a number of different reasons.

For financial reports to be useful, they must be timely. Legislative and oversight bodies are one of the primary users of financial reports. It is intended for legislative and oversight officials to use financial reports to compare budgets to the actual results. They also need to assess the overall financial condition when developing both capital and operating budgets for the next fiscal year. When financial reports are not available, legislative and oversight officials are forced to use outdated and incomplete information or unaudited numbers.

Untimely financial reporting is a negative factor that affects the State's bond rating. Since 2000, Illinois has not completed the Statewide Single Audit within the required nine-month deadline. The federal government requires most entities that receive federal awards to have an audit conducted which must be submitted within nine months after the end of the fiscal year.

Each year, the State of Illinois depends heavily on funding received from the federal government. In fiscal year 2009, Illinois expended $23.7 billion in federal awards. Untimely financial reporting could have a negative impact on federal funding. One federal official noted that the majority of HHS funding is entitlement funding but when you are up against another state for discretionary funding, financial reporting problems put your state in a negative light.

In May 2010, the Illinois Student Assistance Commission received a letter from the U.S. Department of Education regarding the single audit. The letter stated that if the audit was not submitted within 15 days, it would be classified as missing. The letter further stated that the Secretary of Education may "…suspend the payment of account maintenance fees, default fees, and claims to an entity that does not submit its audit within the required time period."

Federal officials noted that Illinois has a history of a repeated finding regarding the financial reporting system and has not shown any progress. One result is increased scrutiny from the federal government. Increased scrutiny has several effects including making it more costly for the State to administer the program. The federal government may do more monitoring because they don't yet have the single audit in hand, which adds costs for the State.

Illinois has a highly fragmented and decentralized financial reporting system that utilizes over 260 different systems. Many systems used are archaic and obsolete. Systems are expensive to maintain, do not interface with each other, and are not GAAP compliant.

Auditors asked agencies to rate their satisfaction with the year-end GAAP conversion process and to provide suggestions for how it could be improved. Forty-nine percent (36 of 73) of agencies were either satisfied or very satisfied with the current process, 18% were dissatisfied or very dissatisfied, while 33% were neutral.

Responses indicated that many agencies are satisfied with the current system. For example, the Capital Development Board's response stated simply "I do not want a new financial reporting system."

One of the agencies dissatisfied with the process, the Department of Veterans' Affairs, noted that the timing of year end financial reporting is challenging for smaller agencies where the same staff members are processing invoices to close out one fiscal year and set up appropriations for the next fiscal year. Its response added that the manual gathering and compiling data for complex GAAP forms is cumbersome.

Another agency, the Department of Revenue, stated that there should be no manual forms with regards to the GAAP packages. The automated roll-up should edit everything to eliminate many manual errors. The Department of Labor suggested that the Comptroller's WEDGE system be completely automated to eliminate redundant reporting requirements and the possibility of data entry errors.

Other agencies provided overall comments and suggestions. The Law Enforcement Training and Standards Board provided extensive comments emphasizing that if a new system is implemented it should not be a commercial off-the-shelf product. The Council on Developmental Disabilities stated that if a new system is developed, input from smaller agencies should be obtained. The Department of Human Services strongly suggested interviewing fiscal staff at the agencies to get a more comprehensive view of the accounting systems used.

The auditors surveyed all 50 states and the District of Columbia to determine their methods of financial reporting and any advantages or disadvantages to those methods. The auditors also explored practices to avoid and practices to embrace when conducting a system implementation project based on information from a study developed by the National Association of State Chief Information Officers and research conducted by the Office of the Auditor General in Illinois and other states.

Governor's Office Response: The Governor's Office concurs with the Office of the Auditor General's recommendation. The Governor's Office recognizes that the State must address the issue of need for a centralized financial accounting system. However, as the Office of the Auditor General acknowledges in its report, to address such issues will require--with the help of the General Assembly--the allocation of considerable financial resources to this long-term project, whether through the State's Capital Program or otherwise.
The Office of the Governor has appointed a Chief Information Officer to manage the State's Information Technology resources, with the specific task of creating and implementing a comprehensive strategic plan, major components of which are directed at:

1. integrating related, but currently disparate and disconnected financial accounting systems;

2. reviewing and redefining business processes in and among state agencies in the interest of efficiency and simplicity;

3. establishing statewide IT management standards that require and incent agencies to realize synergies in and among themselves.

A centerpiece of this strategy will be a consistent and long-term focus on migrating the data from legacy, archaic systems to relational databases—modern, searchable and integrated storehouses—thereby decommissioning antiquated technology, and replacing it with more modern, less expensive, and more usable integrated systems.

Governor's Office Updated Response: The Governor's Office has formed a steering committee to develop a plan for implementing a Statewide financial accounting system in cooperation with the Comptroller. The committee will have members from different agencies and different constitutional officers. We will welcome legislative representation as well. The steering committee met for the first time on July 20, 2011 to begin its work. It will reconvene on Tuesday, August 23, 2011. Following the audit report, the Governor's Office testified before a Senate committee on the state of our accounting systems. As a result of that hearing, we have formed the steering committee and have developed a draft plan and timeframe for the project.

Following is that draft plan and timeline:

1. **Short-Term (3—6 Months)**
   a. Identify a Funding Source
      i. Pass a capital bill during veto session which includes a minimum of $150 million for this project.
   b. Convene a Steering Committee
      i. We want to establish a high level steering committee with representatives from critical stakeholders that will oversee and guide the process of implementing a unified statewide financial reporting system, including:
         - Office of the Governor,
         - Office of the Comptroller,
         - GOMB, DHS, DOC,
         - 2 representative(s) selected by the State Government and Veteran's Affairs Senate Committee.
         - 2 Members of the House

      ii. The committee will:
         - Review relevant materials previously developed by a consulting firm, such as RFP's, reports, needs assessment reviews, etc.,
         - Procure the services of this consulting firm through CMS by late November/early December, 2011,
         - Assess responses submitted to prior RFPs,

- Develop a business plan for proceeding with implementing a new financial accounting system,
- Schedule its initial meeting on or before July 1, 2011,
- Submit a progress report to the Governor's Office and the General Assembly on or before October 1, 2011.

c. Training
The Comptroller's Office has begun a program to provide training to agencies for financial reporting. The Comptroller's Office has already developed training materials and begun training on a new Governmental Accounting Standards Board statement.

d. Modernize WEDGE and CAFR
The Office of the Comptroller is re-writing the base code for WEDGE and CAFR reporting system and is on target to complete this by June 30, 2011. In addition, the individual fund reporting package system is being enhanced to:
- add manual forms to the system,
- automate journal entries, reducing errors.

e. Enforcing Reporting Deadlines
The Governor's Office, GOMB, and the Office of the Comptroller will jointly communicate to agency/department heads and CFOs the imperative of meeting all deadlines, to ensure timely financial reporting. GOMB announced its intent to work with the Comptroller's Office to ensure agency compliance at a CFO meeting on June 6th, 2011.

f. Assistance in Compiling GAAP Packages
. GOMB and the Comptroller's Office are exploring ways to provide agencies with on-site assistance in preparing their GAAP packages. The purpose of this is to help agencies that do not have qualified staff to prepare GAAP financials.

2. Mid-Term goals (3—9 Months)

a. Personnel
i. GOMB has begun and will continue to work with CMS Personnel to make sure that all job position descriptions, titles and classification are written to allow agencies to hire appropriate staff.
ii. The Governor's Office and GOMB has drafted legislation to streamline the Personnel Code to remove hurdles preventing agencies from hiring staff qualified to:
- Provide accountancy services,
- Manage the process of implementing a new financial accounting system,

- Provide technical and programming assistance in implementing the new financial accounting system.

b. Ongoing Training
The Office of the Comptroller is scheduling training to all agencies preparing individual fund reporting packages ("GAAP" packages) in late July. Various training sessions will be offered, with the goal of training end users on the new look and new features of the system.

c. Develop Business Plan for Centralized Financial Reporting System Implementation
The Steering Committee will complete its review of existing documentation and begin the development of a business plan. That plan will contain a timeline for issuing any necessary RFPs to procure the services needed guide the State to a centralized financial accounting system. This will entail procuring the required funding and convening a larger committee that will be populated by a broad range of stakeholders from across state government.

3. Long-Range (9 Months—5 Years)

a. Finalize the Business Plan
   i. Research other States that have implemented a state-wide GAAP compliant system
   ii. Assess marketplace for products and services

b. Conduct a Comprehensive Needs Assessment

c. Develop an RFP for a Comprehensive Solution

d. Through the Steering Committee, Coordinate a Statewide Implementation Effort.

Comptroller's Office Response: We concur with the OAG recommendation. For the short term, the Comptroller's Office has developed a plan to update the current WEDGE and CAFR systems for the next reporting cycle. For the long term, we agree the best course of action for the State is to invest in a new centralized GAAP compliant financial reporting system. We will work with the Governor's Office to develop a proposal for a new centralized GAAP compliant financial reporting system for the State of Illinois.

3. The Office of the Comptroller should assess its training approach and develop a new policy on agency training. The assessment should involve the user agencies and should consider the need for agency specific training and training on new financial reporting standards.

Findings: The amount of training offered by the Comptroller and attendance at those trainings has declined in recent years.

The basic GAAP (Generally Accepted Accounting Principles) training course declined in attendance from a high of 46 employees from 28 agencies in 2004 to only 15 employees from eight agencies in 2010. Basic GAAP training was only given on one day in 2010, although it was offered on three other days which were ultimately cancelled. The GAAP Update training course received fairly steady attendance from 2004 to 2008. However, the course was not offered in 2009 or 2010. The WEDGE and interfund transfers training course was first offered in 2007. Attendance in 2010 hit a low of 18 employees from 10 different agencies.

According to a Comptroller's Office official, the Comptroller's Office offers training on the GAAP forms for the GAAP packages. If there is enough new information that has changed from the previous year, a new class will be offered. The official said that attendance was down in 2010 because of budget constraints and that agencies can't send staff to trainings because they are so understaffed. On-site training at individual agencies has never been offered. However, if an agency is having problems, the Comptroller's Office will send someone to the agency to assist them.

If Illinois implements a new centralized GAAP compliant financial reporting system, training on the system would obviously be key. Once the system was fully implemented, the type of training that would need to be offered by the Comptroller's Office would change but would likely still be needed.

In the auditors' survey, 33% (25 of 75) of agencies responding indicated that additional training from the Comptroller's Office on GAAP reporting would be beneficial. Specific comments from agencies included:

- *GAAP training is very generic, more specificity is desirable.* (Department on Aging)
- *I think basic training from Step A to Step Z that is specific to agency size/funding would be very beneficial. Much of the training provided doesn't apply to our agency and that makes it confusing. On the other hand, the Comptroller's staff provide excellent assistance to help us submit timely and accurate information.* (Council on Developmental Disabilities)
- The need for agency specific training was suggested by the Criminal Justice Information Authority, Department of Veterans' Affairs, and the Violence Prevention Authority.

It is also critical that agencies are aware of new standards that impact financial reporting. While agencies need to take the initiative to be aware of new standards, the Comptroller's Office needs to provide information on these standards and how they will affect reporting to the Comptroller.

Auditors asked agencies if they receive timely information from the Office of the Comptroller concerning new financial reporting standards that impact information that will need to be reported to the Office of the Comptroller. Of those responding, 27% (21 of 77) responded that they did not receive timely information. Specific comments included:

- *Training on new GASB statements and related GAAP reporting requirements would be beneficial. This should be conducted in the spring each year in advance of GAAP submissions. At a minimum, IOC guidance should be distributed to agencies regarding new reporting requirements on an on-going basis or incorporated into the semi-annual SAMS manual updates.* (Central Management Services)

- *Lack of timely information from the IOC regarding the due dates, accounting statements, and packages.* (Corrections)

- *In numerous occasions across the state erroneous information or assumptions have been used to decide how to apply new and existing accounting standards. It is not uncommon for the Comptroller's Office to then wait until the last minute to inform DHS of the final decision changing previous application, sometimes as late as February, and then blame the agency for not submitting corrections timely.* (Human Services)

- *Training on new standards prior to required implementation.* (Treasurer)

Comptroller's Office Response: We concur with the OAG recommendation. The Comptroller's Office will develop a new outreach program for the agencies that includes periodic update sessions, training sessions, and round table discussions. In addition, the Comptroller's Office will request the funding for a GAAP technical unit to meet the needs of the State with outreach, training, technical assistance, and rapid response to specific problems identified by the IOC, the Governor's Office, or the agencies.

4. The Governor's Office and the Office of the Comptroller should work together to establish financial reporting target completion dates. They should also work together in monitoring the established dates to ensure that agencies are complying with those dates and submitting information in a timely manner.

Findings: There has been a lack of cooperation among the principals involved in Illinois' financial reporting process. For any system to work there must be cooperation between the different parties. This concept of cooperation is especially important in Illinois' year-end financial reporting process. The Comptroller collects information from agencies and completes the Comprehensive Annual Financial Report (CAFR). However, the Comptroller does not have authority over these agencies and there is no penalty if the agencies do not comply with the Comptroller's established due dates.

In other states, the responsibility for preparing the CAFR is mixed. For the majority (37 of 50), the responsibility lies within an agency under the Governor. For example, in Missouri, the CAFR is prepared by the Office of Administration – Division of Accounting, which is an agency under the Governor. Including Illinois, the CAFR is prepared by a separately elected official in 12 of the 50 states. For 10 of 12, the elected official is a

Comptroller, a Controller, or a Chief Financial Officer. In the remaining two, the elected official is the State Auditor. For the state classified as "Other Arrangement," the Controller of North Carolina is appointed by the Governor and approved by the General Assembly for a seven year term.

For this audit, two agencies would not provide survey responses despite several requests to do so. Agencies need to cooperate with each other for state government to function properly.

As noted in Chapter One, in conjunction with the audit of the State's financial statements, the Office of the Auditor General issues a report on internal control over financial reporting. This report has contained a finding on financial reporting weaknesses that has been repeated for the last eight years. In response to the finding, the Governor's Office and the Comptroller's Office have agreed to work together to solve the issues and have stated that part of the problem lies in a separation in the responsibility for the State's internal control procedures. Despite the agreement to work together, the auditors' most recent finding noted the following:

> *Those charged with governance are not actively involved in the financial reporting process. Specifically, those charged with governance do not have a formal process for establishing financial reporting target completion dates and routinely monitoring progress towards meeting completion dates or ensuring audit requests are completed timely.*

The Comptroller's Office and the Governor's Office need to work together to establish and monitor financial reporting target completion dates. Cooperation would also aid in making sure agencies are complying with completion dates and submitting requested information in a timely manner.

<u>Governor's Office Response</u>: The Governor's Office concurs with the Office of the Auditor General's recommendation. The Comptroller is in the best position to establish the timeline for financial reporting target completion dates. The Governor's Office will assist meeting any such timeline by personally urging agencies under the Governor to respond in a timely fashion. The Governor's Office of Management and Budget will use its resources to monitor the agencies through its staff and obtain updates on the status of submissions.

As has been noted in this report and in the recommendations, the inability of agencies to respond in a timely manner is multifaceted and cannot be solved in the short term without providing additional support and assistance to the agencies. Hiring additional competent staff and providing technological solutions will be an integral part of any long-term solution.

<u>Governor's Office Updated Response</u>: The Governor's Office of Management and Budget told CFOs at a CFO meeting that it considered financial reporting a priority and expected agencies to meet the deadlines. GOMB has also sent out a letter to agency heads reporting to the Governor telling them the importance of their staff meeting the deadlines set by the Comptroller and the Auditor General and asking them to provide support for this effort. They have been requested to acknowledge this by signing the letter in agreement.

Comptroller's Office Response: We concur with the OAG recommendation. The Comptroller's Office will work with the Governor's Office to develop financial reporting target completion dates. We will coordinate with the Office of the Auditor General to make sure our timelines are in sync with their audit plans. If an agency does not meet the targeted completion dates, the Comptroller's Office will notify the Governor's Office and the Auditor General's Office immediately.

5. The Governor's Office and the Office of the Comptroller should work with the General Assembly to reduce the complexity of the State's fund structure.

Findings: The State of Illinois maintains an inordinate number of funds. In response to the survey, the Comptroller's Office estimated that 900 different funds were utilized in FY09. A complex fund structure increases the level of effort necessary to account for and report transactions. Many transactions are fund transfers from one fund to another. State agencies, the Comptroller's Office, and the Office of the Auditor General spend an excessive amount of time and effort accounting for money that just moves from one fund to another.

Since agencies are required to complete a GAAP package for each fund in which they have activity, many agencies are required to submit multiple GAAP packages. As shown in Exhibit 5-3, **12 agencies were required to submit 30 or more GAAP packages in fiscal year 2009**. The number of funds leads to increased time spent completing GAAP packages and increases the chance of errors in the GAAP packages.

Some states were similar to Illinois in utilizing many different funds. For example, California had 836 active funds in FY09. Florida had over 2,000 funds for internal reporting purposes which were aggregated into 73 funds for external reporting purposes. Conversely, Michigan utilized only 76 funds and Wisconsin 60 funds.

Different funds are established in order to control and segregate resources to ensure they are used for the purposes intended. Funds are often created as the result of legal requirements. In recent years, the State has circumvented these controls and conducted special transfers referred to as "sweeps." Most recently, in fiscal year 2010, $283 million was swept from 188 different funds. If money continues to be swept from funds, the need for segregating resources into different funds is diminished.

In 2003, in an immaterial finding to the Comptroller's Office, auditors reported on the number of funds maintained by the State and the need to reduce the complexity of the State's fund structure. Additionally, numerous transfers among funds hinder useful financial analysis. The risk of financial reporting errors is also increased when financial activity includes numerous transfers among funds.

The Comptroller's Office responded to the finding by stating that until the General Assembly and the Governor enact legislation to change the number of funds and interfund transfers, the Comptroller's Office must establish the funds required by legal specifications and process transfers authorized by statute.

Exhibit 5-3
STATE AGENCIES THAT WERE REQUIRED TO SUBMIT 30 OR MORE GAAP PACKAGES
Fiscal Year 2009

Agency	# of packages submitted
Revenue	74
Secretary of State	63
Public Health	60
Human Services	57
Natural Resources	51
Agriculture	49
Commerce & Economic Opportunity	46
Financial & Professional Reg.	40
Healthcare and Family Services	32
Transportation	32
Environmental Protection Agency	31
State Police	30

Source: OAG analysis of fiscal year 2009 GAAP package submissions.

Governor's Office Response: The Governor's Office concurs with the Office of the Auditor General's recommendation. The Governor's Office, with the assistance of the Governor's Office of Management and Budget, will continue to review the fund structure of the State and make recommendations. Most funds are required by statute. Any consolidation or elimination of funds would require the approval of the General Assembly. GOMB is also happy to work with the Comptroller in responding to requests by legislators to analyze the necessity of creating a new fund for some specific purpose. GOMB will seek to provide innovative solutions that will satisfy the desire to keep a separate accounting of designated moneys.

Comptroller's Office Response: We concur with the OAG recommendation. The Comptroller's Office will extend an official offer to the General Assembly to review any draft legislation that involves the creation of new funds and provide technical advice on potential alternatives.