



STATE OF ILLINOIS
**OFFICE OF THE
AUDITOR GENERAL**

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

FINANCIAL AUDIT
For the Year Ended: June 30, 2010

Release Date: April 7, 2011

Summary of Findings:

Total this audit:	3
Total last audit:	5
Repeated from last audit:	3

INTRODUCTION

This report covers our financial audit of the Department of Central Management Services for the year ended June 30, 2010. A State compliance examination covering the two years ended June 30, 2011 will be performed next year.

SYNOPSIS

- The Department's year-end financial reporting to the Office of the State Comptroller contained significant errors.
- The Department did not institute or implement comprehensive standards to effectively secure and control the midrange computer environment.

{Expenditures and Activity Measures are summarized on the reverse page.}

**DEPARTMENT OF CENTRAL MANAGEMENT SERVICES
FINANCIAL AUDIT
For the Year Ended June 30, 2010**

STATEMENT OF ACTIVITIES INFORMATION - GOVERNMENTAL ACTIVITIES (expressed in thousands)	Fiscal Year 2010	Fiscal Year 2009
PROGRAM REVENUES		
Charges for Services.....	\$ 746,099	\$ 764,124
EXPENSES		
Total Expenses.....	986,074	861,767
NET (EXPENSES) REVENUES.....	(239,975)	(97,643)
Total General Revenues and Transfers.....	93,302	76,511
CHANGE IN NET ASSETS.....	(146,673)	(21,132)
Beginning Net Assets, July 1,.....	(16,002)	5,130
ENDING NET ASSETS, JUNE 30.....	\$ (162,675)	\$ (16,002)

STATEMENT OF NET ASSETS INFORMATION - GOVERNMENTAL ACTIVITIES (expressed in thousands)	Fiscal Year 2010	Fiscal Year 2009
Cash Equity with State Treasurer.....	\$ 42,181	\$ 38,137
Cash and Cash Equivalents.....	3,766	3,670
Capital Assets, Net.....	265,405	284,217
Other Assets.....	253,904	234,279
Total Assets.....	565,256	560,303
Accounts Payable.....	114,559	95,393
Long Term Obligations.....	590,896	459,134
Other Liabilities.....	22,476	21,778
Total Liabilities.....	727,931	576,305
Net Assets, Invested in Capital Assets, Net of Related Debt.....	227,783	239,166
Net Assets, Restricted for Debt Services.....	3,766	3,670
Net Assets, Unrestricted.....	(394,224)	(258,838)
Total Net Assets.....	\$ (162,675)	\$ (16,002)

AGENCY DIRECTOR
During Examination Period: James P. Sledge
Currently: James P. Sledge

FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS

**WEAKNESSES IN INTERNAL CONTROL OVER
FINANCIAL REPORTING**

**Significant errors in year-end
financial reporting**

The Department's year-end financial reporting in accordance with generally accepted accounting principles (GAAP) to the Office of the State Comptroller contained significant errors in the determination of certain year-end account balances and note disclosures.

During the audit of the June 30, 2010 financial statements and testing of workers' compensation liability and automobile liability information, the auditors noted material weaknesses and significant deficiencies resulting from the Department's failure to establish adequate internal control over the accumulation of information necessary for the proper determination of year-end liabilities as follows:

**Fiscal year 2010 workers'
compensation liability
understated \$22.237 million due
to a calculation error**

- During the auditor's testing of the workers' compensation liability, the auditors noted an error in the calculation resulting in an understatement of \$17.790 million in the General Revenue Fund and \$4.447 million in the Road Fund. The fiscal year 2010 financial statements have been adjusted to correct the \$22.237 million overstatements.

**No formal evaluation or
estimation process for workers'
compensation claims**

- During the auditor's testing of the workers' compensation liability, the auditors noted the Department did not have a formal evaluation or estimation process for claims (injuries having occurred prior to year-end) which were pending or were considered to be in the process of being awarded. The Department calculated the workers' compensation liability for pension-type awards based primarily on awards which have been settled as of the fiscal year end or very soon thereafter. Governmental accounting requires the Department to determine whether it is probable, reasonably possible, or remote that a liability has been incurred as of the date of the financial statements. If the Department determines it is probable that a liability has occurred and an amount can be reasonably estimated, such amount should be accrued as of the financial statement date. The Department's financial statements were subsequently adjusted to include additional workers' compensation liabilities of \$33.363

Fiscal year 2010 workers' compensation liability understated \$41.704 million due to an informal estimate process

million in the General Fund and \$8.341 million in the Road Fund, representing an estimate of the total liability based on historical averages. While the auditors do believe the financial statements are fairly stated at June 30, 2010, the methodology does not necessarily result in a reasonable estimate of the liability due to the wide range of potential settlement outcomes. The estimate would be more accurate if calculated based on projected outcomes based on the facts and circumstances inherent in the individual claims. At June 30, 2010 the Department reported a total of 226 unsettled claims of which a portion are likely to result in a pension-type award.

\$10 thousand automobile claim classified incorrectly

- The Department is responsible for reporting liabilities arising from accidents involving State employees. While testing large (>\$25,000) Automobile Liability reserves at June 30, 2010, the auditors noted large claim payments that were classified as routine and improperly included in the calculation of the contingent liability for routine claims resulting in an overstatement of the auto liability for routine claims of approximately \$10,000.

Lacking effective reconciliation and review controls over financial reporting

- During testing, the auditors noted several other errors in the preparation of the Department's internal service fund financial statements. The errors included improperly calculating the amount reported as "invested in capital assets, net of related debt," overstating accounts payable, and errors in the calculation of the future minimum lease payments in the operating leases footnote. The errors noted were not individually significant to the financial statements taken as a whole; however, the Department did not have effective controls over the reconciliation and review functions to ensure amounts were properly reported at June 30, 2010. (Finding 1, pages 48-51 of the Financial Report) **This finding was first reported in 2007.**

We recommended the Department implement procedures to ensure GAAP Reporting Packages are prepared in a complete and accurate manner and information provided to other agencies and the Office of the State Comptroller for financial reporting purposes is complete and accurate. Additionally, we recommended

the Department evaluate pending workers' compensation claims on a case-by-case basis to ensure the calculation of the year-end liability is accurate and representative of the probable loss to be incurred on such outstanding claims.

Department agrees with auditors

Department officials concurred with our recommendation and stated that they have addressed each of the control recommendations. (For the previous Department response, see Digest Footnote #1)

INADEQUATE SECURITY AND CONTROL OVER THE MIDRANGE ENVIRONMENT

Comprehensive standards not implemented for midrange environment

The Department did not institute or implement comprehensive standards to effectively secure and control the midrange environment.

Inadequate security over midrange environment

Although it has been five years since the consolidation, the auditors continue to note inadequate security over the midrange environment. Specifically, during the auditor's review, the auditors noted:

- Comprehensive standards to effectively secure and control the midrange environment had not been implemented across the midrange environment.
- Password length and content requirements were lacking.
- Some administrative and user accounts did not require passwords.
- Servers were not updated with the current vendor recommended patch or service pack levels.
(Finding 2, pages 52-53 of the Financial Report)
This finding was first reported in 2007.

We recommended the Department institute and implement comprehensive standards to effectively secure and control the midrange environment for itself and consolidated agency systems. In addition, we recommended the Department formally communicate with consolidated agencies to determine their specific security requirements, and develop and implement guidelines that outline both the agencies' and the Department's responsibilities and provide a means for consolidated agencies to verify that security and integrity controls in the midrange environment are suitable and meet specific application requirements.

The auditors specifically recommended the

Department: (1) standardize password length and content requirements and ensure all accounts require a password and (2) update servers to current vendor recommended patch or service pack levels.

Department agrees with auditors

Department officials concurred with our recommendation and stated that they will continue to strive toward standardization and maturity in the midrange environment to improve security. (For the previous Department response, see Digest Footnote #2)

OTHER FINDINGS

The remaining finding is reportedly being given attention by the Department. We will review the Department's progress toward the implementation of all our recommendations in our next engagement.

AUDITORS' OPINION

Our auditors stated the Department's financial statements as of and for the year ended June 30, 2010 are fairly presented in all material respects.



WILLIAM G. HOLLAND
Auditor General

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SPECIAL ASSISTANT AUDITORS

Sikich, LLP were our special assistant auditors.

DIGEST FOOTNOTES

#1 – Weaknesses in Internal Control Over Financial Reporting – Previous Department Response

The Department concurs. The Workers Compensation liability calculation was revised in the current year to include full liability for lifetime awards. The new calculation contained a duplicate line creating an overstatement of the liability. The Department provided a revised liability calculation and required adjustments to the Office of the Comptroller. A revised liability calculation template is in place for next fiscal years. The Department is implementing an end-of-year review process for auto liability claims which will reduce the chance for error in estimating claim liabilities. All financial reports will be more closely reviewed before transmission to the Office of the Comptroller so that adjustments are correct and amounts are recognized

in the appropriate fiscal year for financial reporting.

**#2 – Inadequate Security and Control Over the Midrange Environment
– Previous Department Response**

The Department concurs and will continue to strive toward standardization and maturity in the midrange environment. In order to provide immediate benefit of physical environment control, DCMS relocated the non-standard server platforms into its data center which led to the need to support multiple, non-standard environments. Many of the underlying causes are a result of the decision to relocate servers prior to consolidation. The current Architectural Review Board, Service Engineering Unit, and I.T. Governance process will continue efforts to implement standards, establish appropriate documentation and guidelines, and communicate with agencies. The recent purchase and installation of a comprehensive compliance monitoring product will help control users with security administration authority; identify users that should be deactivated for non-use, and help DCMS track server patch and service pack levels. As staff resources and budgets permit, the Department plans to schedule an enterprise assessment of its security controls.