

**STATE OF ILLINOIS  
DEPARTMENT OF CORRECTIONS –  
CORRECTIONAL INDUSTRIES**

**FINANCIAL AUDIT  
For the Year Ended June 30, 2006  
And**

**COMPLIANCE EXAMINATION  
For the Two Years Ended June 30, 2006**

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

**STATE OF ILLINOIS**  
**DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES**  
**FINANCIAL AUDIT**  
**For the Year Ended June 30, 2006**  
**And**  
**COMPLIANCE EXAMINATION**  
**For the Two Years Ended June 30, 2006**

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**STATE OF ILLINOIS**  
**DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES**  
**FINANCIAL AUDIT**  
**For the Year Ended June 30, 2006**  
**And**  
**COMPLIANCE EXAMINATION**  
**For the Two Years Ended June 30, 2006**

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**STATE OF ILLINOIS  
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES**

**AGENCY OFFICIALS**

**DEPARTMENT OF CORRECTIONS:**

Director

Roger E. Walker, Jr.

**DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES:**

Chief Executive Officer

James R. Underwood

Assistant Chief Executive Officer

Salvatore J. Raymond

Planning and Fiscal Services Manager

Janet Shaughnessy

Chief Fiscal Officer

Richard W. Root

Agency office is located at:

1301 Concordia Court  
Springfield, IL 62794-9277



**Illinois**  
Department of  
**Corrections**

**Rod R. Blagojevich**  
Governor

**Roger E. Walker Jr.**  
Director

1301 Concordia Court / P.O. Box 19277 / Springfield IL 62794-9277 / Telephone: (217) 522-2666 / TDD: (800) 526-0844

MANAGEMENT ASSERTION LETTER

E.C. Ortiz & Co., LLP  
333 South Des Plaines  
Suite 2-N  
Chicago, Illinois 60661

November 3, 2006

Ladies and Gentlemen:

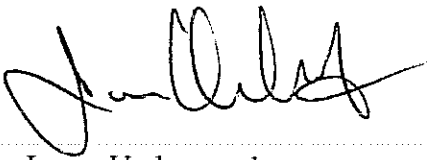
We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grants that could have a material effect on the operations of the State of Illinois, Department of Corrections – Illinois Correctional Industries. We are responsible for and we have established and maintained an effective system of, internal controls over compliance requirements. We have performed an evaluation of the State of Illinois, Department of Corrections – Illinois Correctional Industries' compliance with the following assertions during the two-years ended June 30, 2006. Based on this evaluation, we assert that during the years ended June 30, 2006 and June 30, 2005, the State of Illinois, Department of Corrections – Illinois Correctional Industries has materially complied with the assertions below.

- A. The State of Illinois, Department of Corrections – Illinois Correctional Industries has obligated, expended, received and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The State of Illinois, Department of Corrections – Illinois Correctional Industries has obligated, expended, received and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.
- C. The State of Illinois, Department of Corrections – Illinois Correctional Industries has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. The State revenues and receipts collected by the State of Illinois, Department of Corrections – Illinois Correctional Industries in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.

- E. The money or negotiable securities or similar assets handled by the State of Illinois, Department of Corrections – Illinois Correctional Industries on behalf of the State or held in trust by the State of Illinois, Department of Corrections – Illinois Correctional Industries have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate and in accordance with law.

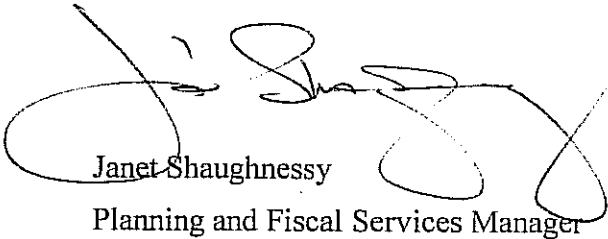
Yours very truly,

**Illinois Correctional Industries**



James Underwood

Chief Executive Officer



Janet Shaughnessy

Planning and Fiscal Services Manager



Ed Huntley

Chief Legal Counsel

**STATE OF ILLINOIS  
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES**

**COMPLIANCE REPORT**

**SUMMARY**

The compliance testing performed during this examination was conducted in accordance with *Government Auditing Standards* and in accordance with the Illinois State Auditing Act.

**AUDITORS' REPORTS**

The Independent Accountants' Report on State Compliance, on Internal Control Over Compliance, and on Supplementary Information for State Compliance Purposes does not contain scope limitations, disclaimers, or other significant non-standard language.

**SUMMARY OF FINDINGS**

<u>Number of</u>	<u>This Report</u>	<u>Prior Report</u>
Findings	7	4
Repeated findings	2	3
Prior recommendations implemented or not repeated	2	3

Details of findings are presented in a separately tabbed report section.

**SCHEDULE OF FINDINGS**

<u>Item No.</u>	<u>Page</u>	<u>Description</u>
FINDINGS (GOVERNMENT AUDITING STANDARDS)		
06-1	14	Weaknesses in Preparation of the Year End Financial Statements and GAAP Packages
FINDINGS (STATE COMPLIANCE)		
06-2	16	Management practices – Management Information System
06-3	18	Temporary assignments
06-4	20	Proceeds from sale of assets not collected in accordance with the statute

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<u>Item No.</u>	<u>Page</u>	<u>Description</u>
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FINDINGS (STATE COMPLIANCE)

06-5	22	Untimely signing/execution of written contract agreements
06-6	24	Updated liability insurance certificates could not be provided
06-7	26	All of the relevant costs not being included in the computation of manufacturing costs

PRIOR FINDING NOT REPEATED (GOVERNMENT AUDITING STANDARDS)

06-8	28	Improper cut-off procedures for purchases and expenses
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PRIOR FINDINGS NOT REPEATED (STATE COMPLIANCE)

06-9	28	Improvement needed in documentation of cost-benefit or cost-effectiveness analysis
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**STATE OF ILLINOIS  
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES**

**COMPLIANCE REPORT**

**EXIT CONFERENCE**

The findings and recommendations appearing in this report were discussed with Agency personnel at an exit conference on December 20, 2006. Attending were:

**Illinois Correctional Industries**

James Underwood – Chief Executive Officer  
Sal Raymond – Assistant Chief Executive Officer  
Jan Shaughnessy – Planning and Fiscal Services Manager

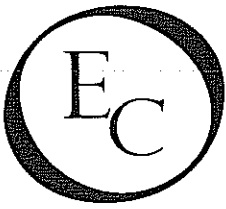
**Office of the Auditor General**

Paul Usherwood – Manager

**E. C. Ortiz & Co., LLP**

Stella Marie Santos – Partner  
Marites Sy – Manager

Responses to the recommendations were provided by Mary Ann Bohlen in a letter dated January 30, 2007.



INDEPENDENT ACCOUNTANTS' REPORT ON STATE COMPLIANCE, ON  
INTERNAL CONTROL OVER COMPLIANCE, AND ON SUPPLEMENTARY  
INFORMATION FOR STATE COMPLIANCE PURPOSES

Honorable William G. Holland  
Auditor General  
State of Illinois

**Compliance**

As Special Assistant Auditors for the Auditor General, we have examined the State of Illinois, Department of Corrections – Correctional Industries' compliance with the requirements listed below, as more fully described in the Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies (Audit Guide) as adopted by the Auditor General, during the years ended June 30, 2006 and 2005. The management of the State of Illinois, Department of Corrections – Correctional Industries is responsible for compliance with these requirements. Our responsibility is to express an opinion on the State of Illinois, Department of Corrections – Correctional Industries' compliance based on our examination.

- A. The State of Illinois, Department of Corrections – Correctional Industries has obligated, expended, received, and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The State of Illinois, Department of Corrections – Correctional Industries has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.
- C. The State of Illinois, Department of Corrections – Correctional Industries has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. The State revenues and receipts collected by the State of Illinois, Department of Corrections – Correctional Industries are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.

- E. Money or negotiable securities or similar assets handled by the State of Illinois, Department of Corrections – Correctional Industries on behalf of the State or held in trust by the State of Illinois, Department of Corrections – Correctional Industries have been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants; the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States; the Illinois State Auditing Act (Act); and the Audit Guide as adopted by the Auditor General pursuant to the Act; and, accordingly, included examining, on a test basis, evidence about the State of Illinois, Department of Corrections – Correctional Industries compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the State of Illinois, Department of Corrections – Correctional Industries compliance with specified requirements.

In our opinion, the State of Illinois, Department of Corrections – Correctional Industries complied, in all material respects, with the aforementioned requirements during the two years ended June 30, 2006. However, the results of our procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which are described in the accompanying schedule of findings as findings 06-2, 06-3, 06-4, 06-6, and 06-7.

As required by the Audit Guide, immaterial findings relating to instances of noncompliance excluded from this report have been reported in a separate letter to your office.

### **Internal Control**

The management of the State of Illinois, Department of Corrections – Correctional Industries is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws and regulations. In planning and performing our examination, we considered the State of Illinois, Department of Corrections – Correctional Industries' internal control over compliance with the aforementioned requirements in order to determine our examination procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Audit Guide, issued by the Illinois Office of the Auditor General.

Our consideration of internal control over compliance with the aforementioned requirements would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws and regulations that would be material

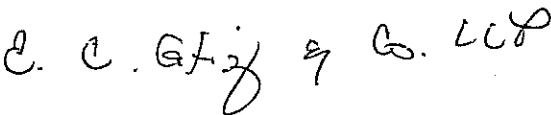
in relation to one or more of the aforementioned requirements being examined may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over compliance that we consider to be material weaknesses. However, the results of our procedures disclosed other matters involving internal control which are required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which are described in the accompanying schedule of findings as findings 06-1 and 06-5.

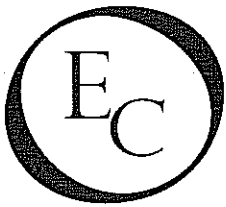
As required by the Audit Guide, immaterial findings relating to internal control deficiencies excluded from this report have been reported in a separate letter to your office.

### **Supplementary Information for State Compliance Purposes**

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the business-type activities of the State of Illinois, Department of Corrections – Correctional Industries as of and for the year ended June 30, 2006, which collectively comprise the State of Illinois, Department of Corrections – Correctional Industries’ basic financial statements, and have issued our report thereon dated November 3, 2006. The accompanying supplementary information as listed in the table of contents as Supplementary Information for State Compliance Purposes, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the State of Illinois, Department of Corrections – Correctional Industries. The 2006 Supplementary Information for State Compliance Purposes, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements for the year ended June 30, 2006, taken as a whole. We have also previously audited, in accordance with auditing standards generally accepted in the United States, the State of Illinois, Department of Corrections – Correctional Industries’ basic financial statements for the years ended June 30, 2005 and June 30, 2004. In our reports dated October 31, 2005 and November 12, 2004 on the basic financial statements, we expressed unqualified opinions on the respective financial statements of the business-type activities. In our opinion, the 2005 and 2004 Supplementary Information for State Compliance Purposes, except for the portion marked “unaudited” is fairly stated in all material respects in relation to the basic financial statements for the years ended June 30, 2005 and June 30, 2004, taken as a whole.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, and agency management, and is not intended to be and should not be used by anyone other than these specified parties.

  
November 3, 2006



**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 William G. Holland  
Auditor General  
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the business-type activities of the State of Illinois, Department of Corrections – Correctional Industries, as of and for the year ended June 30, 2006, which collectively comprise the State of Illinois, Department of Corrections – Correctional Industries’ basic financial statements and have issued our report thereon dated November 3, 2006. We conducted our audit in accordance with 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.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the State of Illinois, Department of Corrections – Correctional Industries’ internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. A reportable condition involves a matter coming to our attention relating to a significant deficiency in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the State of Illinois, Department of Corrections – Correctional Industries’ ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings as finding 06-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all

reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness. In addition, we noted another deficiency in the design or operation of internal control over financial reporting which did not meet the criteria for reporting herein and which is reported as a State compliance finding in the schedule of findings. We also noted certain immaterial instances of internal control deficiencies which we have reported to management of the State of Illinois, Department of Corrections – Correctional Industries in a separate letter dated November 3, 2006.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the State of Illinois, Department of Corrections – Correctional Industries' financial statements are free of 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. However, we noted certain matters which are reported as State compliance findings in the schedule of findings. We also noted certain other matters which we have reported to management of the State of Illinois, Department of Corrections – Correctional Industries in a separate letter dated November 3, 2006.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, and agency management, and is not intended to be and should not be used by anyone other than these specified parties.

*E. C. Gray & Co. LLC*  
November 3, 2006

**STATE OF ILLINOIS**  
**DEPARTMENT OF CORRECTIONS – COORECTIONAL INDUSTRIES**  
**For the Two Years Ended June 30, 2006**

**SCHEDULE OF FINDINGS**

Current Findings – Government Auditing Standards

06-1. **Finding** (Weaknesses in Preparation of the Year End Financial Statements and GAAP Packages)

During our audit of the Illinois Department of Corrections – Correctional Industries (ICI) June 30, 2006 financial statements and GAAP packages, we recommended extensive adjustments and corrections. As a result of audit procedures performed, we recommended twelve audit adjustments to various accounts within ICI's financial records and GAAP packages for a total of \$2.3 million. A majority of the adjustments were to correct account balances for overstatements, understatements or errors made during the year.

ICI is required to prepare annual financial statements of its financial activity to comply with reporting requirements set forth by the Office of the Comptroller. It is the responsibility of ICI to maintain their accounting records and prepare their financial statements in accordance with generally accepted accounting principles, (GAAP), and that the accounting records and financial statements be materially free of errors and omissions.

In addition, The Fiscal Control and Internal Auditing Act, (30 ILCS 10/3001), requires all State agencies to establish and maintain a system of internal fiscal control to provide assurance revenues, expenditures and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of amounts and reliable financial reports.

ICI management indicated that errors and omissions in the financial statements and GAAP packages are due to staff shortages to the extent that those who were most familiar with general ledger and financial statements were also covering duties of vacant positions on top of their regular duties.

Errors and omissions in the maintenance of ICI's accounting records lead to the use of additional resources in completing the annual audit. ICI also leaves itself at risk of presenting information that is not materially correct. (Finding Code No. 06-1)

**Recommendation**

We recommend ICI devote sufficient resources to its financial accounting function such that the financial information is properly recorded and accounted for to permit the preparation of reliable financial statements.

**STATE OF ILLINOIS**  
**DEPARTMENT OF CORRECTIONS – COORECTIONAL INDUSTRIES**  
**For the Two Years Ended June 30, 2006**

**SCHEDULE OF FINDINGS**

Current Findings – Government Auditing Standards

**Agency Response**

Recommendation accepted. ICI will make every effort to ensure the financial reports are accurate and timely.



STATE OF ILLINOIS  
DEPARTMENT OF CORRECTIONS – COORECTIONAL INDUSTRIES  
For the Two Years Ended June 30, 2006

SCHEDULE OF FINDINGS

Current Findings – State Compliance

06-2. **Finding** (Management Practices – Management Information System)

The Illinois Department of Corrections – Correctional Industries (ICI) has made limited progress in its plan to install an automated management information system (system). The Department has incurred excessive costs for computer hardware, software and consulting services for a project that is neither completed nor effectively utilized.

In fiscal year 1998, the Department developed an overall plan to install a networked accounting system at each of its industry remote sites and the ICI Central Office. The project was expected to be fully completed in fiscal year 2000. At its inception, ICI management stated that the project was a top priority.

The purpose of the system was to connect the ICI Central Office with its 19 remote operations to enable management to gather timely data for analysis and decision-making. The system when operational would have allowed financial accounting information to be entered at each decentralized satellite location, rather than being entered by personnel at the ICI Central Office.

Since fiscal year 2000 ICI has only been using three of the system's ten software modules that were purchased and the three modules are only being used at the ICI Central Office and one of the 20 remote locations. ICI paid the vendor \$340,000 of a \$420,000 contract that was to include the software plus installation, training and support.

ICI has made limited progress in utilizing other modules of the system. ICI continues to only use three modules and paid the original vendor \$97,714 in fiscal year 2005 and \$118,998 in fiscal year 2006 for technical support for the system modules still being used. In addition, during fiscal year 2004 and 2003, ICI paid the vendor \$38,830 and \$25,093, respectively for technical support for the system.

According to ICI management, the lack of progress in the system installation was due to the retirement of thirty percent of its staff in 2002 along with delays in the installation of fiber-optic cables to connect to the remote sites and the fact that an awarded installation bidder lost significant personnel making them unable to complete the project. Management also stated the need for the system was re-examined and determined that due to fiscal constraints, ICI was not able to initiate the planning for the other modules deployment.

Good business practice dictates costs that are incurred should benefit the intended operation. (Finding Code No. 06-2, 04-3, 02-3, 00-1)

**STATE OF ILLINOIS**  
**DEPARTMENT OF CORRECTIONS – COORECTIONAL INDUSTRIES**  
**For the Two Years Ended June 30, 2006**

**SCHEDULE OF FINDINGS**

Current Findings – State Compliance

**Recommendation**

ICI management needs to critically re-examine the need for the Management Information System project and determine if the current limited implementation is cost-effective and meets its needs. Additionally, ICI management needs to conduct a thorough assessment to determine if the full implementation of all modules at all sites will provide a cost-beneficial solution.

**Agency Response**

Recommendation implemented. ICI is in the process of a business redesign evaluation and implementation. ICI fiscal transactions have been aligned with those of the Fiscal Services Unit in order to leverage existing staff and expertise. ICI has established a core team to review the implementation of the final modules for inventory. Based upon this review, the Department will make an informed decision regarding the system and its future.

STATE OF ILLINOIS  
DEPARTMENT OF CORRECTIONS – COORECTIONAL INDUSTRIES  
For the Two Years Ended June 30, 2006

SCHEDULE OF FINDINGS

Current Findings – State Compliance

06-3. **Finding** (Temporary Assignments)

The Illinois Department of Corrections – Correctional Industries (ICI) continues to place union employees on temporary assignment for periods beyond the time limit specified by the union agreement.

During our testing, we noted 15 employees working in temporarily assigned positions during fiscal years 2005 and 2006. All of these employees were union members and were working in temporarily assigned positions beyond the time limits specified in the union agreement. One employee while on temporary assignment incurred approximately \$14,500 in travel costs related to their temporary assignment. At June 30, 2006, 7 employees were still on temporary assignment, these employees have been on these temporary assignments from 3 to 45 months.

The agreement between the State of Illinois and the American Federation of State, County, and Municipal Employees AFL-CIO (AFSCME) set specific time limits of either 60 or 45 days for temporary assignments, depending on the reason for the temporary assignment. Where there is a temporary change in workload or other reasonable work related circumstances, the employee is allowed to be temporarily assigned for up to 60 working days in a twelve-month period. While the employer posts and fills a job vacancy, the employee is allowed to be temporarily assigned for 45 days from the date of posting. According to the union agreement, if the assignment extends beyond the set timeframe, then the extensions should be mutually agreed upon (we found only one signed mutual agreement to extend the temporary assignments beyond 60 days).

The lengthy assignments violate the union agreement and circumvent required steps in the hiring process. Placing personnel in positions that they were not originally hired for could have an impact on internal and operational controls and may indicate ineffective long-term planning.

ICI management stated that lengthy temporary assignments of employees were due to staffing limitations. (Finding Code Nos. 06-3, 04-4, 02-5, 00-9, 98-7)

**Recommendation**

We recommend ICI reevaluate the propriety of its continued use of temporary assignments for long-term employment positions. For assignments to union positions, they should comply with the union agreement's requirement for mutual agreement of the assignments. We recommend the agreement be documented in writing.

**STATE OF ILLINOIS**  
**DEPARTMENT OF CORRECTIONS – COORECTIONAL INDUSTRIES**  
**For the Two Years Ended June 30, 2006**

SCHEDULE OF FINDINGS

Current Findings – State Compliance

**Agency Response**

Recommendation accepted. ICI has temporarily assigned the employees and rotates the assignments as permitted. ICI will review the need for the temporary assignments.

**STATE OF ILLINOIS  
DEPARTMENT OF CORRECTIONS – COORECTIONAL INDUSTRIES  
For the Two Years Ended June 30, 2006**

**SCHEDULE OF FINDINGS**

Current Findings – State Compliance

06-4. **Finding** (Proceeds from sale of assets not collected in accordance with the statute)

The Illinois Department of Corrections – Correctional Industries (ICI) did not collect proceeds from the sale of assets in accordance with a statutory requirement.

During our detailed testing, we noted that ICI placed a fully depreciated vehicle for sale through the Department of Central Management (CMS) I-bid website. The vehicle was subsequently sold and the proceeds from the sale were paid to CMS by the buyer. As required by the statute, the proceeds should have been deposited in the ICI Working Capital Revolving Fund. Collection was only initiated from CMS after the auditors raised the issue with ICI management. During fiscal years 2005 and 2006, assets with a historical cost of \$144,280 and \$147,400, respectively, were transferred by ICI to CMS surplus. Further inquiry with CMS indicated that almost all assets transferred to them as surplus are subsequently sold. However, there were no deposits made for the proceeds of the sale from these assets to the ICI Working Capital Revolving Fund as required by the Statute.

ICI also transferred assets to the Department of Corrections (DOC) totaling \$429,784 and \$18,820 in fiscal years 2005 and 2006, respectively. Our inquiry with DOC revealed DOC does not track assets transferred to them from ICI. The assets transferred from ICI to DOC could have been transferred by DOC to CMS surplus which would have been ultimately sold. The proceeds from the sale should also have been deposited in the ICI Working Capital Revolving Fund.

730 ILCS 5/3-12-13 states “Whenever a responsible officer of the Correctional Industries Division of the Department seeks to dispose of property pursuant to the ‘State Property Control Act’, proceeds received by the administrator under that act from the sale of property under the control of the Division of Correctional Industries of the Department shall be deposited into the Working Capital Revolving Fund of the Correction Industries Division if such property was originally purchased with funds therefrom”.

ICI Management stated they failed to collect the proceeds of the sale from CMS due to miscommunication between the field office that initiated the sale and the fiscal office. Proceeds from the sale of assets transferred to CMS surplus were not requested from CMS due to assumption that surplus property is given up when transferred to CMS. Transfer of surplus items to CMS releases the property from ICI’s system and places it under CMS’s system. Tracking the activity of sales after the assets were transferred will require that CMS track and inform ICI of this property movement or status. ICI will have no other way to verify the outcome of any surplus property transferred to CMS.

**STATE OF ILLINOIS**  
**DEPARTMENT OF CORRECTIONS – COORECTIONAL INDUSTRIES**  
**For the Two Years Ended June 30, 2006**

**SCHEDULE OF FINDINGS**

Current Findings – State Compliance

Failure to follow the required statute to obtain proceeds of the property sold under the State Property Control Act may result in a loss of income due to the ICI Working Capital Revolving Fund. (Finding Code No. 06-4)

**Recommendation**

We recommend ICI management provide adequate oversight to ensure compliance with the applicable statute. In addition, DOC should keep records of assets transferred from ICI that were ultimately transferred to CMS surplus to ensure that proceeds from sale of these assets are collected and deposited into ICI Working Capital Revolving Fund.

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**Agency Response**

Recommendation implemented. ICI has established a tracking system to identify applicable assets and request reimbursement from CMS for the sale.

**STATE OF ILLINOIS**  
**DEPARTMENT OF CORRECTIONS – COORECTIONAL INDUSTRIES**  
**For the Two Years Ended June 30, 2006**

**SCHEDULE OF FINDINGS**

Current Findings – State Compliance

06-5. **Finding** (Untimely signing/execution of written contract agreements)

The Illinois Department of Corrections - Correctional Industries (ICI) did not timely sign/execute written contract agreements with vendors.

A contract agreement is considered executed upon the date the last required party signs and dates the contractual agreement. We noted 4 of 25 (16%) contractual agreements tested had not been signed by all required parties before the earliest date of service allowed by the contractual agreement's terms. The average length of time between the beginning date of the contractual agreements and their final required signature was 26 days (with a range of 5 to 57 days). These 4 contracts, totaling \$126,899, were for computer support, and repairs and maintenance of various equipment. In addition, services for all the 4 referenced contracts began 1 to 31 days before the last required party signed and dated the contractual agreements.

Good business practice dictates that all required parties sign a contract agreement prior to the beginning of the contract period. Contractual agreements should be signed/executed by all required parties prior to the beginning of the contractual agreement term. This would necessitate their filing with the Comptroller near the beginning of their term thereby making the information readily available to the General Assembly and unsuccessful proposers as well as the general public. Further, all contracts entered into must be approved by all parties prior to the beginning of the services.

ICI Management stated the lack of staff in field offices and the fiscal office caused the delay in the processing of the contracts. In the above noted contracts, field office staff did not wait for the approval notification of the contract from the Central Office before they placed an order for services with the vendor resulting in services being performed by the vendor without a signed/executed contract.

Failure to have the contractual agreements signed/executed before the beginning of the contract period does not bind the service provider for compliance with the applicable laws, regulations and rules. Oversight and public accountability is compromised when contract agreements are not signed/executed in a timely manner. (Finding Code No. 06-5)

**Recommendation**

We recommend ICI management take the necessary steps to ensure contract agreements are signed/executed by all the required parties in a timely manner. Field office staff should be reminded that a contract should be signed /executed before goods or services are provided by the vendor.

**STATE OF ILLINOIS**  
**DEPARTMENT OF CORRECTIONS – COORECTIONAL INDUSTRIES**  
**For the Two Years Ended June 30, 2006**

**SCHEDULE OF FINDINGS**

Current Findings – State Compliance

**Agency Response**

Recommendation accepted. ICI will make every effort to ensure that all contracts are executed timely.



**STATE OF ILLINOIS**  
**DEPARTMENT OF CORRECTIONS – COORECTIONAL INDUSTRIES**  
**For the Two Years Ended June 30, 2006**

SCHEDULE OF FINDINGS

Current Findings – State Compliance

06-6. **Finding** (Updated liability insurance certificates could not be provided)

The Illinois Department of Corrections – Correctional Industries (ICI) could not provide updated liability insurance certificates for employees who were personally assigned a State vehicle.

During our testing, all ten employees with a personally assigned State vehicle did not have an updated Certification of License and Automotive Liability Coverage on file in fiscal year 2006. These employees had updated liability insurance coverage in fiscal year 2005.

The Illinois Vehicle Code (625 ILCS 5/7-601c) states that every employee of a State agency, who is assigned a specific vehicle owned or leased by the State on an ongoing basis, shall provide a certification annually to the director or chief executive officer of his or her agency. The certification shall affirm that the employee is duly licensed to drive the assigned vehicle and that (i) the employee has liability insurance coverage extending to the employee when the assigned vehicle is used for other than official State business, or (ii) the employee has filed a bond with the Secretary of State as proof of financial responsibility, in an amount equal to, or in excess of the requirements stated within this Section. The certification shall be provided during the period July 1 through July 31 of each calendar year, or within 30 days of any new assignment of a vehicle on an ongoing basis, whichever is later.

ICI management stated the Department of Corrections (DOC) requires liability insurance coverage be updated annually and those involved in getting these updates insisted they were completed. However, due to DOC vacancies in fiscal year 2006, documents were apparently misfiled and have not yet been located.

Failure to obtain updated insurance certificates is a violation of the statute and may result in uninsured and/or underinsured drivers operating state vehicles while performing State business. (Finding Code No. 06-6)

**Recommendation**

We recommend ICI management maintain an updated Certification of License and Automotive Liability Coverage of employees with personally assigned vehicle on an ongoing basis as required by the State statute.

**STATE OF ILLINOIS**  
**DEPARTMENT OF CORRECTIONS – COORECTIONAL INDUSTRIES**  
**For the Two Years Ended June 30, 2006**

**SCHEDULE OF FINDINGS**

Current Findings – State Compliance

**Agency Response**

Recommendation implemented. ICI has assigned the duty to maintain the copies to an Administrative employee with an assigned back up.

**STATE OF ILLINOIS**  
**DEPARTMENT OF CORRECTIONS – COORECTIONAL INDUSTRIES**  
**For the Two Years Ended June 30, 2006**

**SCHEDULE OF FINDINGS**

Current Findings – State Compliance

- 06-7. **Finding** (All of the relevant costs not being included in the computation of manufacturing costs)

The Illinois Department of Corrections – Correctional Industries (ICI) does not include any occupancy costs for the production facilities they use at the Correctional Centers (Centers) in their computation of the manufacturing cost of its products.

ICI has 19 facilities for manufacturing its products at various Centers. The Centers have not historically charged ICI for occupancy of these production facilities. As such, ICI does not include any amount for these costs in their computation of product cost. Occupancy costs should include at a minimum maintenance, utilities and any computed rent or depreciation for the facility being utilized. In addition, ICI policies and procedures do not address what should be included in the computation of the costs of its products.

730 ILCS 5/3-12-9 states the Department of Corrections (Department) shall establish procedures and issue regulations governing the sale and lease of goods. ICI policy 09.3, Pricing ICI products, notes a pricing committee will develop a price for each product based on information provided on a quote sheet which reflects the manufacturing costs and current selling price of each ICI product. The policy also notes the production cost will be estimated using the most recent overhead factors as computed by ICI's Fiscal Office. In addition, good business practice suggests the use of full-absorption costing for external reporting. Under full-absorption costing, all normal manufacturing costs are considered product costs and included in inventory. Manufacturing costs relate to direct materials, direct labor, variable manufacturing overhead, and fixed manufacturing overhead.

According to ICI management, ICI is not charged by the Center or the Department for occupancy costs therefore these are not included in the production cost computation.

By not including any occupancy costs associated with the production facilities at the Centers the true cost of the production of the items is not being considered in determining the price of the products. The Department of Corrections or ultimately the State is subsidizing these costs of the ICI operation. (Finding Code No. 06-7)

**Recommendation**

We recommend ICI work with the Department of Corrections Central Office to identify and include occupancy costs relating to Center manufacturing facilities to provide a good estimate of the total cost of a product. In addition, ICI should include guidelines in its policies and procedures for the basis of valuation/estimate of these costs and their inclusion in the computation of product costs as a basis of setting a selling price.

**STATE OF ILLINOIS**  
**DEPARTMENT OF CORRECTIONS – COORECTIONAL INDUSTRIES**  
**For the Two Years Ended June 30, 2006**

**SCHEDULE OF FINDINGS**

Current Findings – State Compliance

**Agency Response**

Recommendation accepted. ICI with assistance from the Fiscal Services Unit will review the occupancy costs to determine the estimated cost to produce certain products.

**STATE OF ILLINOIS**  
**DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES**  
**For the Two Years Ended June 30, 2006**

**SCHEDULE OF FINDINGS**

Prior Finding Not Repeated – Government Auditing Standards

06-8. **Finding** (Improper cut-off procedures for purchases and expenses)

During the previous engagement, ICI charged expenses and purchases of goods totaling \$851,120 in fiscal year 2004 that were actually received in fiscal year 2005.

Status: Implemented

During the current engagement, our testing disclosed ICI charged expenses and purchases of goods in the correct fiscal year where the goods/ services were actually received. (Finding Code No. 04-1)

Prior Finding Not Repeated – State Compliance

06-9. **Finding** (Improvement needed in documentation of cost-benefit or cost-Effectiveness Analysis)

During the previous engagement, ICI did not maintain a formal documentation of cost-benefit or cost effectiveness analysis of existing programs. Most specifically, ICI had not documented on-going reviews of programs that continue to show operating losses.

Status: Implemented

During the current engagement, our testing disclosed ICI performed documented cost benefit or cost effectiveness program reviews/analysis of field operations to evaluate whether intended objectives were achieved. (Finding Code No. 04-2)

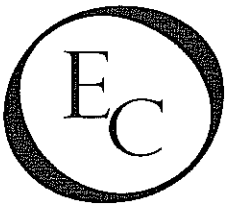
**STATE OF ILLINOIS  
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES**

**FINANCIAL STATEMENT REPORT**

**SUMMARY**

The audit of the accompanying financial statements of the State of Illinois, Department of Corrections – Correctional Industries was performed by E.C. Ortiz & Co., LLP.

Based on their audit, the auditors expressed an unqualified opinion on the State of Illinois, Department of Corrections – Correctional Industries' basic financial statements.



INDEPENDENT AUDITORS' REPORT

Honorable William G. Holland  
Auditor General  
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the Working Capital Revolving Fund of the State of Illinois, Department of Corrections - Correctional Industries, as of and for the year ended June 30, 2006 as listed in the table of contents. These financial statements are the responsibility of the State of Illinois, Department of Corrections - Correctional Industries' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 2, the financial statements present only the Working Capital Revolving Fund of the State of Illinois, Department of Corrections - Correctional Industries and do not purport to, and do not, present fairly the financial position of the State of Illinois Department of Corrections as of June 30, 2006, and its changes in financial position including cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Working Capital Revolving Fund of the State of Illinois, Department of Corrections - Correctional Industries, as of June 30, 2006, and the changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 3, 2006 on our consideration of the State of Illinois, Department of Corrections – Correctional Industries’ internal control over financial reporting of the Working Capital Revolving Fund and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The State of Illinois – Department of Corrections – Correctional Industries has not presented a management’s discussion and analysis and budgetary comparison information for the Working Capital Revolving Fund that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, the Comptroller, and agency management, and is not intended to be and should not be used by anyone other than these specified parties.

E. C. Gitz & Co. LLC

November 3, 2006



STATE OF ILLINOIS  
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES  
WORKING CAPITAL REVOLVING FUND  
STATEMENT OF NET ASSETS  
June 30, 2006  
(expressed in thousands)

	ASSETS
<b>CURRENT ASSETS</b>	
Cash (Note 3)	\$1,277
Receivables:	
Intergovernmental	31
Others	320
Due from other funds (Note 4)	5,505
Inventories (Note 10)	8,977
Prepaid expenses	8
Total current assets	16,118
PROPERTY, EQUIPMENT, AND LIVESTOCK – net (Note 5)	6,897
TOTAL ASSETS	\$23,015
<b>LIABILITIES AND NET ASSETS</b>	
<b>CURRENT LIABILITIES</b>	
Accounts payable and accrued expenses	\$2,388
Compensated absences (Note 6)	226
Due to other funds (Note 4)	503
Court of Claims (Note 6)	102
Leases payable (Note 6)	2
Total current liabilities	3,221
<b>NONCURRENT LIABILITIES</b>	
Compensated absences (Note 6)	1,228
Total liabilities	4,449
<b>NET ASSETS</b>	
Unrestricted	11,669
Invested in capital assets, net of related debt	6,897
Total net assets	18,566
TOTAL LIABILITIES AND NET ASSETS	\$23,015

See accompanying notes to financial statements.

**STATE OF ILLINOIS**  
**DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES**  
**WORKING CAPITAL REVOLVING FUND**  
**STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN NET ASSETS**  
**For the Year Ended June 30, 2006**  
**(expressed in thousands)**

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Operating revenues:	
Charges for sales and services	\$35,963
Freight income	1,157
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Total operating revenues	37,120
	<hr/>
Operating expenses:	
Cost of sales and services	30,636
Selling, general and administrative expenses	5,794
Depreciation	1,570
	<hr/>
Total operating expenses	38,000
	<hr/>
Operating losses	(880)
	<hr/>
Nonoperating revenues (expenses):	
Rental income	348
Loss on disposal of fixed assets	(24)
Interest expense	(1)
Miscellaneous Income	39
	<hr/>
Total nonoperating expenses	362
	<hr/>
Losses before transfers	(518)
	<hr/>
Transfers to other funds	(3,905)
	<hr/>
NET LOSSES	(4,423)
	<hr/>
NET ASSETS, BEGINNING OF YEAR	22,989
	<hr/>
NET ASSETS, END OF YEAR	\$18,566
	<hr/> <hr/>

See accompanying notes to financial statements.

STATE OF ILLINOIS  
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES  
WORKING CAPITAL REVOLVING FUND  
STATEMENT OF CASH FLOWS  
For the Year Ended June 30, 2006  
(expressed in thousands)

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers	\$37,138
Payments to suppliers	(19,946)
Payments to employees	(14,991)
Payments for other operating activities	(254)
Net cash provided by operating activities	<u>1,947</u>
<b>CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Transfer out to other funds	(3,905)
Cash used in non-capital and related financing activities	<u>(3,905)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Acquisition of property, equipment, and livestock	(927)
Lease payments	(10)
Interest paid on capital debt	(1)
Other capital and related financing activities	387
Net cash used in capital and related financing activities	<u>(551)</u>
<b>NET DECREASE IN CASH</b>	<b>(2,509)</b>
<b>CASH, BEGINNING OF YEAR</b>	<b><u>3,786</u></b>
<b>CASH, END OF YEAR</b>	<b><u>\$1,277</u></b>
<b>RECONCILIATION OF OPERATING LOSSES TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
Operating losses	(880)
Adjustments to reconcile operating losses to net cash provided by operating activities:	
Depreciation	1,570
Decrease (increase) in:	
Receivables - Intergovernmental	25
Receivables – others	204
Due from other funds	(211)
Inventories	591
Prepaid expenses	9
Increase in:	
Accounts payable and accrued expenses	167
Accrued vacation pay, sick leave and holiday pay	116
Due to other funds	324
Court of Claims	32
Total adjustments	<u>2,827</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b><u>\$1,947</u></b>
<b>NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES</b>	
Loss on sale of property and equipment	(24)
Transfer of property and equipment to other State agencies	(108)

See accompanying notes to financial statements.

**STATE OF ILLINOIS**  
**DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES**  
**WORKING CAPITAL REVOLVING FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

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**1. DESCRIPTION OF FUND**

Illinois Correctional Industries (ICI) is a division of the State of Illinois, Department of Corrections (Department) and administers the nonshared proprietary fund described below. A nonshared fund is a fund in which a single State agency is responsible for administering substantially all financial transactions of the fund.

The fund is accounted for as an internal service fund. Internal service funds account for activities that provide goods and services to other funds, departments, or agencies of the State and its component units, or to other governments, on a cost-reimbursement basis where the State is the predominant participant in the activity.

Working Capital Revolving Fund (Fund) (0301) – Revenues and expenses are derived from goods or services produced by factories, farms, and service programs and charged to State agencies and other non-state entities.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Fund administered by the Department has been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB). To facilitate the understanding of data included in the financial statements, summarized below are the more significant accounting policies.

**A. Reporting Entity**

As defined by GAAP, the financial reporting entity consists of a primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as:

- (1) Appointment of a voting majority of the component unit's board and either (a) the primary government's ability to impose its will, or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or
- (2) Fiscal dependency on the primary government.

Based upon the required criteria, this Fund does not have any component units, nor is it a component unit of another entity. However, because the Fund is not legally separate from the State of Illinois (State), it is included in the financial statements of

**STATE OF ILLINOIS**  
**DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES**  
**WORKING CAPITAL REVOLVING FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

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the State as a proprietary fund. The State's Comprehensive Annual Financial Report (CAFR) may be obtained by writing the State Comptroller's Office, Financial Reporting Department, 325 West Adams Street, Springfield, Illinois, 62704-1871.

The financial statements present only the Working Capital Revolving Fund administered by the State of Illinois, Department of Corrections and do not purport to, and do not, present fairly the financial position of the State of Illinois, Department of Corrections as of June 30, 2006, and changes in its financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

**B. Basis of Presentation**

In government the basic accounting and reporting entity is a fund. A fund is defined as an independent fiscal and accounting entity with self-balancing set of accounts recording cash and/or other resources together with all related liabilities, obligations, reserves, and equities which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. A statement of net assets, statement of revenues, expenses and changes in net assets, and statement of cash flows has been presented for this Fund, administered by the Department.

Operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

**C. Basis of Accounting**

The Fund is reported using the economic resources measurement focus and the accrual basis of accounting.

Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the individual nonshared proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The State also has the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The State has

**STATE OF ILLINOIS**  
**DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES**  
**WORKING CAPITAL REVOLVING FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

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elected not to follow subsequent private-sector guidance for this Fund administered by the Department.

**D. Cash**

Cash consists principally of deposits held in the State Treasury and cash on hand.

**E. Inventories**

Inventories consisting of raw materials, work in process, finished goods, operating supplies, and unharvested crops are valued at cost, principally on a first in, first out (FIFO) method. Inventories of harvested crops and livestock are valued at market value as of the balance sheet date.

**F. Interfund Transactions**

The individual nonshared proprietary fund has the following types of interfund transactions with other funds of the State.

*Services provided and used* – sales and purchases of goods and services between funds for a price approximating their external exchange value. Interfund services provided and used are reported as revenues in seller funds and expenditures or expenses in purchaser funds. Unpaid amounts at year-end are reported as interfund receivables and payables in the fund balance sheets or fund statements of net assets.

*Reimbursements* – repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them. Reimbursements are reported as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund.

*Operating transfers* – flows of assets (such as cash or goods) without equivalent flows of assets in return and without requirement for repayment. In proprietary funds, transfers are reported after nonoperating revenues and expenses.

**G. Property, Equipment, and Livestock**

Property, equipment, and livestock are stated at cost. Raised livestock is stated at the market value as of the date transferred to fixed assets. Depreciation (including amortization of capital leases) is computed using the straight-line method at rates calculated to amortize assets over their estimated useful life.

Capitalization thresholds and the estimated useful lives are as follows:

STATE OF ILLINOIS  
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES  
WORKING CAPITAL REVOLVING FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006

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Asset Category	Capitalization Threshold	Estimated Useful Life
Buildings	\$100,000	10-60
Building Improvements	25,000	10-45
Equipment	5,000	5-25
Livestock	1,000	7

**H. Compensated Absences**

The liability for compensated absences reported in the Fund consists of unpaid, accumulated vacation, sick leave, and holiday balances for ICI employees. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. The liability has been calculated based on the employees' current salary level and includes salary related costs (e.g., social security and medicare taxes).

Legislation that became effective January 1, 1998 capped the paid sick leave for all State Employees' Retirement System members at December 31, 1997. Employees continue to accrue twelve sick days per year, but will not receive monetary compensation for any additional time earned after December 31, 1997. Sick days earned between 1984 and December 31, 1997 (with 50% cash value) would only be used after all days with no cash value are depleted. Any sick days earned and unused after December 31, 1997 will be converted to service time for purposes of calculating employee pension benefits.

**I. Net Assets**

The individual nonshared proprietary fund displays equity in two components as follows:

*Invested in Capital Assets, Net of Related Debt* – Consists of capital assets, net of accumulated depreciation, less the outstanding balances of any borrowings that are attributable to the acquisition, construction, or improvement of those assets.

*Unrestricted* – Consists of net assets that do not meet the definition of “invested in capital assets, net of related debt”.

**STATE OF ILLINOIS  
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES  
WORKING CAPITAL REVOLVING FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006**

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**J. Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

**3. CASH**

**Deposits**

The State Treasurer is the custodian of the State's cash for funds maintained in the State Treasury. Deposits in the custody of the State Treasurer (amounts expressed in thousands) as of June 30, 2005 were as follows:

<b>Fund</b>	<b>Deposits in Custody of the State Treasurer</b>	<b>Deposit in Transit</b>	<b>Fund Total</b>
Working Capital Revolving Fund	\$1,154	\$123	\$1,277

Deposits in the custody of the State Treasurer are pooled and invested with other State funds in accordance with the Deposit of State Moneys Act of the Illinois Compiled Statutes (15 ILCS 520). Funds held by the State Treasurer have not been categorized as to credit risk because the Department does not own individual securities. Details on the nature of these investments are available within the State of Illinois' Comprehensive Annual Financial Report.



**STATE OF ILLINOIS  
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES  
WORKING CAPITAL REVOLVING FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006**

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**4. INTERFUND BALANCES AND ACTIVITIES**

**A. Balances Due to/from Other Funds**

The following balances (amounts expressed in thousands) as of June 30, 2006 represent amounts due from other departments and State of Illinois funds:

<b>State Agency</b>	<b>Amount</b>	<b>Description/Purpose</b>
Healthcare & Family Services	\$2,233	Due from various funds for
Department of Corrections	1,983	Purchases of goods
Department of Human Services	515	and services
Department of Natural Resources	465	
State Police	59	
Department of Agriculture	38	
Capital Development Board	37	
Illinois Emergency Management Agency	35	
Secretary of State	22	
Central Management Services	21	
Department of Transportation	20	
Department of Public Health	20	
State Fire Marshall	18	
Department of Veterans Affairs	14	
Illinois Workers Compensation Commission	12	
Other State Agencies	13	
Total	\$5,505	

The following balances (amounts expressed in thousands) as of June 30, 2006 represent amounts due to other departments and State of Illinois funds.

<b>State Agency</b>	<b>Amount</b>	<b>Description/Purpose</b>
Central Management Services	\$328	State Garage Services
Department of Corrections	174	Inmate payroll
Other State Agencies	1	Miscellaneous
Total	\$503	

**STATE OF ILLINOIS**  
**DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES**  
**WORKING CAPITAL REVOLVING FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

B. Interfund transfers out (amount expressed in thousands) for the year ended June 30, 2006 was as follows:

Fund	Amount	Description/Purpose
General Revenue Fund	<u>\$3,905</u>	Mandatory transfer pursuant to 30 ILCS 105/8.44 and 105/8h

**5. PROPERTY, EQUIPMENT, AND LIVESTOCK**

Property, equipment, and livestock activities (amounts expressed in thousands) for the year ended June 30, 2006 were as follows:

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Net Transfers</u>	<u>Balance June 30, 2006</u>
<b>Cost:</b>					
Equipment	\$19,734	705	533	(118)	\$19,788
Building and Building Improvements	6,728	40	-	(14)	6,754
Construction in Progress	40	49	40	-	49
Livestock	288	147	11	-	424
Capital Lease - Equipment	39	-	24	-	15
	<u>26,829</u>	<u>941</u>	<u>608</u>	<u>(132)</u>	<u>27,030</u>
<b>Accumulated Depreciation:</b>					
Equipment	\$15,016	1,292	646	(13)	\$15,649
Building and Building Improvements	4,189	268	-	(10)	4,447
Livestock	30	3	9	-	24
Capital Lease - Equipment	30	7	24	-	13
	<u>19,265</u>	<u>1,570</u>	<u>679</u>	<u>(23)</u>	<u>20,133</u>
	<u>\$7,564</u>	<u>(629)</u>	<u>71</u>	<u>(109)</u>	<u>\$6,897</u>

**STATE OF ILLINOIS  
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES  
WORKING CAPITAL REVOLVING FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006**

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**6. LONG-TERM OBLIGATIONS**

**A. Changes in Long-Term Obligations**

Changes in long-term obligations (amounts expressed in thousands) for the year ended June 30, 2006 were as follows:

	<u>Balance</u> <u>July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2006</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
Other Long-term obligations:					
Compensated absences	\$1,338	505	389	\$1,454	\$226
Leases payable	12	-	10	2	2
Court of Claims	70	41	9	102	102
	<hr/>				
Totals	\$1,420	546	408	\$1,558	\$330
	<hr/>				

**B. Capital Lease Obligations**

ICI leases office equipment for use in the Fund. The historical cost and accumulated depreciation of assets under capital lease in the Working Capital Revolving Fund at June 30, 2006 were \$15 (amount expressed in thousands) and \$13 (amount expressed in thousands), respectively. Although these lease terms may vary, certain leases are renewable subject to appropriation by the General Assembly. If renewal is reasonably assured, leases requiring appropriation by the General Assembly are considered non-cancelable leases for financial reporting. Future minimum lease payments (amounts expressed in thousands) as of June 30, 2006 are as follows:

Year ending June 30, 2007	<u>\$2</u>
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**STATE OF ILLINOIS**  
**DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES**  
**WORKING CAPITAL REVOLVING FUND**  
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**7. PENSION PLAN**

Substantially all of the Agency's full-time employees who are not eligible for participation in another State-sponsored retirement plan participate in the State Employees' Retirement System (SERS), which is a pension trust fund in the State of Illinois reporting entity. The SERS is a single-employer defined benefit public employee retirement system (PERS) in which State employee participate, except for those covered by State Universities, Teachers, General Assembly, and Judge's Retirement Systems. The financial position and results of operations of the SERS for fiscal year 2006 are included in State of Illinois' Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2006. The SERS also issues a separate "CAFR" that may be obtained by writing to the SERS, 2101 South Veterans Parkway, Springfield, Illinois, 62794-9255 or by calling (217) 785-7202. The State of Illinois CAFR may be obtained in writing to the State Comptroller's Office, Financial Reporting Department, 325 West Adams St., Springfield, Illinois 62704-1871 or by calling (217) 782-2053.

A summary of SERS benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established, are included as an integral part of the SERS CAFR. Also included is a discussion of employer and employee obligations to contribute and the authority under which those obligations are established.

The Department pays employer retirement contributions in the Fund based upon an actuarially determined percentage of their payrolls. For fiscal year 2006, the employer contribution rate was 7.8%. Effective for pay periods beginning December 31, 1991, the State opted to pay the employee portion of retirement for most State agencies (including ICI) with employees covered by the State Employees' and Teachers' Retirement Systems. However, effective with the fiscal year 2004 budget, the State opted to stop paying the portion of retirement for many State agencies (including ICI) for certain classes of employees covered by the State Employees' and Teachers' Retirement Systems. The pickup when applicable is subject to sufficient annual appropriations and those employees covered may vary across employee groups and State agencies.

**8. POST-EMPLOYMENT BENEFITS**

The State provides health, dental and life insurance benefits for certain retirees and their dependents. Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State-sponsored pension plans. Health and dental benefits include basic benefits for annuitants under the State's

**STATE OF ILLINOIS**  
**DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES**  
**WORKING CAPITAL REVOLVING FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

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self-insurance plan and insurance contracts currently in force. Life insurance benefits are limited to five thousand dollars per annuitant age 60 and older.

Costs incurred for health, dental and life insurance for annuitants and their dependents were not separated from benefits provided to active employees and their dependents for the year ended June 30, 2006. However, post-employment costs for the State as a whole for all State agencies and departments for dependent health, dental, and life insurance for annuitants and their dependents are disclosed in the Comprehensive Annual Financial Report of the State. Cost information for retirees by individual fund or State agency is not available. Payments are made on a “pay-as-you-go” basis.

**9. COMMITMENTS AND CONTINGENCIES**

**A. Operating Leases**

Correctional Industries is the lessee of a warehouse in Pana, Illinois. The rental payments totaled \$412 (amount expressed in thousands) for the year ended June 30, 2006.

Future minimum payments (amounts expressed in thousands) as required by the operating lease agreements as of June 30, 2006 are summarized as follows:

Year ending June 30,	
2007	\$423
2008	434
2009	445
2010	456
Total	<u>\$1,758</u>

**B. Litigation**

ICI is a party to various lawsuits arising out of the normal conduct of its operations. In the opinion of management and its counsel, its liability, if any in or arising from this litigation or any other legal proceedings in which Illinois Correctional Industries is involved, will be paid from a separate appropriation, and therefore, will not have a material adverse effect on the Working Capital Revolving Fund of Illinois Correctional Industries.

**STATE OF ILLINOIS**  
**DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES**  
**WORKING CAPITAL REVOLVING FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

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**10. INVENTORIES**

Inventories (amounts expressed in thousands) as of June 30, 2006, consist of the following:

Finished goods	\$4,215
Raw materials	3,699
Operating supplies	726
Work in process	144
Livestock	104
Unharvested crops	80
Stores Inventory	9
	<u>\$8,977</u>

**11. RISK MANAGEMENT**

The ICI is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; auto liability; workers compensation; and natural disaster. The State retains the risk of loss (i.e. self insured) for these risks.

**STATE OF ILLINOIS**  
**DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES**  
**SUPPLEMENTARY INFORMATION FOR STATE COMPLIANCE PURPOSES**

**SUMMARY**

Supplementary Information for State Compliance Purposes presented in this section of the report includes the following:

- Fiscal Schedules and Analysis:

- Schedule of Appropriations, Expenditures and Lapsed Balances
- Comparative Schedule of Net Appropriations, Expenditures and Lapsed Balances
- Schedule of Changes in State Property
- Comparative Schedule of Cash Receipts
- Reconciliation Schedule of Cash Receipts to Deposits Remitted to the State Comptroller
- Analysis of Significant Variations in Expenditures
- Analysis of Significant Variations in Receipts
- Analysis of Significant Lapse Period Spending
- Analysis of Significant Account Balances
  - Accounts Receivables
  - Inventories

- Analysis of Operations

- Agency Functions and Planning Program
- Average Number of Employees
- Emergency Purchases
- Memorandum of Understanding (Unaudited)
- Working Capital Revolving Fund Activity
- Annual Cost Statistics (Unaudited)
- Service Efforts and Accomplishments (Unaudited)
  - Sales by Customer (Unaudited)
  - Inmate Assignments (Unaudited)
  - Recidivism Statistics (Unaudited)
- Summary of Operations by Industry (Unaudited)

The auditors' report on the Supplementary Information for State Compliance Purposes presented in the Compliance Report Section states that it has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in the auditors' opinion, except for that portion marked "unaudited", on which they express no opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

STATE OF ILLINOIS  
DEPARTMENT OF CORRECTIONS - CORRECTIONAL INDUSTRIES  
SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES  
APPROPRIATIONS FOR FISCAL YEAR 2006

FOURTEEN MONTHS ENDED AUGUST 31, 2006

	Appropriations (Net After Transfers)	Expenditures		Lapse Period Expenditures 8/31/06	Total Expenditures	Balances Lapsed
		Through 06/30/06				
<u>APPROPRIATED FUND</u>						
<u>Working Capital Revolving Fund - 301</u>						
Personal services	\$ 9,214,200	\$ 8,752,839	\$ 460,397	\$ 9,213,236	\$ 964	
Employee retirement contribution paid by State	99,200	98,492	-	98,492	708	
Student, member and inmate compensation	2,672,000	1,596,916	173,803	1,770,719	901,281	
State contributions to State Employee's Retirement	719,600	682,464	35,895	718,359	1,241	
State contributions to Social Security	689,800	653,911	34,592	688,503	1,297	
Group insurance	2,290,900	2,189,420	93,845	2,283,265	7,635	
Contractual services	2,250,000	1,737,230	203,746	1,940,976	309,024	
Travel	154,500	70,619	12,237	82,856	71,644	
Commodities	28,830,400	15,831,261	1,897,155	17,728,416	11,101,984	
Printing	15,000	6,575	40	6,615	8,385	
Equipment	2,100,000	104,168	150,994	255,162	1,844,838	
Telecommunications services	75,000	56,339	6,435	62,774	12,226	
Operation of automotive equipment	1,010,000	758,595	247,509	1,006,104	3,896	
Repairs, maintenance and other capital	500,000	13,024	56,976	70,000	430,000	
Refunds	20,000	7,452	73	7,525	12,475	
Total Fiscal Year 2006	\$ 50,640,600	\$ 32,559,305	\$ 3,373,697	\$ 35,933,002	\$ 14,707,598	

Note: Appropriations, expenditures, and lapsed balances were obtained from Agency records and have been reconciled to the records of the State Comptroller.



STATE OF ILLINOIS  
DEPARTMENT OF CORRECTIONS - CORRECTIONAL INDUSTRIES  
SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES  
APPROPRIATIONS FOR FISCAL YEAR 2005

FOURTEEN MONTHS ENDED AUGUST 31, 2005

	Appropriations (Net After Transfers)	Expenditures Through 06/30/05	Lapse Period Expenditures 8/31/05	Total Expenditures	Balances	
						Lapsed
<u>APPROPRIATED FUND</u>						
<u>Working Capital Revolving Fund - 301</u>						
Personal services	\$ 10,185,200	\$ 8,290,409	\$ 415,577	\$ 8,705,986	\$	1,479,214
Employee retirement contribution paid by State	305,600	273,050	9,316	282,366		23,234
Student, member and inmate compensation	2,800,000	1,619,269	172,409	1,791,678		1,008,322
State contributions to State Employee's Retirement	1,640,500	1,329,096	66,976	1,396,072		244,428
State contributions to Social Security	779,200	618,206	31,158	649,364		129,836
Group insurance	2,268,000	1,989,230	88,582	2,077,812		190,188
Contractual services	3,900,000	2,010,254	136,121	2,146,375		1,753,625
Travel	154,500	62,854	8,233	71,087		83,413
Commodities	35,000,000	18,856,829	2,011,164	20,867,993		14,132,007
Printing	51,000	11,020	3,201	14,221		36,779
Equipment	3,200,000	778,512	693,795	1,472,307		1,727,693
Telecommunications services	90,600	68,953	5,264	74,217		16,383
Operation of automotive equipment	800,000	725,306	74,111	799,417		583
Awards and grants	1,250,000	1,250,000	-	1,250,000		-
Repairs, maintenance and other capital improvements	750,000	-	-	-		750,000
Refunds	20,000	12,337	-	12,337		7,663
<b>Total Fiscal Year 2005</b>	<b>\$ 63,194,600</b>	<b>\$ 37,895,325</b>	<b>\$ 3,715,907</b>	<b>\$ 41,611,232</b>	<b>\$</b>	<b>21,583,368</b>

Note: Appropriations, expenditures, and lapsed balances were obtained from Agency records and have been reconciled to the records of the State Comptroller.

**STATE OF ILLINOIS**  
**DEPARTMENT OF CORRECTIONS - CORRECTIONAL INDUSTRIES**  
**COMPARATIVE SCHEDULE OF NET APPROPRIATIONS,**  
**EXPENDITURES AND LAPSED BALANCES**

	For the Fiscal Year Ended June 30		
	2006	2005	2004
	PA 94-0015	PA 93-0842	PA 93-0091
<b>APPROPRIATED FUNDS</b>			
<u>Working Capital Revolving Fund - 301</u>			
Appropriations (Net After Transfers)	\$ 50,640,600	\$ 63,194,600	\$ 61,328,800
Expenditures:			
Personal services	9,213,236	8,705,986	7,841,748
Employee retirement contribution paid by State	98,492	282,366	354,738
Student, member and inmate compensation	1,770,719	1,791,678	1,945,353
State contributions to State Employee's Retirement	718,359	1,396,072	1,054,270
State contributions to Social Security	688,503	649,364	593,457
Group insurance	2,283,265	2,077,812	1,516,274
Contractual services	1,940,976	2,146,375	2,384,904
Travel	82,856	71,087	98,397
Commodities	17,728,416	20,867,993	27,157,827
Printing	6,615	14,221	14,049
Equipment	255,162	1,472,307	1,153,842
Telecommunications services	62,774	74,217	69,077
Operation of automotive equipment	1,006,104	799,417	786,918
Awards and grants	-	1,250,000	-
Repairs, maintenance and other capital improvements	70,000	-	39,813
Refunds	7,525	12,337	22,350
Total expenditures	<u>35,933,002</u>	<u>41,611,232</u>	<u>45,033,017</u>
Lapsed Balances	<u>\$ 14,707,598</u>	<u>\$ 21,583,368</u>	<u>\$ 16,295,783</u>

Note: Appropriations, expenditures, and lapsed balances were obtained from Agency records and have been reconciled to the records of the State Comptroller.

STATE OF ILLINOIS  
DEPARTMENT OF CORRECTIONS - CORRECTIONAL INDUSTRIES  
SCHEDULE OF CHANGES IN STATE PROPERTY  
For the Year Ended June 30, 2006

	Total	Equipment	Building and Building Improvements	Construction in Progress	Livestock	Capital Lease Equipment
Balance, June 30, 2005	\$ 26,828,211	\$ 19,733,956	\$ 6,727,715	\$ 39,814	\$ 288,000	\$ 38,726
Additions	940,110	704,322	39,814	48,624	147,350	-
Deletions and Adjustments	(607,287)	(533,186)	-	(39,814)	(10,750)	(23,537)
Net Transfers	(132,146)	(118,470)	(13,676)	-	-	-
Balance, June 30, 2006	\$ 27,028,888	\$ 19,786,622	\$ 6,753,853	\$ 48,624	\$ 424,600	\$ 15,189

Note: Information was obtained from ICI records and reconciled to property reports (C-15 Agency Report of State Property) submitted to the Office of the Comptroller.

This summary schedule was prepared using the State property records required by the Illinois Administrative Code. The capitalization policy in the Code is different than the capitalization policy established by the Office of the Comptroller for financial reporting in accordance with generally accepted accounting principles.

STATE OF ILLINOIS  
DEPARTMENT OF CORRECTIONS - CORRECTIONAL INDUSTRIES  
SCHEDULE OF CHANGES IN STATE PROPERTY  
For the Year Ended June 30, 2005

	Total	Equipment	Building and Building Improvements	Construction in Progress	Livestock	Capital Lease Equipment
Balance, June 30, 2004	\$ 26,168,487	\$ 18,901,123	\$ 7,118,812	\$ 39,814	\$ 58,550	\$ 50,188
Additions	1,723,088	1,472,088	-	-	251,000	-
Deletions and Adjustments	(497,823)	(462,911)	(1,900)	-	(21,550)	(11,462)
Net Transfers	(565,541)	(176,344)	(389,197)	-	-	-
Balance, June 30, 2005	\$ 26,828,211	\$ 19,733,956	\$ 6,727,715	\$ 39,814	\$ 288,000	\$ 38,726

Note: Information was obtained from ICI records and reconciled to property reports (C-15 Agency Report of State Property) submitted to the Office of the Comptroller.

This summary schedule was prepared using the State property records required by the Illinois Administrative Code. The capitalization policy in the Code is different than the capitalization policy established by the Office of the Comptroller for financial reporting in accordance with generally accepted accounting principles.

**STATE OF ILLINOIS  
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES  
COMPARATIVE SCHEDULE OF CASH RECEIPTS**

	For the Fiscal Year Ended June 30,		
	2006	2005	2004
<b>WORKING CAPITAL REVOLVING FUND - 301</b>			
Receipts from sales of products	\$37,379,952	\$38,330,988	\$64,779,327
Rent from farm leases	347,587	344,506	312,938
Prior year refunds	521	2,939	476
Cash receipts per ICI	<u>\$37,728,060</u>	<u>\$38,678,433</u>	<u>\$65,092,741</u>

**RECONCILIATION SCHEDULE OF CASH RECEIPTS TO DEPOSITS  
REMITTED TO THE STATE COMPTROLLER**

Cash receipts per ICI	\$37,728,060	\$38,678,433	\$65,092,741
Add General Fund transfers, end of year	153,460	168,789	364
Less General Fund transfers, beginning of year	<u>(168,789)</u>	<u>(364)</u>	<u>-</u>
Receipts per Comptroller's records	<u>\$37,712,731</u>	<u>\$38,846,858</u>	<u>\$65,093,105</u>

**STATE OF ILLINOIS**  
**DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES**  
**ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES**  
**As of June 30, 2006 and 2005**

The Comparative Schedule of Net Appropriations, Expenditures and Lapsed Balances documents the expenditure activities for fiscal years 2006, 2005 and 2004.

Significant variations in expenditures from appropriations are considered to be those varying between years by twenty percent (20%) or more. Following are the ICI's explanations for these significant variations.

**Employee retirement contribution paid by State**

Employee retirement contributions paid by State decreased by \$72,372 or 20% in fiscal year 2005 due to the decrease in the State contribution rate from 5.5% to 2.75%. The retirement contributions paid by State further dropped by \$183,874 or 65% in fiscal year 2006 due to the change in union contract wherein the retirement paid by the State is now being fully paid by the employee.

**State contribution to State employee retirement**

State contributions to State employee retirement increased by \$341,802 or 32% in fiscal year 2005 due to the increase in the contribution rate from 13.439% in fiscal year 2004 to 16.107% in fiscal year 2005. However, the rate dropped to 7.79% in fiscal year 2006 resulting in a decrease of \$677,713 or 49%.

**Group insurance**

Group insurance increased by \$561,538 or 37% in fiscal year 2005 due to the increase in contribution as a result of an increase in employees' salary (2.75% for bargaining unit and 4% for merit compensation). In addition, additional employees were hired during fiscal year 2005.

**Travel**

Travel expenditures decreased by \$27,310 or 28% in fiscal year 2005 due to the decrease in travel made by employees as a result of budgetary constraints.

**Commodities**

Commodities expenditures decreased by \$6,289,834 or 23% in fiscal year 2005 due to fewer purchases of raw materials as a result of decline in sales during the fiscal year.

**STATE OF ILLINOIS**  
**DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES**  
**ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES**  
**As of June 30, 2006 and 2005**

**Printing**

Printing expenditures decreased by \$7,606 or 53% in fiscal year 2006 due to a return to normal spending level after higher expenditures in fiscal year 2005 which was the result of bulk purchase of soap shop labels made in that year.

**Equipment**

Equipment expenditures increased by \$318,465 or 28% in fiscal year 2005 due to the purchase of semi-trucks and trailers to replace worn out vehicles.

During fiscal year 2006, the decrease of \$1,217,145 or 83% was due to the purchase of the vehicles in fiscal year 2005 not made in fiscal year 2006.

**Operation of automotive equipment**

Operation of automotive equipment expenditures increased by \$206,687 or 26% in fiscal year 2006 due to the increase in repair and maintenance made to equipment and the continuous increase in fuel prices which rose sharply during fiscal year 2006.

**Awards and grants**

Awards and grants increased by \$1,250,000 or 100% in fiscal year 2005 due to the Operation Ceasefire project which was not appropriated in fiscal year 2004 or in fiscal year 2006.

**Repairs, maintenance and other capital improvements**

Repairs, maintenance and other capital improvements decreased by \$39,813 or 100% in fiscal year 2005 due to repairs in one shop that was completed in the previous year. There was no capital improvements made in fiscal year 2005.

During fiscal year 2006, the increase of \$70,000 or 100% was due to the capital improvements incurred for the expansion of the bakery shop.

**Refunds**

Refunds decreased by \$4,812 or 39% and \$10,013 or 45% in fiscal years 2006 and 2005, respectively, due to minimal returns made by customers during the two fiscal years.

**STATE OF ILLINOIS**  
**DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES**  
**ANALYSIS OF SIGNIFICANT VARIATIONS IN RECEIPTS**  
**Fiscal Years 2006 and 2005**

The Comparative Schedule of Cash Receipts documents the revenue generating activities for fiscal years 2006, 2005 and 2004.

Significant variations in receipts are considered to be those varying between years by 20% or more.

Cash receipts decreased by \$26,413,832 or 41% in fiscal year 2005 due to a return to a normal collection level after higher collections were made in fiscal year 2004 for significant receivable outstanding at the end of fiscal year 2003.



**STATE OF ILLINOIS**  
**DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES**  
**ANALYSIS OF SIGNIFICANT LAPSE PERIOD SPENDING**  
**Fiscal Years 2006 and 2005**

The Agency's lapse period spending of \$3,373,697 for fiscal year 2006 and \$3,715,907 for fiscal year 2005, as shown in the Schedule of Appropriations, Expenditures and Lapsed Balances, represented 9.4% and 8.9% of the total expenditures, respectively. Following are the Agency's explanations for lapse period spending which exceeded twenty percent (20%) of the total expenditure line item.

Fiscal Year 2006

**Equipment**

Various equipment ordered before June 30, 2006 were received and paid during the lapse period.

**Operation of automotive equipment**

Expenditures for maintenance of vehicles made in June were paid during the lapse.

**Repairs, maintenance and other capital improvements**

Invoices for repairs, maintenance and other capital improvements completed before June 30, 2006 were received and paid during the lapse period.

Fiscal Year 2005

**Printing**

Major portion of the lapse period spending for printing is due to the purchase of soap labels ordered in June 2005 but were received and paid during the lapse period.

**Equipment**

Various equipment ordered before June 30, 2005 were received and paid during the lapse period.

**STATE OF ILLINOIS**  
**DEPARTMENT OF CORRECTIONS - CORRECTIONAL INDUSTRIES**  
**ANALYSIS OF SIGNIFICANT ACCOUNT BALANCES**  
**As of June 30, 2006 and 2005**

**Accounts Receivable**

Accounts receivable represents amounts due from sale of goods and services to State agencies, local governments and others. As of June 30, 2006 and 2005, ICI had accounts receivable of \$5,856,004 and \$5,873,571, respectively. The following represents an analysis of accounts receivable by customer and an aging of accounts receivable at June 30, 2006 and June 30, 2005. Amounts due from other funds are included in this receivable amounts.

	<u>2006</u>	<u>2005</u>
Department of Corrections	\$ 1,987,467	\$ 2,348,157
Department of Public Aid (Healthcare/Family Services)	2,233,401	1,811,743
Department of Commerce and Economic Opportunity	790	10,631
Capital Development Board	37,000	91,866
Department of Human Services	249,705	556,736
Central Management Services	15,306	13,273
Secretary of State	26,068	8,415
Office of the Treasurer	634	9,583
Department of Veterans' Affairs	13,660	22,298
Other State Agencies	1,012,327	434,229
Local Government Units	33,270	56,014
State Colleges and Universities	14,219	208,306
Not for Profits	105,845	75,901
Leases	132,717	128,149
Others	66,802	111,623
	<u>5,929,211</u>	<u>5,886,924</u>
Less warrants in transit*	(73,207)	(13,353)
	<u>\$ 5,856,004</u>	<u>\$ 5,873,571</u>
Current	\$ 3,555,386	\$ 3,109,732
31 - 90 days old	1,111,560	1,893,814
91 - 180 days old	1,160,215	704,698
Over 180 days old	102,050	178,680
	<u>5,929,211</u>	<u>5,886,924</u>
Less warrants in transit*	(73,207)	(13,353)
	<u>\$ 5,856,004</u>	<u>\$ 5,873,571</u>

\*Warrants received by ICI in July that were issued in June by other State agencies.

**STATE OF ILLINOIS**  
**DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES**  
**ANALYSIS OF SIGNIFICANT ACCOUNT BALANCES - CONTINUED**  
**June 30, 2006 and 2005**

**Inventories**

Inventories represent the amount of goods on hand that are to be used in the process of manufacturing finished goods, finished goods that are ready to be sold, or operating supplies that are used in producing goods or services. The inventories of raw materials, work in process, finished goods, operating supplies, unharvested crops and stores inventory are stated at the lower of cost or market. Inventories of harvested crops and livestock are valued at market value as of the balance sheet date. The following represent inventories by component as of June 30, 2006 and June 30, 2005.

	<u>2006</u>	<u>2005</u>
Finished goods	\$4,215	\$4,944
Work in process	144	132
Raw materials	3,699	3,726
Livestock	104	198
Operating supplies	726	524
Unharvested crops	80	37
Stores inventory	9	7
	<u>\$8,977</u>	<u>\$9,568</u>

**STATE OF ILLINOIS  
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES  
ANALYSIS OF OPERATIONS  
For the Two Years Ended June 30, 2006**

AGENCY FUNCTIONS AND PLANNING PROGRAM

AGENCY FUNCTIONS

Illinois Correctional Industries (ICI) operates as a productive enterprise employing prisoners from institutions under the jurisdiction of the Illinois Department of Corrections (Department). ICI operations are not supported by tax dollars. It is a self-supporting program, deriving its revenues solely from the sale of its products and services. Tax-supported institutions and non-profit organizations comprise the majority of the market.

The Illinois Procurement Code (30 ILCS 500/45-30) requires state agencies give ICI preference when procuring items manufactured by ICI. County, municipal units and other public institutions qualify as ICI customers. Not-for-profit corporations chartered in Illinois may also purchase ICI produced goods and services.

The Director of the Illinois Department of Corrections is Roger E. Walker Jr. The Chief Executive Officer of the Illinois Correctional Industries is James Underwood who reports directly to the Director.

The mission of the Department of Corrections is to protect the public from criminal offenders through a system of incarceration and supervision which segregates offenders from society, assures offenders of their constitutional rights and maintains programs to enhance the success of offenders' reentry to society. ICI supports this mission with its vision to operate respected Correctional Industry programs accountable to the citizens of Illinois and beneficial to incarcerated individuals and their customers.

PLANNING PROGRAM

ICI maintains a planning program that enumerates its goals as follows:

- 1) Develop programs which will improve ex-offenders ability to acquire employment.
- 2) Conduct ongoing review of industry program performance.
- 3) Improve the control, accountability and management of Correctional Industries.
- 4) Expand and improve programs that have an increasing product demands.
- 5) Improve the services provided to customers, ensure products are of a high quality, and expand marketing efforts for new products.
- 6) Bring ICI staff levels back up to acceptable levels.

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AGENCY FUNCTIONS AND PLANNING PROGRAM

Each goal is supported with a written plan for achieving the objective. Annually, the Director of the Department releases an annual report to detail the results of ICI's operations which provides measurement for the achievement of each goal.

AUDITOR'S ASSESSMENT OF AGENCY FUNCTIONS AND PLANNING PROGRAM

Our review of the planning process indicates that there is an organized planning program in operation with specific goals and a monitoring system to measure and evaluate actual results. The program is responsive to the objectives of the Department.

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AVERAGE NUMBER OF EMPLOYEES

The following is an analysis of the average number of civilian (non-inmate) employees for the last three fiscal years:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
ICI Central Office	29	29	22
Illinois River	16	15	15
Centralia	4	4	3
Danville	3	3	3
Decatur	3	3	3
Dixon	7	7	7
Dwight	6	6	6
East Moline	8	8	7
Hill	10	10	9
Graham	5	5	4
Jacksonville	1	1	1
Modular Furniture (Jacksonville)	7	9	8
Lincoln Asbestos	6	6	6
Lincoln Sewing	1	1	8
Logan Furniture	2	3	3
Logan Trucking	7	7	1
Menard	5	6	6
Menard Farm	5	5	5
Western Illinois	6	6	5
Pana	6	6	5
Shawnee	5	4	3
Sheridan	5	5	4
Stateville	4	5	4
Vandalia	13	12	10
	<u>164</u>	<u>166</u>	<u>148</u>
Total average employees	<u>164</u>	<u>166</u>	<u>148</u>

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EMERGENCY PURCHASES

ICI reported the following emergency purchases to the Office of the Auditor General during Fiscal Years 2006 and 2005:

<u>Description of Emergency Purchases – FY 2006</u>	<u>Actual Cost</u>
Purchase of catfish nuggets	\$119,400
Purchase of unbreaded catfish nuggets	294,000

Description of Emergency Purchases – FY 2005

Purchase of beef inside rounds	\$243,180
Purchase of beef trim	45,765

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MEMORANDUM OF UNDERSTANDING (UNAUDITED)

For fiscal year 2005 the Department of Corrections - Correctional Industries was appropriated \$1,250,000 from the Working Capital Revolving Fund for a grant to Operation CeaseFire. CeaseFire is a community-based program to stop violence through street-level outreach, public education and community involvement. The CeaseFire program is administered through the Chicago Project for Violence Prevention (Chicago Project), which is a public-private organization committed to the prevention of violence. The Chicago Project is housed within the School of Public Health of the University of Illinois at Chicago.

The Department of Corrections entered into a Memorandum of Understanding with the Board of Trustees of the University of Illinois at Chicago. The Memorandum of Understanding is a formal expression of the purpose, intent and responsibilities of the parties and is signed by officials from both entities. The Memorandum of Understanding was executed on December 28, 2004. Two equal payments of \$625,000 were processed to the University of Illinois at Chicago from the Working Capital Revolving Fund on January 31, 2005 and March 1, 2005. There was no funding appropriated for the CeaseFire program from the Working Capital Revolving Fund for fiscal year 2006.



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WORKING CAPITAL REVOLVING FUND ACTIVITY

The following is a summary of overall activity in the Working Capital Revolving Fund for the previous three fiscal years.

	For the Fiscal Year Ended June 30		
	2006	2005	2004
Gross profit	\$ 4,914,196	\$ 5,185,461	\$ 7,509,137
Selling, general and administrative expenses	5,794,440	6,461,835	5,151,551
Operating income (loss)	(880,244)	(1,276,374)	2,357,586
Other income (expenses)-net	361,933	(1,008,177)	295,355
Income (loss) before transfer	(518,311)	(2,284,551)	2,652,941
Transfer to other funds	(3,904,868)	(15,878,300)	(4,000,000)
Net losses after transfer	(4,423,179)	(18,162,851)	(1,347,059)
Net assets, beginning of year	22,989,600	41,152,451	42,499,510
Net assets, end of year	<u>\$ 18,566,421</u>	<u>\$ 22,989,600</u>	<u>\$ 41,152,451</u>

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ANNUAL COST STATISTICS

COMMODITIES EXPENDITURES

The following is an analysis of commodities expenditures for fiscal years 2006, 2005 and 2004:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Mechanical supplies	\$261,409	\$222,778	\$211,029
Household, laundry and cleaning Supplies	161,001	184,773	299,265
Industrial and shop materials	5,839,816	5,542,076	5,278,783
Gas, oil and antifreeze	24,880	6,122	6,312
Forage, farm and garden supplies	232,748	241,124	268,549
Food supplies	9,907,464	13,371,850	15,858,205
Wearing apparel	30,043	26,369	30,090
All other	<u>1,271,055</u>	<u>1,272,901</u>	<u>5,205,594</u>
 Total	 <u>\$17,728,416</u>	 <u>\$20,867,993</u>	 <u>\$27,157,827</u>

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ANNUAL COST STATISTICS

**ADMINISTRATIVE COSTS (UNAUDITED)**

The following schedule of administrative costs (unaudited), prepared by the Agency, consists of Central Administration expenses, as well as administrative expenses allocated at each shop.

	For the Fiscal Year Ended June 30,		
	2006	2005	2004
Central Administration:			
Marketing	\$ 722,654	\$ 626,445	\$ 403,305
Fiscal	581,082	675,967	634,677
Chief Administrative Office Section	1,106,480	986,322	570,066
Planning	297,561	445,194	307,179
Industrial operations	25,645	36,241	50,643
	<u>2,733,422</u>	<u>2,770,169</u>	<u>1,965,870</u>
Shops:			
Illinois River	203,624	215,003	193,745
Centralia	156,475	115,345	27,608
Danville	153,836	165,121	149,101
Decatur	155,411	158,128	136,002
Dixon	220,441	236,010	221,670
Dwight	125,873	158,789	150,274
East Moline	147,585	153,828	98,718
Hill	170,679	181,607	162,850
Graham	152,526	139,614	154,546
Jacksonville	139,344	152,278	128,860
Lincoln	147,528	153,351	274,041
Logan	89,138	219,414	143,488
Menard	98,213	104,414	105,287
Menard Farm	210,210	291,603	196,675
Western Illinois	166,472	94,409	118,411
Pana	228,411	748,955	674,687
Shawnee	132,908	100,600	82,369
Sheridan	60,615	45,143	18,753
Stateville	141,569	127,834	63,289
Vandalia	160,160	130,220	85,307
	<u>3,061,018</u>	<u>3,691,666</u>	<u>3,185,681</u>
Total administrative expenses	5,794,440	6,461,835	5,151,551
Total operating expenses including overhead costs	<u>\$ 38,000,194</u>	<u>\$ 41,165,639</u>	<u>\$ 41,337,741</u>
Percent administrative expenses to total operating expenses	<u>15.25%</u>	<u>15.70%</u>	<u>12.46%</u>

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SERVICE EFFORTS AND ACCOMPLISHMENTS (UNAUDITED)

SALES BY CUSTOMER (UNAUDITED)

The following is an analysis of net sales by customer type:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Illinois Department of Corrections	\$26,583,472	\$30,379,143	\$36,267,938
Illinois Department of Human Services	1,004,920	852,861	769,748
Illinois Department of Transportation	109,710	39,826	25,036
Other State Agencies	8,445,585	6,407,271	6,171,795
Local Governments	153,827	141,252	195,769
Colleges and Universities	759,802	1,153,600	754,611
Not-for-Profit Organizations	909,392	904,066	961,040
Other Customers	903,124	1,270,292	703,176
	<u>\$38,869,832</u>	<u>\$41,148,311</u>	<u>\$45,849,113</u>
Less intershop sales	<u>(1,749,883)</u>	<u>(1,259,045)</u>	<u>(2,153,786)</u>
Total sales	<u>\$37,119,949</u>	<u>\$39,889,266</u>	<u>\$43,695,327</u>

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SERVICE EFFORTS AND ACCOMPLISHMENTS (UNAUDITED)

INMATE ASSIGNMENTS (UNAUDITED)

In fiscal year 2006, Illinois Correctional Industries filled 90% of industry assignments throughout the year while in fiscal year 2005, ICI filled 92% of industry assignments. Average Available assignments increased but Average Working decreased from fiscal year 2005 due to lack of inmates to fill up vacancies.

The first column, Average Available, reflects the established number of positions for a shop working at full capacity. When a shop is not working at full capacity, it is generally due to lack of sales, inmates being confined to their cells (uninterested in assignments, illness or lockdown), or vacancies due to routine turnover.

Industry	Fiscal Year 2006		Fiscal Year 2005	
	Average Available	Average Working	Average Available	Average Working
Centralia Administration	4	4	4	3
Centralia Mattress	17	12	17	12
Centralia Sewing	13	13	12	11
Danville Administration	5	5	5	5
Danville Boxes	7	9	7	7
Danville Sportswear	22	24	22	22
Decatur Administration	5	5	5	5
Decatur Garment	40	35	40	35
Decatur Furniture	7	7	7	7
Decatur Dog Grooming	5	5	5	5
Dixon Optical	90	82	90	89
Dwight Administration	3	3	3	3
Dwight Garment	75	58	55	45
Dwight Helping Paws	13	10	13	10
East Moline Administration	1	1	4	4
East Moline Laundry	49	49	49	49
East Moline Metal Furniture	4	4	1	1
Graham Administration	5	5	5	5
Graham Furniture	36	32	34	34
Graham State Garage	8	8	8	8
Hill Administration	7	7	3	3
Hill Meat Processing	41	41	43	41
Hill Milk Processing	24	24	26	26

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SERVICE EFFORTS AND ACCOMPLISHMENTS (UNAUDITED)

INMATE ASSIGNMENTS (UNAUDITED)

Industry	Fiscal Year 2006		Fiscal Year 2005	
	Average Available	Average Working	Average Available	Average Working
Illinois River Administration	17	17	15	15
Illinois River Bakery	193	150	210	184
Jacksonville Call Center	9	9	9	9
Lincoln Administration	2	2	-	-
Lincoln Asbestos Abatement	18	18	18	18
Lincoln Sewing	30	17	32	16
Logan Administration	6	6	6	6
Logan Furniture/Refinishing	14	14	14	14
Menard Broom & Wax	15	11	15	11
Menard Knit	56	56	52	50
Menard Farm Administration	5	4	5	3
Menard Farm Meat Processing	15	7	20	12
Menard Farm Waste Removal/Recycling	9	9	6	6
Menard Farm Warehouse	-	-	5	5
Pana Central Distribution	8	6	8	6
Shawnee Administration	5	5	5	5
Shawnee Metal Furniture	22	19	13	13
Sheridan Administration	-	-	2	2
Sheridan Garment Cutting	24	24	22	22
Stateville Furniture	16	14	13	13
Stateville Soap	13	12	10	10
Vandalia Administration	6	5	5	5
Vandalia Crops/Dairy	27	27	35	35
Vandalia Meat Processing	17	17	15	15
Vandalia Milk Processing	33	33	23	23
Western Illinois Administration	3	3	3	3
Western Illinois Food Processing	102	98	117	114
	<u>1,146</u>	<u>1,026</u>	<u>1,136</u>	<u>1,045</u>

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SERVICE EFFORTS AND ACCOMPLISHMENTS (UNAUDITED)

RECIDIVISM STATISTICS – UNAUDITED

The Department of Corrections (Department) has tracked inmates released from adult institutions in fiscal year 2002 who had past employment in an ICI program. The selection criteria used were inmates who earned at least \$600 in 2001 or 2002 through their involvement in Correctional Industries program. The Department reported a general three-year recidivism rate of 46.1%.

Additionally, ICI tracked all inmates released from its programs. From July 1, 2004 through June 30, 2005, 118 inmates were released directly from ICI programs. As of October 2005, a total of 50 or 42.4% found employment after release. Also, from July 1, 2005 through June 30, 2006, 220 inmates were released directly from ICI programs.

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**SUMMARY OF OPERATIONS BY INDUSTRY (UNAUDITED)**

Fiscal Year 2006

Industry	Revenue	Cost of Sales and Services	Selling, General and Administrative Expenses	Depreciation	Income (Loss)	Average # of Inmate Workers
Central Administration	\$ -	-	\$ 2,733,422	\$ 80,892	\$ (2,814,314)	150
Illinois River Bakery	4,071,344	2,608,482	203,624	253,867	1,005,371	18
Lincoln Asbestos Abatement	130,958	365,806	83,526	23,854	(342,228)	7
Decatur Furniture	963,530	761,839	115,816	3,164	82,711	35
Decatur Sewing	380,371	250,447	38,073	14,474	77,377	-
Decatur Grooming	728	10,013	1,522	-	(10,807)	-
Pana Warehouse	6,517	669,037	228,411	19,788	(910,719)	6
Jacksonville Modular Furniture Installation	93,166	423,177	125,731	6,601	(462,343)	9
Jacksonville Telemarketing	-	-	13,613	3,071	(16,684)	17
Lincoln Ind. Garment	369,230	280,302	64,002	13,902	11,024	-
Centralia Furniture	19,694	22,111	4,411	1,022	(7,850)	12
Centralia Mattress	616,317	518,417	103,424	11,127	(16,651)	13
Centralia Sewing	424,861	243,808	48,640	16,836	115,577	32
Graham Furniture	898,402	511,132	146,963	107,252	133,055	8
Graham State Garage	33,932	19,348	5,563	1,259	7,762	58
Dwight Garment	1,049,399	737,463	112,655	24,951	174,330	-
Dwight Helping Paws	4,872	86,525	13,218	9,548	(104,419)	11
Menard Broom & Wax	490,145	400,847	98,213	19,511	(28,426)	56
Menard Knit	2,096,124	1,716,830	131,316	67,277	180,701	7
Menard Farm Meat Processing	1,045,939	879,374	67,261	20,307	78,997	9
Menard Farm Waste Removal	235,488	152,094	11,633	4,705	67,056	14
Logan Refinishing	406,429	280,292	11,580	1,311	113,246	-
Logan Trucking	1,187,673	1,877,218	77,558	31,667	(798,770)	24
Sheridan Garment Cutting	674,387	972,694	60,615	23,748	(382,670)	-

(Continued)



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**SUMMARY OF OPERATIONS BY INDUSTRY (UNAUDITED)**

Fiscal Year 2006

Industry	Revenue	Cost of Sales and Services	Selling, General and Administrative Expenses	Depreciation	Income (Loss)	Average # of Inmate Workers
Stateville Furniture	\$ 674,416	541,681	69,716	\$ 92,594	\$ (29,575)	14
Stateville Soap	747,971	536,955	69,108	24,803	117,105	12
Stateville Garment	28,782	21,329	2,745	2,205	2,503	-
Vandalia Farm Milk Processing	3,216,521	2,567,802	109,137	132,588	406,994	60
Vandalia Farm Meat Processing	1,721,109	1,200,485	51,023	43,312	426,289	17
East Moline Laundry	798,936	621,167	106,192	96,864	(25,287)	49
East Moline Furniture	172,426	242,131	41,394	458	(111,557)	4
Danville Boxes	480,202	239,535	59,623	33,062	147,982	9
Danville Sportswear	564,455	378,498	94,213	21,233	70,511	24
Dixon Optical	5,191,130	1,896,038	220,345	68,528	3,006,219	82
Dixon Sewing	847	823	96	190	(262)	-
Hill Meat Processing	2,588,480	2,056,535	91,998	33,025	406,922	41
Hill Milk Processing	2,186,372	1,758,834	78,680	48,733	300,125	24
Western Illinois Food Processing	4,591,099	4,193,712	166,472	83,530	147,385	98
Shawnee Metal Furniture	707,580	593,352	132,908	128,362	(147,042)	19
<b>Total</b>	<b>38,869,832</b>	<b>30,636,133</b>	<b>5,794,440</b>	<b>1,569,621</b>	<b>869,638</b>	<b>939</b>
Intershop sales	(1,749,883)	-	-	-	(1,749,883)	-
Nonoperating revenue (net of nonoperating expenses)	-	-	-	-	361,933	-
Transfers to other funds	-	-	-	-	(3,904,868)	-
<b>Grand Total</b>	<b>\$ 37,119,949</b>	<b>\$ 30,636,133</b>	<b>\$ 5,794,440</b>	<b>\$ 1,569,621</b>	<b>\$ (4,423,180)</b>	<b></b>

Note: During the fiscal year 2006, Illinois Correctional Industries has an average of 87 inmate workers in administrative positions at various locations, bringing the total number of inmate workers to 1,026.

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**SUMMARY OF OPERATIONS BY INDUSTRY (UNAUDITED)**

Fiscal Year 2005

Industry	Revenue	Cost of Sales and Services	Selling, General and Administrative Expenses	Depreciation	Income (Loss)	Average # of Inmate Workers
Central Administration	\$ -	\$ (1,623)	\$ 2,770,169	\$ 55,783	\$ (2,824,329)	184
Illinois River Bakery	4,409,231	3,413,741	215,003	218,395	562,092	18
Lincoln Asbestos Abatement	155,888	466,892	97,566	29,162	(437,732)	7
Decatur Furniture	203,342	200,877	70,007	4,269	(71,811)	35
Decatur Sewing	452,325	252,855	88,121	20,924	90,425	6
Pana Warehouse	349,759	315,936	748,955	28,336	(743,468)	-
Jacksonville Modular Furniture Installation	31,795	549,248	145,329	2,917	(665,699)	9
Jacksonville Telemarketing	-	26,262	6,949	5,555	(38,766)	16
Lincoln Ind. Garment	308,677	266,957	55,785	11,407	(25,472)	12
Centralia Mattress	621,684	386,453	79,528	12,965	142,738	11
Centralia Sewing	319,145	174,047	35,817	17,729	91,552	34
Graham Furniture	1,268,829	1,188,539	138,708	106,974	(165,392)	8
Graham State Garage	36,720	7,766	906	-	28,048	45
Dwight Garment	960,373	582,125	137,642	36,190	204,416	-
Dwight Helping Paws	4,919	89,437	21,147	1,890	(107,555)	11
Menard Broom & Wax	506,181	389,983	26,794	17,961	71,443	50
Menard Knit	2,262,421	1,129,722	77,620	59,338	995,741	12
Menard Farm Meat Processing	613,029	548,566	222,713	18,435	(176,685)	6
Menard Farm Waste Removal	252,487	169,685	68,890	5,336	8,576	14
Logan Refinishing	286,198	294,147	64,444	2,299	(74,692)	-
Logan Trucking	335,434	707,341	154,970	27,736	(554,613)	22
Sheridan Garment Cutting	472,475	842,738	45,143	48,305	(463,711)	(Continued)

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SUMMARY OF OPERATIONS BY INDUSTRY (UNAUDITED)

Fiscal Year 2005

Industry	Revenue	Cost of Sales and Services	Selling, General and Administrative Expenses	Depreciation	Income (Loss)	Average # of Inmate Workers
Stateville Furniture	\$ 936,408	\$ 810,234	\$ 75,277	\$ 98,232	\$ (47,335)	13
Stateville Soap	872,070	565,699	52,557	26,293	227,521	10
Vandalia Farm Milk Processing	3,312,729	2,303,612	57,308	154,133	797,676	58
Vandalia Farm Meat Processing	2,974,757	2,930,814	72,912	35,211	(64,180)	15
East Moline Laundry	752,901	636,742	131,045	79,600	(94,486)	49
East Moline Furniture	96,741	110,703	22,783	2,404	(39,149)	1
Danville Boxes	383,939	232,694	64,804	31,375	55,066	7
Danville Sportswear	465,670	360,209	100,317	22,519	(17,375)	22
Dixon Optical	5,279,852	2,024,903	236,010	66,910	2,952,029	89
Hill Meat Processing	3,206,480	2,838,186	111,855	32,313	224,126	41
Hill Milk Processing	2,178,896	1,769,879	69,752	58,393	280,872	26
Western Illinois Food Processing	6,583,162	6,163,962	94,409	91,798	232,993	114
Shawnee Metal Furniture	253,794	389,298	100,600	134,088	(370,192)	13
<b>Total</b>	<b>41,148,311</b>	<b>33,138,629</b>	<b>6,461,835</b>	<b>1,565,175</b>	<b>(17,328)</b>	<b>958</b>
Intershop sales	(1,259,045)	-	-	-	(1,259,045)	
Nonoperating revenue (net of nonoperating expenses)	-	-	-	-	241,823	
Grant payments	-	-	-	-	(1,250,000)	
Transfers to other funds	-	-	-	-	(15,878,300)	
<b>Grand Total</b>	<b>\$ 39,889,266</b>	<b>\$ 33,138,629</b>	<b>\$ 6,461,835</b>	<b>\$ 1,565,175</b>	<b>\$ (18,162,850)</b>	

Note: During the fiscal year 2005, Illinois Correctional Industries has an average of 87 inmate workers in administrative positions at various locations, bringing the total number of inmate workers to 1,045.