



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

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

ILLINOIS DEPARTMENT OF CORRECTIONS

**Financial Audit For the Year Ended June 30, 2010 and
Compliance Examination For the Two Years Ended
June 30, 2010**

Release Date: July 28, 2011

Summary of Findings:

Total this report	34
Total last report	47
Repeated from last report:	24

SYNOPSIS

- Weaknesses were noted in the preparation of accounting reports submitted to the Illinois Office of the Comptroller and the preparation of the Department's financial statements.
- The Department improperly calculated its liabilities at June 30, 2009 and 2010 which led to errors in its financial reporting.
- The Department did not accurately record all capital asset information in their financial records.
- The Department did not formally organize and document the financial information utilized in the preparation of their financial statements and in reporting financial information to the Office of the Comptroller.
- The Department failed to maintain adequate controls over its inventory. Numerous exceptions were noted regarding the inventories at the Correctional Centers.
- The Department's Correctional Centers inadequately administered locally held funds (bank accounts) during the engagement period. Internal control weaknesses were noted at multiple Correctional Centers.
- The Department is adding a charge to the purchase price of the goods to be resold in the inmate commissaries in excess of what is statutorily allowed.
- The Department is not complying with the requirements of the Illinois Procurement Code in regard to purchases of items for resale in the Department's commissaries at Correctional Centers.
- The Department did not properly maintain records at the Adult Transition Centers.
- The Department does not have an automated payroll timekeeping system.
- The Department failed to ensure proper controls were established in the administration of its contracts during the engagement period.

{Expenditure and activity measurers are summarized on the reverse page.}

**DEPARTMENT OF CORRECTIONS
FINANCIAL AUDIT
For the Year Ended June 30, 2010
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2010**

EXPENDITURE STATISTICS	FY 2010	FY 2009	FY 2008
Total Expenditures.....	\$ 1,182,396,795	\$ 1,334,040,675	\$ 1,249,415,977
OPERATIONS TOTAL.....	\$ 1,169,877,181	\$ 1,313,073,488	\$ 1,230,130,309
% of Total Expenditures.....	99.0%	98.5%	98.5%
Personal Services.....	757,200,344	745,646,748	727,572,302
Other Payroll Costs (FICA, Retirement and Group Insurance).....	57,806,876	210,977,354	173,721,462
Contractual Services.....	265,274,852	261,772,917	241,238,148
Commodities.....	62,676,730	64,462,928	59,064,860
All Other Operating Expenditures.....	26,918,379	30,213,541	28,533,537
AWARDS AND GRANTS.....	\$ 12,389,836	\$ 20,220,495	\$ 17,951,686
% of Total Expenditures.....	1.0%	1.5%	1.4%
PERMANENT IMPROVEMENTS.....	\$ 115,711	\$ 613,872	\$ 156,734
% of Total Expenditures.....	0.0%	0.0%	0.0%
REFUNDS.....	\$ 14,067	\$ 132,820	\$ 1,177,248
% of Total Expenditures.....	0.0%	0.0%	0.1%
Total Receipts.....	\$ 30,155,803	\$ 26,962,451	\$ 46,425,549
Average Number of Employees.....	11,023	11,063	11,902

SELECTED ACTIVITY MEASURES (unaudited)	2010	2009	2008
Inmate Population, June 30,	45,905	45,405	45,264
Rated Capacity, June 30,.....	34,063	34,063	34,263
Inmate Population Over Rated Capacity	11,842	11,342	11,001
Average Annual Cost, Correctional Centers.....	\$ 21,809	\$ 24,854	\$ 23,147
Overtime Hours Paid.....	1,040,452	1,263,066	890,412
Value of Overtime Hours Paid.....	\$ 45,894,263	\$ 53,056,467	\$ 37,075,059
Compensatory Hours Used.....	598,870	652,952	538,220
Value of Compensatory Hours Used.....	\$ 17,864,278	\$ 18,803,753	\$ 15,364,621

DEPARTMENT DIRECTOR
During Examination: Roger E. Walker Jr. (through 6/7/09), Michael P. Randle (6/7/09 through 9/18/10), Gladys Taylor, Acting (9/19/10 through 5/1/11) Currently: Salvador A. Godinez (effective 5/2/11)

INTRODUCTION

This report presents our Department-wide financial statement audit for the year ended June 30, 2010 and compliance attestation examination of the Department for the two years ended June 30, 2010. The scope of the compliance examination excludes the Department's Correctional Industries function which had a separate compliance examination for the two years ending June 30, 2010. At June 30, 2010 the Department operated 27 correctional centers, 7 adult transition centers and Correctional Industries. During the engagement period the Department closed the Thomson Correction Center and the Jesse "Ma" Houston adult transition center.

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

WEAKNESSES IN PREPARATION OF REPORTING FORMS AND FINANCIAL STATEMENTS

The Department's year-end financial reporting in accordance with generally accepted accounting principles (GAAP) to the Illinois Office of the Comptroller (Comptroller) contained numerous inaccuracies and incomplete data. These problems, if not detected and corrected, could materially misstate the Department's financial statements and negatively impact the statewide financial statements prepared by the Comptroller.

Auditors noted an overall lack of a formalized methodology to accumulate information for financial reporting and a failure to formally document this information

During the audit of the June 30, 2010 Department financial statements, the auditors noted an overall lack of a formalized methodology to accumulate information for GAAP reporting and a failure to formally document this information. Some of the issues noted where errors were identified in the GAAP Reporting forms and Department financial statements are as follows:

Liabilities were improperly calculated

- Liabilities were improperly calculated at June 30, 2009 and 2010.

Weaknesses were identified in the financial accounting for, and reporting of capital assets

- Weaknesses were identified in the financial accounting for, and reporting of capital assets. The Department could not provide sufficient support for the additions, deletions, and net transfers of capital assets as originally reported to the Office of the Comptroller.

Auditors noted 53% of the pay rates used to compute the liability for compensated absences were incorrect

- During testing of pay rates for compensated absences, the auditors noted 53% of the pay rates were incorrect. When projected out to the population, the compensated vacation and sick time liability was understated.

Inter-fund billings totaling \$29 million were not eliminated

- The Department failed to account for the elimination of inter-fund billings totaling \$29,041,700 between the Department and Correctional Industries in the original submission of the financial statements.

The Fiscal Control and Internal Auditing Act requires all State agencies to establish and maintain a system of internal fiscal control to permit the preparation of reliable financial reports. Because of the significance of the exceptions noted, the auditors considered this to be a material weakness in the Department's internal control over financial and fiscal operations.

Department attributed problems to a lack of resources and competing priorities

Department management indicated the errors noted were due to a lack of resources and competing priorities for personnel. (Finding 10-01, pages 19 to 21)

We recommended the Department implement procedures to ensure GAAP reporting forms are prepared in an accurate, complete manner and all supporting documentation is maintained in a contemporaneous manner.

Department agrees with auditors

Department officials accepted the recommendation and noted they will continue devoting resources necessary within the limitations of the current technology and budget constraints to complete the GAAP reporting as required.

IMPROPER CALCULATION AND REPORTING OF LIABILITIES AT YEAR END

Errors in financial reporting

The Department improperly calculated its liabilities at June 30, 2009 and 30, 2010 which led to errors in financial reporting.

The Department did not utilize a comprehensive, consistent methodology to analyze and calculate its liabilities at year end, resulting in errors in the Department's financial data as reported on their year end financial statements. During testing of Department liabilities reported on the June 30, 2010 financial statements, the auditors noted and proposed adjustments for the following:

Accounts payable and expenditures were overstated by approximately \$37 million

- The Department developed a methodology to analyze lapse period spending for appropriate inclusion in accounts payable, but this methodology incorrectly included warrants held by the Comptroller. As a result, the Department overstated accounts payable and expenditures by approximately \$37.330 million at June 30, 2010. Additionally, the Department overstated accounts payable and expenditures by approximately \$3.904 million at June 30, 2009.

General Revenue Fund liabilities were duplicated

- During testing of liabilities reported for the General Revenue Fund, auditors noted amounts that were duplicated for fiscal years 2010 and 2009, totaling \$516,586 and \$186,435, respectively.

Statewide hospitalization service expenditures/expenses for fiscal year 2010 were incorrectly reported

- The Department incurred expenditures for statewide hospitalization services, which are processed on behalf of the Department by the Department of Healthcare and Family Services. During testing of these expenditures, the auditors noted liabilities associated with these expenditures had not been recorded as of June 30, 2009 or 2010. As such, fiscal year 2010 expenditures/expenses were incorrectly reported by a net understatement of \$825,576, and liabilities at June 30, 2010 were understated \$2,453,537.

The Fiscal Control and Internal Auditing Act requires all State agencies to establish and maintain a system of internal fiscal control to properly record and account for financial information to permit the preparation of reliable financial reports. Because of the significance of the exceptions noted, auditors considered this to be a material weakness in the Department's internal control over financial and fiscal operations.

Department attributes problems to a lack of oversight and new policies

Department management indicated the exceptions noted were the result of a lack of oversight and new policies regarding the issue of held warrants being misunderstood. (Finding 10-02, pages 22 to 23)

Department agrees with auditors

We recommended the Department establish a comprehensive, consistent methodology for determining liabilities and accumulating the information necessary for accurate financial reporting.

The Department accepted the recommendation indicating they will revise the methodology that was developed to ensure it is comprehensive and consistent in determining liabilities and accumulating the information necessary for accurate financial reporting.

WEAKNESSES IN THE FINANCIAL ACCOUNTING FOR, AND REPORTING OF CAPITAL ASSETS

Department submitted inaccurate information to the Office of the Comptroller

The Department did not accurately record all capital asset information in their financial records. As a result, the Department presented and submitted inaccurate information to the Comptroller and in their financial statements for fiscal year 2010. Auditors identified the following errors and weaknesses in the Department's accounting for capital assets:

Capital assets were understated by \$282,000 and accumulated depreciation was understated by \$17,991,000

- Auditors determined the ending cost of capital assets was understated by \$282,000 and accumulated depreciation was understated by \$17,991,000 as a result of input errors. Auditors recommended, and the Department made, adjustments to correct the misstatement in the June 30, 2010 financial statements.

Property control system does not provide information for the auditors to test depreciation by asset

- The Department's Automated Property Control System (APCS) does not provide information for the auditors to test depreciation by asset. APCS reports provide a total cost of all buildings combined, along with total depreciation combined at the end of each quarter a report by asset cannot be generated.

Sufficient support could not be provided for the additions, deletions, and net transfers reported to the Office of the Comptroller

- The Department could not provide sufficient support for the additions, deletions, and net transfers they reported to the Comptroller. Due to the manual nature of how the property reports are analyzed and compiled, the Department does not maintain support for these amounts.

The Fiscal Control and Internal Auditing Act requires all State agencies to establish and maintain a system of internal fiscal control to provide assurance that revenues, expenditures and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of reliable financial reports. Because of the significance of the exceptions noted, the auditors considered this to be a material weakness in the Department's internal control over financial and fiscal operations. (Finding 10-03, pages 24 to 26)

Department attributes problems to limitations of the property control system

Department management indicated the exceptions and weaknesses noted were due to inherent limitations of the Department's APCS and miscommunication within the Department.

We made a number of specific recommendations to the Department to improve accounting procedures and controls over capital assets.

Department agrees with auditors

The Department accepted the recommendation and noted they will continue devoting the resources necessary within the limitations of the existing property control system to ensure capital asset information is properly recorded and maintained.

FAILURE TO FORMALLY DOCUMENT SUPPORT FOR GAAP REPORTING AND MAINTAIN AND MONITOR AWARDS AND GRANTS

Information provided to the auditors was often disorganized and /or incomplete and did not agree with information the Department submitted to the Office of the Comptroller

The Department did not formally organize and document the financial information utilized in the preparation of their financial statements and GAAP reporting to the Office of the Comptroller. Auditors encountered numerous instances in which upon requesting information for testing the information provided was disorganized and /or incomplete or did not agree to the information reported on the financial statements and GAAP reporting forms. For example:

Compensated absences summary report provided lacked sufficient detail

- For compensated absences the Department provided the auditors a summary report which lacked sufficient detail to support the balances reported, as a result, the auditors had to subsequently request a complete report.

Supporting documentation

- Supporting documentation for the locally held funds omitted summary spreadsheets that agreed to amounts reported on the GAAP reporting forms.
- The Department is required to report grant activity on GAAP reporting forms. Supporting documentation provided to the auditors by the Department did not agree with amounts reported for receipts and expenditures on these forms.

Grant documentation did not agree to reported amounts

Auditors request for support was made multiple times and required multiple follow-up questions with the Department

- Support to test the amounts reported as due to/due from other funds was requested multiple times and when received required the auditors to ask multiple follow-up questions to clarify the detail of the amounts reported.

Grant program documentation not available

- The Department was not able to provide documentation of expenditures made under awards and grants related to two programs that the Department of Human Services (DHS) administers for the Department. The Department was unable to provide contracts, vouchers, or other supporting documentation for payments made to the grantees of the programs.

The Fiscal Control and Internal Auditing Act requires all State agencies to establish and maintain a system of internal fiscal control to provide assurance that revenues, expenditures and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of reliable financial reports. Because of the significance of the exceptions noted, we consider this to be a material weakness in the Department's internal control over financial and fiscal operations.

Department attributed some of the problems to multiple manual procedures

Department management indicated the use of multiple manual procedures to accumulate information for GAAP preparation attributed to the issues noted and that program documentation was not maintained because they believed it was the responsibility of DHS and the program administrator through an inter-agency agreement. (Finding 10-05, pages 30 to 32)

We recommended the Department implement formal procedures to ensure accounting and GAAP financial information is supported by appropriate documentation maintained in a contemporaneous manner, including documentation supporting expenditures made for grants and awards.

Department agrees with auditors

The Department accepted the recommendation and indicated they will develop and implement formal procedures to ensure appropriate documentation is created and maintained to support accounting and GAAP financial information and expenditures made for grants and awards.

THE DEPARTMENT FAILED TO MAINTAIN ADEQUATE CONTROLS OVER ITS INVENTORY

Auditors identified several exceptions and weaknesses related to the controls over commodity and commissary inventories, some of the exceptions noted are as follows:

Inventory counts did not agree to accounting records

- Exceptions were identified where physical inventory counts did not agree to accounting records in The Inventory Management System (TIMS) or the Fund Accounting and Commissary Trading System (FACTS) at 7 of 27 Correctional Centers.

Large year end adjustments were made without adequate explanation

- Three of 27 Correctional Centers had large year end adjustments to agree its records to the physical inventory without adequate explanation.

Adjustments were not made at year end to correct inventory records

- Auditors noted 3 of 27 Correctional Centers did not record adjustments to inventory at year end to correct their inventory records based upon the physical counts performed.

Weaknesses in segregation of duties for inventory procedures were noted

- Weaknesses in segregation of duties for inventory procedures were noted at 5 of 27 Correctional Centers.

Correctional Centers had difficulties providing auditors with requested documentation for the inventory procedures

- Seven of 27 Correctional Centers had difficulties providing auditors with requested documentation for the inventory procedures. These Centers were unable to provide documentation of inventory procedures performed, count sheets, invoices to support balances recorded, and various inventory reports from TIMS/FACTS.

The Fiscal Control and Internal Auditing Act requires all State agencies to establish and maintain a system of internal fiscal control to provide assurance that revenues, expenditures and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources. In addition, generally accepted accounting principles require the proper valuation and control over annual physical inventory processes to ensure complete and accurate inventories for financial reporting purposes.

Department attributes problems to many issues including insufficient training and/or staff shortages

The Department attributed the exceptions noted to human error, employee oversight, inmate theft, insufficient training and/or shortages of staff. (Finding 10-06, pages 33 to 36)

We recommended the Department improve its centralized oversight function related to inventory to allow for improved controls.

Department agrees with auditors

The Department accepted the recommendation and noted they have made some revisions in maintaining and accounting for inventory with the implementation of TIMS and will strive to continue making improvements in the Department's centralized oversight function and the inventory accounting and maintenance within the facilities.

INADEQUATE ADMINISTRATION OF LOCALLY HELD FUNDS AT THE CORRECTIONAL CENTERS

During testing of the Department's locally held funds auditors noted numerous exceptions, some of the exceptions noted are as follows:

Inadequate controls over Benefit Funds

- Ten Correctional Centers did not exercise adequate controls over the Resident Benefit Fund or the Employee Benefit Fund.

Inadequate controls over Commissary Fund expenditures

- Testing performed at 4 Correctional Centers noted inadequate controls over Commissary Fund expenditures.

Monthly reconciliations of locally held funds not properly performed

- Five Correctional Centers did not properly perform monthly reconciliations of their locally held funds. Instances were identified where reconciliations were not performed at all or Centers failed to appropriately dispose of deposit errors in a timely manner.

Inaccurate reports prepared and submitted

- Eight Centers prepared and submitted inaccurate Reports of Receipts and Disbursements for Locally Held Funds (C-17 Reports).

Inadequate segregation of duties

- Seven of the Centers tested did not maintain an adequate segregation of duties over functions within their locally held funds.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires state agencies to establish and maintain a system of internal fiscal and administrative controls, which provide assurance funds, property, other assets, and resources are safeguarded against waste, loss, unauthorized use, and misappropriation which include maintaining proper segregation of duties.

Department attributes problems to employee oversight, human error, competing priorities and staffing limitations

Department management indicated the exceptions noted were due to employee oversight, human error, competing priorities and staffing limitations at the correctional facilities. (Finding 10-07, pages 37 to 40)

We recommended the Department remind Center staff of the requirements set forth within the Administrative Directives, statutes and SAMS Manual related to the operation and maintenance of the locally held funds.

Department agrees with auditors

The Department accepted the recommendation and stated they will remind facility staff of the requirements related to the operation and maintenance of locally held funds.

INMATE COMMISSARY GOODS MARKED UP MORE THAN ALLOWED BY STATUTE

In testing the inmate commissary operations it was identified the Department was adding a charge to the purchase price of the goods to be resold in the commissaries prior to adding the statutorily allowed percentage mark-up to arrive at the sales price to charge inmates.

\$2,525,888 and \$2,421,179 were collected respectively for fiscal year 2010 and 2009

The Department phased in the application of the charge, effective November 1, 2005 the charge was set at 3%, and was raised January 1, 2006 to 7%. The Department collected \$2,525,888 and \$2,421,179 respectively for fiscal year 2010 and 2009, from the charge.

Goods sold in the inmate commissary included an additional charge not allowed by State law

Upon testing the Department's collection of the 3%-7% additional charge it was determined the Department was computing the amount to collect using sales revenue as opposed to cost of goods sold on which the 3%-7% charge is originally computed. Using the sales revenue instead of the cost of goods sold the Department collected more money as a result of the statutorily allowed mark-up of 25%-35% being added to the additional charge. Ultimately, the 3%-7% charge equates to a markup on the cost of goods sold of 9%.

Unified Code of Corrections only allows goods to be marked up 25-35%

The Unified Code of Corrections sets forth "the selling prices for all goods shall be sufficient to cover the costs of the goods and an additional charge of up to 35% for tobacco products and up to 25% for non-tobacco products." Based on the above statute the maximum amount to charge inmates for items sold in the inmate commissary would be the purchase price of the item plus any transportation costs the total of which would then be marked up to a maximum of 25%-35%.

Department management believe they are allowed to add the additional charge

Department management stated the charge was to help cover the costs of State employees who work in the inmate commissary, inmate labor for the commissary and utilities to operate the commissary. Department management also noted that they felt the definition of cost of goods in the Department's enabling legislation allowed them to apply the additional charge to the items.

Department requested a legal interpretation

The Department submitted a request to the Attorney General on February 1, 2010 seeking an interpretation of the Unified Code of Corrections and application of the additional charge. The Attorney General's Office responded on February 25, 2010 indicating they cannot issue an opinion in response to the Department's request since the matter requested was now scheduled for determination by the courts. (Finding 10-12, pages 49 to 51)

We recommended the Department revise its methodology for computing cost of goods to ensure included costs are not duplicative and comply with the statute and only mark-up the goods for resale in the inmate commissary the allowable amounts.

Department agrees with auditors

The Department accepted the recommendation and indicated they will review the current methodology used to compute cost of goods sold in consultation with the Office of the Comptroller to ensure costs are not duplicative and comply with the statute.

NONCOMPLIANCE WITH THE ILLINOIS PROCUREMENT CODE

Purchases of goods for resale in commissaries not made in accordance with the Illinois Procurement Code

The Department maintains numerous commissary operations at Correctional Centers for inmates and employees. Purchases are made from vendors for commodities to be resold in the commissaries. Total purchases made from vendors for resale in the commissaries were approximately \$31 million in fiscal year 2009 and \$34 million in fiscal year 2010. The commissaries commodity purchases are made through non-appropriated locally held funds. As a result of testing performed the auditors noted:

Competitive sealed bidding not performed

- Purchases were not made by competitive sealed bidding or competitive sealed proposals as required by the Illinois Procurement Code (Code). The Correctional Centers use catalogs from various vendors or contact multiple vendors via telephone to obtain prices to select products for resale in the commissaries.

Terms and conditions not documented in formal contracts

- Terms and conditions for the purchases of goods from vendors for the commissaries were not documented in the form of a contract as required by the Code. Upon selection of a vendor an Order For Delivery (OFD) is prepared to document the purchase.

Notices not published in the Illinois Procurement Bulletin

- None of the required procurement notices were published in the Illinois Procurement Bulletin as required by the Code.

Administrative Directive does not include all Illinois Procurement Code requirements

- The Department's Administrative Directive which provides guidance to employees on commissary purchase does not include all the requirements as set forth in the Code.

Department management stated they have requested guidance and direction from DCMS on commissary purchasing. Due to the security needs and specialized products, DCMS and the Department are working together to determine the proper way to complete these purchases. (Finding 10-13, pages 52 - 53) **This finding was first reported in 2004.**

We recommended the Department comply with the requirements of the Illinois Procurement Code in making commissary purchases.

Department agrees with auditors

The Department accepted the recommendation and indicated in cooperation with DCMS guidance and direction, they will comply with the requirements of the Illinois Procurement Code in making commissary purchases. (For the previous Department response, see Digest footnote #1.)

ADULT TRANSITION CENTER RECORDS NOT PROPERLY MAINTAINED

Testing at the 7 Adult Transition Centers (ATC) for the two years ended June 30, 2010, produced numerous exceptions where records were not properly maintained. Some of the exceptions noted were in the following areas:

- Four of the 7 ATCs, cash balances were misstated.
- Auditors noted deficiencies at 1 ATC related to disbursements from the Employee Benefit Fund portion of the DOC Resident's and Employee's Benefit Fund.
- At 2 ATCs, the auditors noted deficiencies related to disbursements from the Inmate Benefit Fund portion of the DOC Resident's and Employee's Benefit Fund.
- A deficiency was noted in testing the personal property listing at 1 of the ATCs.
- A deficiency was noted in testing property and equipment at 1 of the ATCs.

Problems were identified in numerous areas at the Adult Transition Centers

Similar weaknesses have been reported in the last 9 reports

Similar weaknesses were noted at the ATCs in the previous nine audits. Department management indicated on-going issues are the result of human errors, lack of resources, and inadequate communication within the Department. (Finding 10-14, pages 54 - 56) **This finding was first reported in 1994.**

Department agrees with auditors

We made a number of specific recommendations to the Department to improve accounting procedures and controls at the ATCs.

The Department accepted the recommendation and responded they will continue to make every effort to improve accounting procedures and controls to ensure accurate and appropriate records are maintained at the ATCs. (For the previous Department response, see Digest footnote #2.)

PAYROLL TIMEKEEPING SYSTEM NOT AUTOMATED

Need to fully automate payroll timekeeping system

The Department-wide payroll timekeeping system is not fully automated. During the previous engagement period the Department's human resources responsibilities were consolidated with a number of other State agencies as part of the Public Safety Shared Services Center (PSSSC). The PSSSC was scheduled to create / implement an automated timekeeping system, but it was not created.

Timekeeping data for correctional center employees is manually tabulated and then entered into the payroll system

Each Correctional Center maintains a manual timekeeping system for several hundred employees. Correctional Center employees sign in and out, and sign-in sheets are sent to the timekeeping clerk. Other information, including notification of absence and call-in reports, are also forwarded to the timekeepers. No automation is involved except for the processing of payroll warrants.

Timesheets not submitted in accordance with statutory requirement

In addition, during testing of the Department's manual timekeeping system, timesheets for 60 employees were selected and auditors noted exceptions related to 32 of the employee timesheets. Exceptions identified were related to timesheets not submitted in accordance with the State Officials and Employees Ethics Act (Act).

State spent \$1.6 million on new statewide automated timekeeping system that is not implemented

During the current engagement it was noted the Department of Central Management Services and Capital Development Board initiated work on a statewide automated timekeeping system. The State entered into a contract with a vendor and expended \$1.6 million to the vendor. Parts of the hardware were provided by the vendor and distributed to Correctional Centers during fiscal year 2010 and are in storage at the Correctional Centers. As of the end of the engagement fieldwork nothing else had been done towards implementation of the timekeeping system at the Department. Department management indicated the existing manual timekeeping system does not allow for employee time to be maintained to the nearest quarter hour as required by the Act. (Finding 10-16, pages 59 - 60) **This finding was first reported in 1998.**

We recommended the Department implement an automated timekeeping system.

Department agrees with auditors

The Department accepted the recommendation and noted at this time they do not have the resources to purchase a new timekeeping system, however, the Department will participate in a new statewide system should one be purchased. (For the previous Department response, see Digest footnote #3.)

WEAKNESSES IN CONTRACT ADMINISTRATION

During testing of contractual agreements, auditors noted numerous weaknesses in contract administration. Some of the weaknesses noted are as follows:

Contracts did not always include all of the required certifications, disclosures, and clauses

- Eight contracts totaling \$19,908,647 did not include all of the certifications, disclosures, and clauses required by Section 15 of the Statewide Accounting Management System (SAMS) manual and various sections of the Illinois Compiled Statutes.

Some contracts did not contain the required signatures

- Two contracts provided by the Department for testing, totaling \$5,111,577, did not contain the signatures of the director, chief legal counsel and chief fiscal officer of the Department.

Inadequate monitoring

- The Department could not demonstrate adequate contract monitoring for 22 of the contracts tested, totaling \$107,370,749. Specifically, the auditors noted the Department could not provide the deliverables specified in the contract for 18 contracts, failed to sufficiently explain what type of monitoring occurred for 3 contracts and insufficiently monitored another contract.

Department did not receive the required annual audit from some vendors

- The Department did not receive the annual audit from the vendors which was specified as required within 8 of the contracts tested.

In addition, during testing of emergency purchases auditors also identified the following weaknesses:

Emergency purchase affidavits were not posted on the Illinois Procurement Bulletin

- Thirty emergency purchase affidavits totaling \$6,945,788 were not posted on the Illinois Procurement Bulletin as required by the Illinois Procurement Code. In addition, 7 other emergency purchase affidavits totaling \$417,060 were not published timely in the Procurement Bulletin. The emergency purchases were posted 11 to 39 days late.

Some emergency purchase affidavits were not filed timely with the Auditor General

- Ten emergency purchase affidavits totaling \$1,706,060 were not filed with the Auditor General within the timelines established by statute. The emergency purchase affidavits were filed from 5 to 63 days late.

Department management indicated multiple reasons for the exceptions noted

Department management indicated the failure to ensure proper controls were established in the administration of contracts was due to employee oversight, lack of resources and inadequate communication within the Department. (Finding 10-19, pages 65 - 68)

We recommended the Department implement the necessary controls to adequately administer its contractual agreements and ensure compliance with applicable statutes and Department Administrative Directives.

Department agrees with auditors

The Department accepted the recommendation and noted they will implement the necessary controls to ensure contracts are properly administered and in compliance with applicable laws and regulations.

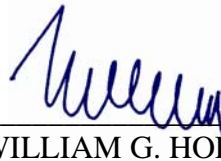
OTHER FINDINGS

The remaining findings are reportedly being given attention by the Department. We will review the Department's progress towards the implementation of our recommendations in our next engagement.

AUDITORS' OPINION

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

A compliance examination of the Department was also conducted for the two years ended June 30, 2010 as required by the Illinois State Auditing Act. The Accountant's Report noted the Department did not comply in all material respect with requirements regarding applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.



WILLIAM G. HOLLAND
Auditor General

WGH:RPU:pp

SPECIAL ASSISTANT AUDITORS

Sikich LLP were our Special Assistant Auditors for this engagement.

DIGEST FOOTNOTES

#1 NONCOMPLIANCE WITH THE ILLINOIS PROCUREMENT CODE – Previous Department Response

2008: Recommendation accepted: The Agency is required to utilize DCMS for all procurement guidance and requirements. The Agency will once again ask DCMS for direction on the commissary purchasing.

#2 ADULT TRANSITION CENTERS RECORDS NOT PROPERLY MAINTAINED - Previous Department Response

2008: Recommendation accepted: The Agency continues to work to ensure accurate and proper records are maintained.

**#3 PAYROLL TIMEKEEPING SYSTEM NOT AUTOMATED –
Previous Department Response**

2008: Recommendation accepted: The Agency, at this time, does not have the resources to purchase a new timekeeping system. The Agency would participate in a new statewide system should one be purchased.