



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

CAPITAL DEVELOPMENT BOARD

**Financial Audit
 For the Year Ended June 30, 2020**

Release Date: June 16, 2020

FINDINGS THIS AUDIT: 2	AGING SCHEDULE OF REPEATED FINDINGS			
	Repeated Since	Category 1	Category 2	Category 3
Category 1:	2	0	2	
Category 2:	0	0	0	
Category 3:	0	0	0	
TOTAL	2	0	2	
No Repeat Findings				
FINDINGS LAST AUDIT: 0				

This digest covers the Capital Development Board’s (CDB) Financial Audit as of and for the year ended June 30, 2020. The CDB’s Compliance Examination covering the two years ended June 30, 2020 will be released under a separate cover.

SYNOPSIS

- **(20-01)** The Capital Development Board (CDB) did not identify or prevent misstatements in the Generally Accepted Accounting Principles (GAAP) reporting packages submitted to the Office of the State Comptroller and the draft financial statements provided to the auditors. Additionally, CDB failed to provide appropriate oversight over certain accounts for which it has fiduciary responsibility.
- **(20-02)** The CDB did not have adequate internal control over reporting its census data and did not have a reconciliation process to provide assurance census data submitted to its pension and other postemployment benefits (OPEB) plans was complete and accurate.

<p>Category 1: Findings that are material weaknesses in internal control and/or a qualification on compliance with State laws and regulations (material noncompliance).</p> <p>Category 2: Findings that are significant deficiencies in internal control and noncompliance with State laws and regulations.</p> <p>Category 3: Findings that have no internal control issues but are in noncompliance with State laws and regulations.</p>

CAPITAL DEVELOPMENT BOARD
FINANCIAL AUDIT
For the Year Ended June 30, 2020

FINANCIAL INFORMATION: Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds (In Thousands)	FY 2020	FY 2019
REVENUES		
Federal capital grants.....	\$ 7,243	\$ 10,926
Federal operating grants.....	10,793	-
Licenses and fees.....	3,631	8,043
Other charges for services.....	3,740	15,802
Total revenues.....	<u>25,407</u>	<u>34,771</u>
EXPENDITURES		
Education.....	43,826	63,832
General government.....	23,317	28,254
Capital outlays.....	191,420	139,530
Total expenditures.....	<u>258,563</u>	<u>231,616</u>
OTHER SOURCES (USES)		
Appropriations from State resources.....	9,985,593	2,775,184
Reappropriations to future year(s).....	(9,648,866)	(2,496,449)
Lapsed appropriations.....	(100,694)	(93,964)
Proceeds from capital lease financing.....	6	-
Receipts collected and transmitted to State Treasury.....	(10)	(311)
Net change in liabilities for reappropriated accounts.....	9,454	13,300
Transfers-out/transfers-in	(45)	2,250
Total other sources (uses).....	<u>245,438</u>	<u>200,010</u>
Net change in fund balance.....	12,282	3,165
Fund balance (deficit) July 1, as restated.....	<u>18,718</u>	<u>20,553</u>
Fund balance (deficit) June 30.....	<u>\$ 31,000</u>	<u>\$ 23,718</u>
SELECTED ACCOUNT BALANCES:		
Statement of Net Position (In Thousands)	FY 2020	FY 2019
Cash equity with State Treasurer.....	\$ 26,537	\$ 21,783
Cash and cash equivalents.....	\$ 8,226	\$ 3,538
Intergovernmental receivables, net.....	\$ 1,602	\$ 3,629
Due from other State funds.....	\$ 2,480	\$ 6,725
Capital assets not being depreciated.....	\$ 280,312	\$ 166,620
Accounts payable and accrued liabilities.....	\$ 76,621	\$ 52,472
Unearned revenue.....	\$ 610	\$ 1,058
AGENCY DIRECTOR		
During Audit Period: Jim Underwood		
Currently: Jim Underwood		

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

FINANCIAL REPORTING WEAKNESSES

The Capital Development Board (CDB) did not identify or prevent misstatements in the Generally Accepted Accounting Principles (GAAP) reporting packages submitted to the Office of the State Comptroller and the draft financial statements provided to the auditors. Additionally, CDB failed to provide appropriate oversight over certain accounts for which it has fiduciary responsibility.

During the audit of the CDB's June 30, 2020 financial statements, we noted the following errors regarding the reporting of financial information.

Under accrual of accounts payable

- CDB records accounts payable reappropriated projects and related expenditures in its financial statements based on vouchers processed after the fiscal year end. The amounts are pro-rated for the period covering the current fiscal year by applying an estimation multiplier derived from methodologies and historical analyses performed by the CDB. During our testing of the completeness of CDB's accounts payable estimate, we determined CDB failed to record \$10.325 million of liabilities related to fiscal year 2020 processed after June 30, 2020. The failure to recognize these vouchers in its accounts payable calculation resulted in an under accrual of accounts payable in CDB's GAAP reporting forms and draft financial statements, as well as an adjusting entry proposed by the auditors. CDB recorded the adjustment to account for the additional accounts payable at June 30, 2020.

Prior year error not properly corrected

- During our testing of significant journal entries, we noted the following entries were made by the Illinois Office of Comptroller (IOC) during its review and acceptance of CDB's submitted GAAP reporting forms. An error associated with the prior year reporting of transfer activity within the CDB Special Projects Fund (0170) was identified and corrected in fiscal year 2020. Rather than restate the beginning net asset balances within the fund, the correction was recorded as fiscal year 2020 activity as an adjustment of \$5 million to reverse a prior year reimbursement type transaction that was misclassified as a transfer, and prematurely recorded in fiscal year 2019. The Department recorded the adjustment to reverse the entry made during fiscal year 2020 and restate the beginning net assets at July 1, 2019 for this activity.

\$1.8 million not properly deposited into the contractor's retainage account

- CDB allows contractors for projects that meet certain criteria to establish a trust agreement in which the retainage withheld for that project is deposited into a bank account that can only be accessed by CDB. Throughout testing, we noted approximately \$1.8 million in retainage related to one project had been erroneously deposited into the contractor's operating account rather than the retention trust account. The retention trust accounts are reported on CDB's financial statements as cash and cash equivalents in the nonmajor governmental funds. CDB determined this error immaterial and did not revise its financial statements. (Finding 1, pages 51-53)

We recommended the CDB implement procedures to ensure GAAP reporting packages and financial statements are prepared in a complete and accurate manner. These procedures should address all elements of CDB's financial reporting process.

CDB accepted the recommendation

CDB accepted the recommendation and stated it continues to make every effort to ensure that GAAP reporting packages and financial statements are prepared in a complete and accurate manner.

INADEQUATE INTERNAL CONTROLS OVER CENSUS DATA

CDB did not have adequate internal control over reporting its census data and did not have a reconciliation process to provide assurance census data submitted to its pension and other postemployment benefits (OPEB) plans was complete and accurate.

During testing, some of the more significant issues we noted included the following:

Initial complete reconciliation of census data not performed

- 1) The CDB had not performed an initial complete reconciliation of its census data recorded by SERS and CMS to its internal records to establish a base year of complete and accurate census data.

Employee did not contribute proper rate

- 2) One of 80 (1%) employees tested did not contribute the proper contribution rate to SERS during Fiscal Year 2019, the census data accumulation year for SERS' actuarial valuation used to prepare the CDB's Fiscal Year 2020 financial statements. We noted the employee was contributing 12.5% of their total compensation under the alternative retirement formula for employees without Social Security, as opposed to 4% of their total compensation under the regular retirement formula for employees with Social Security. We considered the impact of this error and

Discrepancy between CDB and SRS records

determined it did not materially impact the CDB's financial statements.

- 3) One of 80 (1%) employees tested had a discrepancy between the employee's compensation where the CDB's records reflected wages of \$4,780 per month as opposed to SRS' records of \$5,067 per month. We considered the impact of this discrepancy and determined it did not materially impact the CDB's financial statements. (Finding 2, pages 54-56)

We recommended the CDB implement controls to ensure employee contributions to SERS are complete, accurate, and in accordance with the Illinois Pension Code. In addition, we recommended the CDB implement controls to ensure total compensation paid to each employee is fully documented and supported within the CDB's records. Further, we recommend the CDB work with SERS and CMS to develop an annual reconciliation process of its active members' census data from its underlying records to a report from each plan of census data submitted to the plan's actuary. After completing an initial full reconciliation, the CDB may limit the annual reconciliations to focus on the incremental changes to the census data file from the prior actuarial valuation, provided no risks are identified that incomplete or inaccurate reporting of census data may have occurred during prior periods.

CDB accepted the recommendation

CDB accepted the recommendations.

AUDITOR'S OPINION

The auditors stated the financial statements of the Board as of and for the year ended June 30, 2020, are fairly stated in all material respects.

This financial audit was conducted by Sikich LLP.

SIGNED ORIGINAL ON FILE

JANE CLARK
Division Director

This report is transmitted in accordance with Section 3-14 of the Illinois State Auditing Act.

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

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