

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

**FINANCIAL AUDIT
For the Year Ended June 30, 2010
And
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2010
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, 2010
And
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2010

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AGENCY OFFICIALS

DEPARTMENT OF CORRECTIONS:

Acting Director (from 9/19/10 to present)	Gladyse C. Taylor
Director (from 6/8/09 to 9/18/10)	Michael P. Randle
Director (from 7/1/08 to 6/7/09)	Roger E. Walker, Jr.
Public Safety Shared Services Center Fiscal Deputy Director (from 6/16/10 to present)	Bryan Gleckler
Public Safety Shared Services Center Fiscal Deputy Director (from 3/12/10 to 6/15/10)	Vacant
Public Safety Shared Services Center Fiscal Deputy Director (from 2/1/10 to 3/11/10)	Gladyse C. Taylor
Public Safety Shared Services Center Fiscal Deputy Director (from 7/1/08 to 1/31/10)	Tony Small
Assistant Deputy Director, Public Safety Shared Services Fiscal Accounting Compliance (from 10/1/08 to present)	MaryAnn Bohlen
Assistant Deputy Director, Fiscal Accounting Compliance (from 7/1/08 to 9/30/08)	Mary Ann Bohlen

DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES:

Chief Executive Officer (from 5/16/10 to present)	Timothy Gleason
Chief Executive Officer (from 1/20/10 to 5/15/10)	Vacant
Chief Executive Officer (from 9/1/08 to 1/19/10)	Donna Lindemulder
Chief Executive Officer (from 7/1/08 to 8/31/08)	James Underwood
Assistant Chief Executive Officer (from 7/1/08 to present)	Salvatore Raymond

Agency office is located at:

1301 Concordia Court
Springfield, IL 62794-9277



Illinois
Department of
Corrections

Pat Quinn
Governor

Gladys C. Taylor
Acting Director

Illinois Correctional Industries
1301 Concordia Ct, P.O. Box 19277
Springfield, IL 62794-9277

Telephone: (217) 558-2200
TDD: (800) 526-0844

April 19, 2011

West & Company, LLC
919 E. Harris Avenue
Greenville, Illinois 62246

Ladies and Gentlemen:

We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grant agreements that could have a material effect on the operations of the Illinois Department of Corrections – 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 Illinois Department of Corrections – Correctional Industries' compliance with the following assertions during the two-year period ended June 30, 2010. Based on this evaluation, we assert that during the year(s) ended June 30, 2009 and June 30, 2010, the Illinois Department of Corrections – Correctional Industries has materially complied with the assertions below:

- A. The 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 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 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. State revenues and receipts collected by the 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 Illinois Department of Corrections – Correctional Industries on behalf of the State or held in trust by the agency have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate and in accordance with law.

Yours very truly,

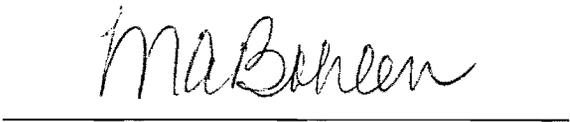
Illinois Department of Corrections – Correctional Industries



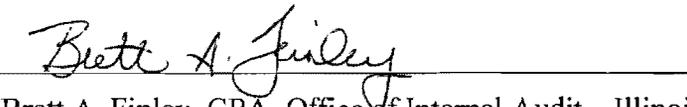
Gladyse Taylor, Acting Director – Illinois Department of Corrections



Bryan Glecker, Public Safety Shared Services Center, Fiscal Deputy Director –
Illinois Department of Corrections



Mary Ann Bohlen, Assistant Deputy Director, Public Safety Shared Services
Fiscal Accounting Compliance – Illinois Department of Corrections



Brett A. Finley, CPA, Office of Internal Audit – Illinois Department of Corrections



Tim Gleason, Chief Executive Officer – Illinois Department of Corrections –
Correctional Industries

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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 or disclaimers, or other significant non-standard language.

SUMMARY OF FINDINGS

<u>Number of</u>	<u>This Audit</u>	<u>Prior Audit</u>
Findings	6	12
Repeated findings	4	5
Prior recommendations implemented or not repeated	8	2

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

SCHEDULE OF FINDINGS

<u>Item No.</u>	<u>Page</u>	<u>Description</u>	<u>Finding Type</u>
FINDINGS (<i>GOVERNMENT AUDITING STANDARDS</i>)			
10-1	13	Inadequate control over financial reporting	Material weakness and noncompliance
10-2	15	Inventory weaknesses	Material weakness and noncompliance
10-3	17	Inadequate controls over property and equipment	Material weakness and noncompliance

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<u>Item No.</u>	<u>Page</u>	<u>Description</u>	<u>Finding Type</u>
FINDINGS (STATE COMPLIANCE)			
10-4	20	All relevant costs not included in manufacturing costs	Significant deficiency and noncompliance
10-5	22	Records were unavailable	Significant deficiency and noncompliance
10-6	24	Temporary assignments	Significant deficiency and noncompliance

In addition, the following findings which are reported as a current finding relating to *Government Audit Standards* also meet the reporting requirements for State Compliance.

<u>Item No.</u>	<u>Page</u>	<u>Description</u>	<u>Finding Type</u>
10-1	13	Inadequate control over financial reporting	Material weakness and noncompliance
10-2	15	Inventory weaknesses	Material weakness and noncompliance
10-3	17	Inadequate controls over property and equipment	Material weakness and noncompliance

PRIOR FINDINGS NOT REPEATED

A	26	Quarterly accounts receivable reporting errors
B	26	Incorrect timekeeping
C	26	Employee training not adequately documented
D	27	Management practices-management information system
E	27	Monthly reconciliations of receipts not properly performed
F	27	Transfer of assets not monitored
G	28	No inventory obsolescence policy
H	28	Catch-up billings issued without administrative rules

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COMPLIANCE REPORT

EXIT CONFERENCE

The findings and recommendations appearing in this report were discussed with Agency personnel at an exit conference on April 13, 2011. Attending were:

Department of Corrections

Bryan Gleckler – Deputy Director, Division of Finance and Administration
Brett A. Finley – Chief Internal Auditor
Ron Faith - Internal Auditor

Department of Corrections – Correctional Industries

Timothy Gleason – Chief Executive Officer

Office of the Auditor General

Kathy Lovejoy – Manager

West & Company, LLC

Janice K. Romack - Partner
Diana R. Smith - Partner
Alexander M. Hagen - Senior

Responses to the recommendations were provided by Brett A. Finley in a letter dated April 19, 2011.

MEMBERS

E. LYNN FREESE
RICHARD C. WEST
BRIAN E. DANIELL
JANICE K. ROMACK
DIANA R. SMITH
D. RAIF PERRY
JOHN H. VOGT
JOSHUA D. LOWE

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**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 two years ended June 30, 2010. 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. 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.

We conducted our examination 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 listed in the first paragraph of this report 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 compliance requirements listed in the first paragraph of this report during the two years ended June 30, 2010. However, the results of our procedures disclosed other instances of noncompliance, 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 10-1, 10-2, 10-3, 10-4, 10-5, and 10-6.

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 listed in the first paragraph of this report. In planning and performing our examination, we considered the State of Illinois, Department of Corrections – Correctional Industries’ internal control over compliance with the requirements listed in the first paragraph of this report as a basis for designing 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State of Illinois Department of Corrections – Correctional Industries’ internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency* in an entity's internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with the requirements listed in the first paragraph of this report on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a requirement listed in the first paragraph of this report will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in internal control over compliance as described in the accompanying schedule of findings as items 10-1, 10-2, and 10-3 to be material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings as items 10-4, 10-5, and 10-6 to be significant deficiencies.

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

The State of Illinois, Department of Corrections – Correctional Industries' responses to the finding identified in our examination are described in the accompanying schedule of findings. We did not examine the State of Illinois, Department of Corrections – Correctional Industries' responses and accordingly, we express no opinion on the responses.

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, 2010, which collectively comprise the State of Illinois, Department of Corrections – Correctional Industries’ basic financial statements, and have issued our report thereon dated April 19, 2011. 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 2010 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, 2010 taken as a whole.

We have applied certain limited procedures as prescribed by the Audit Guide as adopted by the Auditor General to the 2009 Supplementary Information for State Compliance Purposes, except for that portion marked "unaudited" on which we did not perform any procedures. However, we do not express an opinion on the 2009 supplementary information.

The State of Illinois, Department of Corrections – Correctional Industries’ financial statements for the year ended June 30, 2008, which are not presented with the accompanying financial statements, were audited by other auditors whose report thereon dated March 25, 2009 expressed unqualified opinions on the respective financial statements of the business-type activities. Their report stated that, in their opinion, such information, except that portion marked "unaudited", on which they expressed no opinion, was fairly stated in all material respects in relation to the basic financial statements for the year ended June 30, 2008, taken as a whole. The 2008 Supplementary Information marked “unaudited” has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, and the State of Illinois, Department of Corrections – Correctional Industries’ management, and is not intended to be and should not be used by anyone other than these specified parties.

West & Company, LLC

April 19, 2011

MEMBERS

E. LYNN FREESE
RICHARD C. WEST
BRIAN E. DANIELL
JANICE K. ROMACK
DIANA R. SMITH
D. RAIF PERRY
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**INDEPENDENT AUDITORS' 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 working capital revolving fund of the State of Illinois, Department of Corrections – Correctional Industries, as of and for the year ended June 30, 2010, which collectively comprise the State of Illinois, Department of Corrections – Correctional Industries' basic financial statements and have issued our report thereon dated April 19, 2011. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements and not for the purpose of expressing an opinion on the effectiveness of the State of Illinois, Department of Corrections – Correctional Industries' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State of Illinois, Department of Corrections – Correctional Industries' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in findings 10-1, 10-2, and 10-3 in the accompanying schedule of findings to be material weaknesses.

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. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings as findings 10-1, 10-2, and 10-3.

The State of Illinois, Department of Corrections – Correctional Industries' responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the State of Illinois, Department of Corrections – Correctional Industries' responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, and the State of Illinois, Department of Corrections – Correctional Industries' management, and is not intended to be and should not be used by anyone other than these specified parties.

West & Company, LLC

April 19, 2011

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
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For the Year Ended June 30, 2010
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SCHEDULE OF FINDINGS

Current Findings - Government Auditing Standards

10-1 FINDING: Inadequate Control over Financial Reporting

The Illinois Department of Corrections-Correctional Industries (Department) did not ensure financial records used to prepare the year-end financial statements and the Office of the Comptroller (Comptroller) Generally Accepted Accounting Principles (GAAP) packages were accurate for Fund 301- Working Capital Revolving Fund.

During our testing, we noted:

- 18 of 97 vouchers (19%) were not recorded in the proper fiscal year for accounts payable as of June 30, 2010. Specifically, \$65,558 was not recorded as a liability and \$100,946 was recorded as a liability and also recorded as an expense in the next fiscal year, for a net overstatement of accounts payable of \$35,388.
- 12 of the 75 (16%) amounts tested relating to compensated absences had errors whereby the amounts recorded for vacation were overstated \$6,690, sick days were understated \$11,820, and holidays were overstated by \$6,657 for a net overstatement of \$1,527.
- Inventory was overstated by \$144,779 at June 30, 2009 based upon the re-stated value due to errors identified during the testing of inventory described in Finding No. 10-2.
- The ending balances of the capital assets were understated by \$17,707 at June 30, 2010. The Agency removed assets from capital assets in anticipation of them being sold at auction; however, these items were not taken to the auction. See Finding No. 10-3.
- The Cost of Sales and Service on the SCO-527 was understated by \$855,000. This same amount is added to the General and Administrative line item of the SCO-527, thereby resulting in a net difference to income of zero.

The Department is required to prepare annual financial statements of its financial activity to comply with reporting requirements set forth by the Comptroller. It is the responsibility of the Department to maintain their accounting records such that they are free of material errors and omissions.

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SCHEDULE OF FINDINGS

Current Findings - Government Auditing Standards

10-1 FINDING: Inadequate Control over Financial Reporting-Continued:

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 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.

Department management stated the exceptions were due to miscommunication, limited staffing, and oversight.

This finding has been reported in the previous three audits of which management indicated the exceptions were due to staff shortages.

Inadequate control over maintaining accurate financial records prevents the Department from preparing financial statements in accordance with accounting principles generally accepted in the United States of America and results in inaccurate, incomplete and untimely preparation of financial statements. Employees in the normal course of performing their assigned functions were not able to prevent or detect the overstatement, understatement, or errors in the financial and fiscal operations in a timely manner. (Finding Code 10-1, 08-1, 07-1, 06-1)

RECOMMENDATION

We recommend the Department devote sufficient resources to its financial accounting function to ensure financial information is properly recorded and accounted for to permit the preparation of reliable financial statements and Comptroller GAAP packages. We also recommend accounting personnel receive sufficient technical resources and training to ensure generally accepted accounting principles are followed in the preparation of year-end financial information.

AGENCY RESPONSE

Recommendation accepted. IL Correctional Industries has and is securing additional financial positions requiring technical expertise in accounting to ensure appropriate recording of financial information and adequate preparation of financial statements and GAAP packages.

STATE OF ILLINOIS
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SCHEDULE OF FINDINGS

Current Findings - Government Auditing Standards

10-2 FINDING: Inventory Weaknesses

The Illinois Department of Corrections – Correctional Industries (Department) inventory procedures include weaknesses which contributed to misstated inventory balances.

During our testing of inventory, we noted:

- Cost information was not present in the final finished goods inventory records for 11 of 1197 (1%) items in order to determine the lower of cost or market value. These items were responsible for \$9,813 of the overstatement of \$144,779 identified in Finding No. 10-1.
- Separate inventory records are maintained at 20 locations; the central warehouse and 19 Centers. Due to the lack of a uniform inventory system, eight locations maintain inventory records on index cards, six locations utilize Access or Excel and six locations utilize both.
- Duplication of efforts exists in preparing inventory records. The 20 locations prepare a summary of their complete inventory and send a printed copy to accounting staff quarterly. The accounting staff, manually re-enter the summary information into an electronic spreadsheet in order to compile total inventory records. Additionally, the details of the inventory records are maintained at the 20 locations; whereas, the Central Office only maintains summary information.

The Statewide Accounting and Management System (SAMS) procedure 27.20.77 requires agencies with inventory to report the value of inventory to the Comptroller's Office and in accordance with accounting principles applicable to inventories, agencies must price inventory at the lower of cost or market. Additionally, the Department's policy procedure 9.6.1 and 9.6.2 require that an accurate physical inventory be conducted and documented at the conclusion of each fiscal year.

According to Department management, the manual re-keying of the Center inventory data is viewed as a process to identify errors in the inventory reports submitted by the Centers; however, the fiscal year 2009 discrepancies failed to be identified. Additionally, the current inventory recordkeeping systems in place at the Centers would remain the same even if additional software programs, the current system used for the general ledger and accounting system were implemented.

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SCHEDULE OF FINDINGS

Current Findings - Government Auditing Standards

10-2 FINDING: Inventory Weaknesses-Continued:

Inventory at June 30, 2009 and 2010 was \$10,153,336 and \$7,719,858 respectively. Failure to maintain current and accurate information could result in inaccurate reporting. (Finding Code 10-2)

RECOMMENDATION

We recommend the Agency strengthen internal controls over reporting of inventory to ensure inventory is valued at the lower of cost or market in accordance with SAMS procedure 27.20.77. In addition, we recommend the Agency implement a standardized and automated inventory control system for transfer of information between all locations and the Central Office.

AGENCY RESPONSE

Recommendation accepted. IL Correctional Industries is in the process of standardizing the inventory control system in order to reduce the risk of errors attributable to manual re-entry of the information. Additional emphasis will also be placed on following already established procedures over the proper reporting of inventories.

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
FINANCIAL AUDIT
For the Year Ended June 30, 2010
And
COMPLIANCE EXAMINATION
For the two years ended June 30, 2010

SCHEDULE OF FINDINGS

Current Findings - Government Auditing Standards

10-3 FINDING: Inadequate Controls Over Property and Equipment

The Illinois Department of Corrections – Correctional Industries (Department) did not have internal controls in place over property.

During our testing we noted:

- 3 of 74 (4%) items listed on the Department’s property records, totaling \$6,584, could not be located during our physical observation testing. One item valued at \$2,197 had been transferred and the other two items valued at \$4,387 were not removed from the property records after being sold at an auction.
- 1 of 73 (1%) items observed was not listed on the property controls records. The item was valued at \$59,268.
- 121 of 196 (62%) items selected from the capital asset disposition records and property control disposition records totaling \$360,935 were removed in anticipation of the items going to an auction to be sold, but did not. The items were not sold; however, they were not re-entered onto the records, which result in capital assets being understated by \$295,170 and property being understated by \$65,765 at June 30, 2010.
- 1 of 8 (13%) quarterly Agency Reports of State Property (C-15) filed with the Comptroller was filed two days late.

The State Comptroller Act (15 ILCS 405/15) requires State agencies to report to the Comptroller all State property acquired or disposed of by an agency in such detail and at such times as the Comptroller requires by rule. Additionally, the Statewide Accounting Management System (SAMS) Procedure 29.10.10 requires agencies to maintain detailed property records and update property records as necessary to reflect the current balance of State property.

The State Property Control Act (30 ILCS 605/4) requires that the Department be accountable for the supervision, control and inventory of all property under its jurisdiction and control.

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
FINANCIAL AUDIT
For the Year Ended June 30, 2010
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For the two years ended June 30, 2010

SCHEDULE OF FINDINGS

Current Findings - Government Auditing Standards

10-3 FINDING: Inadequate Controls Over Property and Equipment-Continued:

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires State agencies to establish a system or systems of internal fiscal and administrative controls, which shall provide assurance that funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use, and misappropriation.

SAMS Procedure 29.20.10 requires the Agency Report of State Property to be filed on a quarterly basis and should be submitted to the Comptroller no later than the last day of the month following the last day of the quarter.

Department management stated the three items not removed were clerical oversights which have been corrected. The one item missing from property control records was very recently purchased. Additionally, management stated the 121 items were initially intended to be sold at the auction and were assets from a cattle program that were no longer needed. Prior to the sale, management introduced intentions of starting a horse care operation which could have utilized these assets. When the horse care program is decided, the correction for the asset reporting will be made. Management also stated the Agency Report of State Property (C-15) was late due to a computer related problem.

The June 30, 2010 property and equipment balances for the property control records were understated by \$413,619 and the capital asset balances were understated by \$17,707. Inadequate controls over property and equipment can result in property damage or loss not being timely detected. By not maintaining accurate property records, the Department could be reporting inaccurate information to the Comptroller which inhibits proper reporting for statewide reporting of property information. (Finding Code No. 10-3, 08-2)

RECOMMENDATION

We recommend the Agency comply with the statutory requirements of providing accurate and timely property information. We further recommend property dispositions should not be approved for removal from property records until the disposition or transfer has occurred.

AGENCY RESPONSE

Recommendation accepted. IL Correctional Industries will make every effort to ensure accurate and timely fixed asset records.

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
FINANCIAL AUDIT
For the Year Ended June 30, 2010
And
COMPLIANCE EXAMINATION
For the two years ended June 30, 2010

SCHEDULE OF FINDINGS

Current Findings - State Compliance

10-4 FINDING: All Relevant Costs Not Included in Manufacturing Costs

The Illinois Department of Corrections – Correctional Industries (Department) did 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 for Fund 301.

The Department has 19 facilities for manufacturing its products at various Correctional Centers. The Correctional Centers have not historically charged the Department for occupancy of these production facilities. As such, the Department 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, the Department’s policies and procedures address what should be included in the computation of the costs of its products, but such costs are not being included.

The Unified Corrections Code (730 ILCS 5/3-12-9) states the Department of Corrections shall establish procedures and issue regulations governing the sale and lease of goods. The Department’s policy 09.3, Pricing 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 product. The policy also states the production cost will be estimated using the most recent overhead factors as computed by the Fiscal Office. In addition, Product Costing Manual (Manual) states in the Introduction, Section B – Methodology, “Management needs accurate product cost data in order to make informed decisions relating to planning, pricing, profitability, efficient use of resources and employee (staff and inmate) performance. Generally accepted accounting principles require that both direct costs and indirect (overhead) costs be assigned to the products.” The Manual further defines manufacturing overhead as “costs required to complete the production process but cannot be identified with a specific product.”

Department management stated the portion of the costs attributable to manufacturing overhead at the Correctional Centers were not included because those responsible for pricing were unfamiliar with the product pricing manual.

STATE OF ILLINOIS
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For the Year Ended June 30, 2010
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COMPLIANCE EXAMINATION
For the two years ended June 30, 2010

SCHEDULE OF FINDINGS

Current Findings - State Compliance

10-4 FINDING: All Relevant Costs Not Included in Manufacturing Costs-Continued:

By not including any occupancy costs associated with the production facilities at the Correctional Centers, the true cost of the production of the items is not being considered in determining the price of the products. According to the 2009 Annual Report, 70% of their sales were to the Department of Corrections. If the occupancy costs are omitted, the other 30% of the sales have manufacturing costs which have not been identified and in effect are being subsidized by the Department of Correction's various facilities. (Finding Code No. 10-4, 08-10, 06-7)

RECOMMENDATION

We recommend the Department include the occupancy costs for the manufacturing facilities.

AGENCY RESPONSE

Recommendation accepted. IL Correctional Industries will follow the product pricing manual and include all relevant costs in the computation of manufacturing costs of all products.

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
FINANCIAL AUDIT
For the Year Ended June 30, 2010
And
COMPLIANCE EXAMINATION
For the two years ended June 30, 2010

SCHEDULE OF FINDINGS

Current Findings - State Compliance

10-5 FINDING: Records Were Unavailable

Certain Illinois Department of Corrections – Correctional Industries (Department) records were destroyed and were not available to the auditors.

During our review of the employee’s payroll file, we could not obtain:

- 4 of 25 (16%) of employee authorizations for absences,
- 25 of 25 (100%) of employee deductions for medical insurance authorizations,
- 14 of 20 (70%) of employees with union dues deduction authorizations, and
- 10 of 25 (40%) of employees various other deductions authorizations.

The State Records Act (5 ILCS 160/8) requires preservation of records to contain adequate and proper documentation of agency transactions to furnish information to protect the legal and financial rights of the State and of persons directly affected by the agency’s activities. Additionally, the Department Administrative Directive (02.60.115E2) states upon receipt of completed employee authorization payroll deduction cards, the information is to be entered into the automated payroll system and the card is to be retained in the facility’s payroll file or where appropriate for processing and filing to the Central Office Payroll Section.

The Department management stated the four employee authorizations for absences and the medical authorization forms were destroyed in a flood of the basement with storage for Central Office on May 26, 2010. Per management, the union and deduction cards often do not get transferred from other facilities within the Department when an employee transfers work locations. The Department had an average of 124 employees at June 30, 2010.

Maintaining documentation for payroll deductions is an essential element of internal controls over the record keeping and accounting duties. (Finding Code No. 10-5)

RECOMMENDATION

We recommend the Agency maintain employee authorizations for absences, medical authorization forms and documentation supporting payroll deductions in accordance with the State Records Act (5ILCS 160/8) and the Department’s Administrative Directive (02.60.115E2). Additionally, appropriate backup records should be maintained as an additional control.

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
FINANCIAL AUDIT
For the Year Ended June 30, 2010
And
COMPLIANCE EXAMINATION
For the two years ended June 30, 2010

SCHEDULE OF FINDINGS

Current Findings - State Compliance

10-5 FINDING: Records Were Unavailable-Continued:

AGENCY RESPONSE

Recommendation accepted. IL Correctional Industries did properly maintain appropriate records, forms and documentation in accordance with the State Records Act. However, an immediate unforeseeable, unpredictable natural disaster occurred destroying some of this information. Even though the originals no longer exist, the information could be reproduced from other source documentation.

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
FINANCIAL AUDIT
For the Year Ended June 30, 2010
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COMPLIANCE EXAMINATION
For the two years ended June 30, 2010

SCHEDULE OF FINDINGS

Current Findings - State Compliance

10-6 FINDING: Temporary Assignments

The Illinois Department of Corrections – Correctional Industries (Department) utilized employees on temporary assignments for periods beyond the permitted time limit.

During the two year period ended June 30, 2010, Department had six temporary employee assignments, of which testing indicated four (67%) of the assignments exceeded the allowable time limit, without the proper agreement allowing the extensions. The assignments ranged from 7 to 16 months over the allowable limit.

The Illinois Administrative Code (80 Ill. Adm. Code 302.150) defines temporary assignments as, “for persons in positions to perform temporary or seasonal work. No position shall be filled by a temporary assignment for more than 6 months out of any 12 month period.” In addition, the agreement between the State of Illinois and the American Federation of State, County and Municipal Employee AFL-CIO (AFSCME) also sets specific time limits on temporary assignments, depending on the reason for the temporary assignment. Where there is a temporary change in the workload, or while the employer is posting a position to be filled, 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. An employee may be temporarily assigned for up to 6 months while the regular employee is out on any illness, injury, union or jury leave of absence. According to the agreement, if the assignment extends beyond the set time frame, then the extension should be mutually agreed upon.

Department management stated the extensions of the temporary assignments were due to staffing limitations.

Temporary assignments in excess of the allowable limits are a violation of the State’s Administrative Rules and union agreements. (Finding Code No. 10-6, 08-5, 06-3, 04-4, 02-5, 00-9, 98-7)

RECOMMENDATION

We recommend the Department comply with the IL Administrative Code and the collective bargaining agreement in regards to utilizing employees for temporary assignments. We also recommend establishing a monitoring system to identify the time served by employees in temporary positions and notification be sent to upper management in advance of completion of the period to allow for alternative plans to be made before the time limit is exceeded.

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
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For the Year Ended June 30, 2010
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For the two years ended June 30, 2010

SCHEDULE OF FINDINGS

Current Findings - State Compliance

10-6 FINDING: Temporary Assignments-Continued:

AGENCY RESPONSE

Recommendation accepted. IL Correctional Industries will place additional emphasis on the importance of following established procedures concerning temporary assignments. A system of monitoring will be developed to ensure compliance.

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
FINANCIAL AUDIT
For the Year Ended June 30, 2010
And
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2010

SCHEDULE OF FINDINGS

Prior Findings Not Repeated

A. Finding (Quarterly accounts receivable errors)

During the previous engagement, the Department did not file accurate quarterly accounts receivable reports with the Office of the Comptroller for Fund 301. (Finding Code No. 08-3)

Status: Implemented

During the current engagement, our testing did not note any inaccurate quarterly accounts receivable reports filed with the Office of the Comptroller.

B. Finding (Incorrect Timekeeping)

During the previous engagement, the Department did not maintain accurate employee timekeeping records. (Finding Code No. 08-4)

Status: Implemented

During the current engagement, our testing noted exceptions. However, it was determined the controls over timekeeping was the responsibility of the Central Office. Therefore, the exceptions are being addressed in the Department of Corrections audit.

C. Finding (Employee training not adequately documented)

During the previous engagement, the Department did not obtain or retain documentation to support training events employees attended. (Finding Code No. 08-6)

Status: Implemented

During the current engagement, our testing noted documentation to support employee training.

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
FINANCIAL AUDIT
For the Year Ended June 30, 2010
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For the Two Years Ended June 30, 2010

SCHEDULE OF FINDINGS

Prior Findings Not Repeated

D. Finding (Management practices-management information systems)

During the previous engagement, the Department did not take action to further progress in its plan to completely install an automated management information system. (Finding Code No. 08-7)

Status: Not repeated

This issue has been reported to the Department in the last five audits and had determined it would not be economically practical to install additional modules. Additionally, the annual maintenance costs have decreased significantly.

E. Finding (Monthly reconciliations of receipts not properly performed)

During the previous engagement, the Department did not adequately perform a monthly reconciliation of receipt records to receipt records maintained by the Office of the Comptroller for Fund 301. (Finding Code No. 08-8)

Status: finding reported in Department of Corrections-Central Office Audit

During the current engagement, our testing noted exceptions. However, it was determined the controls over reconciliations was the responsibility of the Central Office. Therefore, the exceptions are being addressed in the Department of Corrections report.

F. Finding (Transfer of assets not monitored)

During the previous engagement, the Department did not maintain records of assets transferred to the Department of Central Management and other State Agencies to ensure subsequent sale of these assets, if any, are monitored and proceeds deposited into the Working Capital Revolving Fund. (Finding Code No. 08-9, 06-4)

Status: Implemented

During the current engagement testing, we noted the Department maintained records of assets transferred.

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
FINANCIAL AUDIT
For the Year Ended June 30, 2010
And
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2010

SCHEDULE OF FINDINGS

Prior Findings Not Repeated

G. Finding (No inventory obsolescence policy)

During the previous engagement, the Department did not have a formal written policy in place to address inventory obsolescence. (Finding Code No. 08-11)

Status: Implemented

During our testing, we noted the Department had a formal written policy in place to address inventory obsolescence.

H. Finding (Catch-up billings issued without administrative rules)

During the previous engagement, the Department had not issued administrative rules outlining how they can bill user agencies in advance, issue credits or refunds or issue bills to user agencies for amounts owed from the prior fiscal year (catch-up billings). (Finding Code No. 08-12)

Status: Implemented

During the current engagement, administrative rules outlining how the Department can bill user agencies in advance, issue credits or refunds or issue bills to user agencies for amounts owed from the prior fiscal year were developed and being implemented.

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
FINANCIAL AUDIT
For the Year Ended June 30, 2010
And
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2010

FINANCIAL STATEMENT REPORT

SUMMARY

The audit of the accompanying financial statements of the State of Illinois, Department of Corrections – Correctional Industries was performed by West & Company, LLC.

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

SUMMARY OF FINDINGS

The auditors identified matters involving Agency’s internal control over financial reporting that they considered to be material weaknesses. The material weaknesses are described in the accompanying Schedule of Findings 10-1, *Inadequate control over financial reporting*, 10-2, *Inventory weaknesses*, and 10-3, *Inadequate controls over property and equipment*.

EXIT CONFERENCE

The findings and recommendations appearing in this report were discussed with Agency personnel at an exit conference on April 13, 2011. Responses to the recommendations were provided by Brett A. Finley in a letter dated April 19, 2011.

MEMBERS

E. LYNN FREESE
RICHARD C. WEST
BRIAN E. DANIELL
JANICE K. ROMACK
DIANA R. SMITH
D. RAIF PERRY
JOHN H. VOGT
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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, 2010, 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, 2010, 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, 2010, 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 April 19, 2011 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 the State of Illinois, Department of Corrections – Correctional Industries’ 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 the State of Illinois, Department of Corrections – Correctional Industries management, and is not intended to be and should not be used by anyone other than these specified parties.

West + Company, LLC

April 19, 2011

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
WORKING CAPITAL REVOLVING FUND
STATEMENT OF NET ASSETS
June 30, 2010
(expressed in thousands)

ASSETS

CURRENT ASSETS

Cash	\$	2,110
Due from local government		18
Due from other funds		7,568
Due from component units		1
Other receivable		1,145
Inventories		7,720
Prepaid expenses		1
Total current assets		18,563

CAPITAL ASSETS– net		2,083
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TOTAL ASSETS		20,646
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable and accrued expenses		2,045
Due to federal government		35
Due to local government		4
Due to other funds		2,461
Due to component units		1
Compensated absences		95
Total current liabilities		4,641

NONCURRENT LIABILITIES

Compensated absences		1,308
Total noncurrent liabilities		1,308

TOTAL LIABILITIES		5,949
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NET ASSETS

Invested in capital assets		2,083
Unrestricted		12,614
TOTAL NET ASSETS		14,697

TOTAL LIABILITIES AND NET ASSETS	\$	20,646
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See accompanying notes to the financial statements

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
WORKING CAPITAL REVOLVING FUND
STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS
For the year ended June 30, 2010
(expressed in thousands)

Operating revenues:	
Charges for sales and services	\$ 44,453
	<u>44,453</u>
Total operating revenues	<u>44,453</u>
Operating expenses:	
Cost of sales and services	23,933
Selling, general and administrative expenses	19,042
Depreciation	732
	<u>43,707</u>
Total operating expenses	<u>43,707</u>
Operating income	746
Nonoperating revenues:	
Other revenues	557
Total nonoperating revenues	<u>557</u>
Nonoperating expenses:	
Other nonoperating expenses	7
Total nonoperating expenses	<u>7</u>
Income before transfers	1,296
Transfers in from other funds	4
Transfers out to other funds	<u>(6,450)</u>
Decrease in net assets	(5,150)
NET ASSETS, BEGINNING OF YEAR	<u>19,847</u>
NET ASSETS, END OF YEAR	<u>\$ 14,697</u>

See accompanying notes to the financial statements

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
WORKING CAPITAL REVOLVING FUND
STATEMENT OF CASH FLOWS
For the year ended June 30, 2010
(expressed in thousands)

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from sales and services	\$ 10,915
Cash received from transactions with other funds	35,042
Payments to suppliers for goods and services	(31,248)
Payments to employees for services	(8,913)
Cash receipts from other operating activities	335
Net cash provided for operating activities	<u>6,131</u>
 CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers out to other funds	<u>(4,837)</u>
Net cash used for noncapital financing activities	<u>(4,837)</u>
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of capital assets	(64)
Payments on capital debt	(11)
Proceeds from the sale of equipment	9
Net cash used for capital and related financing activities	<u>(66)</u>
 NET INCREASE IN CASH	 1,228
CASH, BEGINNING OF YEAR	<u>882</u>
 CASH, END OF YEAR	 <u>\$ 2,110</u>
 RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	<u>\$ 746</u>
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	732
Cash receipts from other nonoperating income	335
Changes in assets and liabilities:	
Accounts receivable	(165)
Due from local governments	(18)
Due from other funds	1,627
Due from component units	3
Inventories	2,577
Accounts payable and accrued expenses	(168)
Due to federal government	9
Due to other funds	168
Due to component units	1
Compensated absences	284
Total adjustments	<u>5,385</u>
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 <u>\$ 6,131</u>
 NONCASH CAPITAL AND RELATED FINANCING ACTIVITY	
Fair Value of loss on disposal of capital assets	\$ (7)
Cash receipts for disposal of capital assets	4
Fair Value of transfer of assets from other funds	4

See accompanying notes to the financial statements

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
WORKING CAPITAL REVOLVING FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

1. DESCRIPTION OF FUND

Illinois Correctional Industries (the Department) is a division of the State of Illinois, Department of Corrections (Department) and administers the nonshared proprietary fund – Working Capital Revolving Fund (Fund) (0301) - 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.

The Fund's 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 have 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 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.

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
WORKING CAPITAL REVOLVING FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

A. Reporting Entity-Continued

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 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, 2010, 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 governmental accounting, the basic accounting and reporting entity is a fund. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and/or other resources together with all 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.

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

For exchange transactions, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place. For nonexchange transactions, revenues and expenses are recorded when all eligibility requirements have been met.

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
WORKING CAPITAL REVOLVING FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

C. Basis of Accounting

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 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.

E. Inventories

Inventories consisting of raw materials, work in process, finished goods, and operating supplies are valued at lower of cost or market, principally on a first in, first out (FIFO) method.

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.

**STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
WORKING CAPITAL REVOLVING FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

G. Capital Assets

Capital assets are stated at cost less accumulated depreciation. Depreciation (including amortization of capital leases) is computed using the straight-line method at rates calculated to amortize assets over their estimated useful lives.

Capitalization thresholds and the estimated useful lives are as follows:

Asset Category	Capitalization Threshold	Estimated Useful Life
Buildings	\$ 100,000	50
Building Improvements	\$ 25,000	20
Equipment	\$ 5,000	3-10

H. Compensated Absences

The liability for compensated absences reported in the Fund consists of unpaid, accumulated vacation, sick leave, and holiday balances for Agency 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.

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
WORKING CAPITAL REVOLVING FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

I. Net Assets

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

Invested in Capital Assets – Consists of capital assets, net of accumulated depreciation.

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

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 as of June 30, 2010 totaled \$2,110 (amount expressed in thousands).

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, 2010**

4. INTERFUND BALANCES AND ACTIVITIES

Balances Due to/from Other Funds

The following balances (amounts expressed in thousands) as of June 30, 2010 represent amounts due from other departments and State of Illinois funds which represents sales of goods and services:

<u>STATE AGENCIES</u>	<u>AMOUNT</u>
Department of Corrections	\$ 5,540
Department of Transportation	73
Office of the Illinois Attorney General	2
Office of the Illinois State Comptroller	1
Office of the Illinois State Treasurer	11
Secretary of State	31
Department of Agriculture	6
Department of Military Affairs	20
Central Management Services	37
Department of Children and Family Services	16
Department of Commerce and Economic Opportunity	13
Department of Natural Resources	20
Department of Juvenile Justice	224
Department of Human Rights	1
Department of Human Services	961
Department of Labor	3
Department of Healthcare and Family Services	455
Department of Public Health	1
Department of State Police	16
Department of Veterans Affairs	25
Executive Ethics Commission	49
Office of the Inspector General	4
Law Enforcement Training and Standards Board	1
State Board of Elections	54
Worker's Compensation Commission	1
Illinois Emergency Management Agency	2
Office of the Illinois State Fire Marshall	1
TOTAL STATE AGENCIES	\$ 7,568

**STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
WORKING CAPITAL REVOLVING FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

4. INTERFUND BALANCES AND ACTIVITIES-Continued

The following balances (amounts expressed in thousands) as of June 30, 2010 represent amounts due to other departments and State of Illinois funds:

<u>STATE AGENCIES</u>	<u>AMOUNT</u>
Office of the Illinois Comptroller	\$ 1,613
Court of Claims	52
State Employees' Retirement System	132
Department of Healthcare and Family Services	99
Central Management Services	346
Department of Corrections	<u>219</u>
TOTAL STATE AGENCIES	\$ <u>2,461</u>

Balances Due to/from Component Units

The following balances (amounts expressed in thousands) as of June 30, 2010 represent amounts due from component units which represents sales of goods and services:

<u>COMPONENT UNITS</u>	<u>AMOUNT</u>
Illinois Finance Authority	<u>\$ 1</u>
TOTAL COMPONENT UNITS	\$ <u>1</u>

The following balances (amounts expressed in thousands) as of June 30, 2010 represent amounts due to component units:

<u>COMPONENT UNITS</u>	<u>AMOUNT</u>
Illinois State Toll Highway Authority	<u>\$ 1</u>
TOTAL COMPONENT UNITS	\$ <u>1</u>

**STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
WORKING CAPITAL REVOLVING FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

5. INVENTORIES

Inventories (amounts expressed in thousands) as of June 30, 2010, consist of the following:

	<u>Cost</u>	<u>Lower of Cost or Market Adjustment</u>	<u>Net Value</u>
Finished goods	\$ 4,962	\$ (2,683)	\$ 2,279
Raw materials	4,773	-	4,773
Operating supplies	573	-	573
Work in process	80	(9)	71
Stores inventory	24	-	24
	<u>\$ 10,412</u>	<u>\$ (2,692)</u>	<u>\$ 7,720</u>

6. CAPITAL ASSETS

Capital asset activities (amounts expressed in thousands) for the year ended June 30, 2010 were as follows:

	<u>Balance July 1, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Net Transfers</u>	<u>Balance June 30, 2010</u>
Cost:					
Equipment	\$ 16,431	\$ 93	\$ (915)	\$ (41)	\$ 15,568
Building and building improvements	5,974	-	-	-	5,974
Capital lease -	52	-	(52)	-	-
Computer software	161	-	-	-	161
	<u>22,618</u>	<u>93</u>	<u>(967)</u>	<u>(41)</u>	<u>21,703</u>
Accumulated					
Equipment	14,902	533	(870)	(45)	14,520
Building and building improvements	4,750	189	-	-	4,939
Capital lease -	42	10	(52)	-	-
Computer software	161	-	-	-	161
	<u>19,855</u>	<u>732</u>	<u>(922)</u>	<u>(45)</u>	<u>19,620</u>
	<u>\$ 2,763</u>	<u>\$ (639)</u>	<u>\$ (45)</u>	<u>\$ 4</u>	<u>\$ 2,083</u>

**STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
WORKING CAPITAL REVOLVING FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

7. LONG-TERM OBLIGATIONS

Changes in long-term obligations (amounts expressed in thousands) for the year ended June 30, 2010 were as follows:

	<u>Balance</u> <u>July 1, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2010</u>	<u>Due Within</u> <u>One Year</u>
Other long-term obligations:					
Compensated absences	\$1,119	\$1,048	\$764	\$1,403	\$95
Lease payable	11	-	11	-	-
Totals	<u>\$1,130</u>	<u>\$1,048</u>	<u>\$775</u>	<u>\$1,403</u>	<u>\$95</u>

8. PENSION PLAN

Substantially all of the Department’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 employees 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 2010 are included in State of Illinois’ Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2010. 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 2010, the employer contribution rate was 28.377%. The Department contributions to SERS for the year ended June 30, 2010 were \$2,440 (expressed in thousands).

**STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
WORKING CAPITAL REVOLVING FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

9. 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 self-insurance plan and insurance contracts currently in force. Life insurance benefits are limited to \$5,000 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, 2010. 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.

10. COMMITMENTS AND CONTINGENCIES

A. Operating Lease Obligations

The Department leased a warehouse in Pana, Illinois until April 30, 2010, at which time warehouse operations were moved to a state-owned facility in Lincoln, Illinois. Rental payments for the Pana Warehouse totaled \$447 (expressed in thousands) for the year ended June 30, 2010.

During fiscal year 2010, the Department also leased semi-tractors. Rental payments for the trucks totaled \$59 (amount expressed in thousands) during the fiscal year. Future minimum payments required by the lease agreement are as follows:

Year Ending June 30,	Amount
2011	\$ 51
2012	51
2013	51
2014	4
Total minimum payments	\$ 157

**STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
WORKING CAPITAL REVOLVING FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

10. COMMITMENTS AND CONTINGENCIES-Continued

B. Litigation

The Department 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 the Department 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 the Department.

11. RISK MANAGEMENT

The Department 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
FOR THE TWO YEARS ENDED JUNE 30, 2010

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 Receivable
 - Inventories
- Analysis of Accounts Receivable

- Analysis of Operations

- Agency Functions and Planning Program
- Average Number of Employees
- Emergency Purchases
- 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 2010**

FOURTEEN MONTHS ENDED AUGUST 31, 2010

PA 90-0042	Appropriations (Net After Transfers)	Expenditures Through 06/30/10	Approximate Lapse Period Expenditures 07/01/10 - 8/31/10	Approximate Total Expenditures	Approximate Balances Lapsed
APPROPRIATED FUND					
<u>Working Capital Revolving Fund - 301</u>					
Personal services	\$ 9,339,600	\$ 7,707,528	\$ 869,027	\$ 8,576,555	\$ 763,045
Student, member and inmate compensation	1,897,200	1,616,548	203,300	1,819,848	77,352
State contributions to State Employee's Retirement	2,650,300	2,190,261	246,904	2,437,165	213,135
State contributions to Social Security	714,500	576,685	68,098	644,783	69,717
Group insurance	2,385,000	1,678,113	157,222	1,835,335	549,665
Contractual services	2,254,700	1,924,142	222,196	2,146,338	108,362
Travel	99,900	61,331	4,146	65,477	34,423
Commodities	21,973,300	18,848,284	2,181,186	21,029,470	943,830
Printing	9,400	3,753	3	3,756	5,644
State property	284,500	45,183	20,724	65,907	218,593
Telecommunications services	70,800	43,002	26,075	69,077	1,723
Operation of automotive equipment	1,218,500	917,877	187,857	1,105,734	112,766
Repairs, maintenance and other capital improvements	147,000	78,190	32,183	110,373	36,627
Refunds	7,400	994	374	1,368	6,032
	<u>43,052,100</u>	<u>35,691,891</u>	<u>4,219,295</u>	<u>39,911,186</u>	<u>3,140,914</u>
Total Fiscal Year 2010	\$ 43,052,100	\$ 35,691,891	\$ 4,219,295	\$ 39,911,186	\$ 3,140,914

Notes:

- A: Appropriations, expenditures, and lapsed balances were obtained from records of the State Comptroller and reconciled to the Agency records.
- B: Approximate lapse period period expenditures do not include interest payments approved for payment by the Agency and submitted to the Comptroller for payment after August.

**STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS - CORRECTIONAL INDUSTRIES
SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES
APPROPRIATIONS FOR FISCAL YEAR 2009**

FOURTEEN MONTHS ENDED AUGUST 31, 2009

PA 95-0734	Appropriations (Net After Transfers)	Expenditures Through 06/30/09	Lapse Period Expenditures 07/01/07 - 8/31/09	Total Expenditures	Balances Lapsed
APPROPRIATED FUND					
<u>Working Capital Revolving Fund - 301</u>					
Personal services	\$ 10,679,600	\$ 8,852,933	\$ 410,004	\$ 9,262,937	\$ 1,416,663
Student, member and inmate compensation	1,797,200	1,537,879	178,011	1,715,890	81,310
State contributions to State Employee's Retirement	1,900,600	1,865,784	34,816	1,900,600	0
Continuing appropriation	55,500	-	51,588	51,588	3,912
State contributions to Social Security	817,000	666,861	31,243	698,104	118,896
Group insurance	2,559,900	1,921,055	76,209	1,997,264	562,636
Contractual services	2,194,700	1,902,179	247,781	2,149,960	44,740
Travel	99,900	60,503	15,372	75,875	24,025
Commodities	20,777,200	18,245,325	2,115,317	20,360,642	416,558
Printing	9,400	2,727	679	3,406	5,994
State property	770,000	204,082	151,938	356,020	413,980
Telecommunications services	64,800	49,117	10,621	59,738	5,062
Operation of automotive equipment	1,083,500	893,518	174,095	1,067,613	15,887
Repairs, maintenance and other capital improvements	147,000	135,825	8,488	144,313	2,687
Refunds	7,400	3,691	17	3,708	3,692
	<u>\$ 42,963,700</u>	<u>\$ 36,341,479</u>	<u>\$ 3,506,179</u>	<u>\$ 39,847,658</u>	<u>\$ 3,116,042</u>
Total Fiscal Year 2009	<u>\$ 42,963,700</u>	<u>\$ 36,341,479</u>	<u>\$ 3,506,179</u>	<u>\$ 39,847,658</u>	<u>\$ 3,116,042</u>

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

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

	For the Fiscal Year Ended June 30		
	2010	2009	2008
	PA 90-0042	PA 95-0734	PA 95-0348
APPROPRIATED FUNDS			
<u>Working Capital Revolving Fund - 301</u>			
Appropriations (Net After Transfers)	\$ 43,052,100	\$ 42,963,700	\$ 41,783,200
Expenditures:			
Personal services	8,576,555	9,262,937	10,095,992
Student, member and inmate compensation	1,819,848	1,715,890	1,733,220
State contributions to State Employee's Retirement System	2,437,165	1,900,600	1,668,712
Continuing appropriation	-	51,588	-
State contributions to Social Security	644,783	698,104	755,778
Group insurance	1,835,335	1,997,264	2,237,629
Contractual services	2,146,338	2,149,960	2,131,939
Travel	65,477	75,875	85,978
Commodities	21,029,470	20,360,642	19,995,691
Printing	3,756	3,406	3,729
State property	65,907	356,020	203,784
Telecommunications services	69,077	59,738	53,925
Operation of automotive equipment	1,105,734	1,067,613	1,212,418
Repairs, maintenance and other capital improvements	110,373	144,313	-
Refunds	1,368	3,708	2,959
Total expenditures	<u>39,911,186</u>	<u>39,847,658</u>	<u>40,181,754</u>
Lapsed Balances	<u>\$ 3,140,914</u>	<u>\$ 3,116,042</u>	<u>\$ 1,601,446</u>

Notes:

- A: Appropriations, expenditures, and lapsed balances were obtained from records of the State Comptroller and reconciled to the Agency records.
- B: Approximate 2010 lapse period expenditures do not include interest payments approved for payment by the Agency and submitted to the Comptroller for payment after August.

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS - CORRECTIONAL INDUSTRIES
SCHEDULE OF CHANGES IN STATE PROPERTY
For the Year Ended June 30, 2010

	<u>Total</u>	<u>Equipment</u>	<u>Building and Building Improvements</u>	<u>Construction in Progress</u>	<u>Capital Lease Equipment</u>
Balance, June 30, 2009	\$ 27,530,245	\$ 20,673,100	\$ 6,804,937	\$ -	\$ 52,208
Additions	214,151	214,151	-	-	-
Deletions	(1,313,421)	(1,261,213)	-	-	(52,208)
Net Transfers	<u>(26,401)</u>	<u>(26,401)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance, June 30, 2010	<u><u>\$ 26,404,574</u></u>	<u><u>\$ 19,599,637</u></u>	<u><u>\$ 6,804,937</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

Note: 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 ICI in conjunction with the Office of the Comptroller's guidelines 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, 2009

	<u>Total</u>	<u>Equipment</u>	<u>Building and Building Improvements</u>	<u>Construction in Progress</u>	<u>Capital Lease Equipment</u>
Balance, June 30, 2008	\$ 27,471,364	\$ 20,614,219	\$ 6,804,937	\$ -	\$ 52,208
Additions	328,504	328,504	-	-	-
Deletions	(284,081)	(284,081)	-	-	-
	-				
Net Transfers and Adjustments	<u>14,458</u>	<u>14,458</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance, June 30, 2009	<u>\$ 27,530,245</u>	<u>\$ 20,673,100</u>	<u>\$ 6,804,937</u>	<u>\$ -</u>	<u>\$ 52,208</u>

Note: 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 ICI in conjunction with the Office of the Comptroller's guidelines 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,		
	2010	2009	2008
WORKING CAPITAL REVOLVING FUND - 301			
Receipts from sales of products	\$45,967,325	\$38,422,307	\$42,019,060
Rent from farm leases	335,303	609,711	208,194
Proceeds from sales of equipment	9	-	-
Prior year refunds	1,185	31,858	198
Cash receipts per the Department	<u>\$46,303,822</u>	<u>\$39,063,876</u>	<u>\$42,227,452</u>

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

Cash receipts per the Department	\$46,303,822	\$39,063,876	\$42,227,452
SAMS due to / due from	(1,426,000)	3,854,000	-
Add deposit in transit, beginning of year	220,924	286,159	413,963
Less deposit in transit, end of year	<u>(593,291)</u>	<u>(220,924)</u>	<u>(286,159)</u>
Receipts per Comptroller's records	<u>\$44,505,455</u>	<u>\$42,983,111</u>	<u>\$42,355,256</u>

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES
For the two years ended June 30, 2010

The Comparative Schedule of Net Appropriations, Expenditures and Lapsed Balances documents the expenditure activities for fiscal years 2010, 2009 and 2008.

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

State contribution to State employee retirement

State contributions to State employee retirement increased by \$536,565 or 28% in fiscal year 2010 as a result of all retirement costs being paid by the Department for State contribution to State employee retirement. During fiscal year 2009, \$51,588 was paid by the statewide continuing appropriation which was not paid during fiscal year 2010.

Continuing appropriation

Continuing appropriation expenditures increased by \$51,588 in 2009 and decreased by \$51,588 or 100% in 2010 due to a statewide continuing appropriation being available in fiscal year 2009 and not available in fiscal years 2008 or 2010.

State property

State property expenditures increased by \$152,236 or 75% in fiscal year 2009 due to the purchase of more equipment items. In order for the Department to remain operational, it is vital to have equipment replaced periodically.

During fiscal year 2010, the decrease in expenditures of \$290,113 or 81% was due to the fact that many equipment items were replaced in fiscal year 2009 which led to not as much equipment needing to be replaced in fiscal year 2010.

Repairs, maintenance, and other capital expenditures

Repairs, maintenance and other capital expenditures increased by \$144,313 in fiscal year 2009 due to authority being given by the OMB during fiscal year 2009. The authority to expend money out of this fund must be given by the OMB. In fiscal year 2008, there was no authority given to the Agency, therefore no funds were expended. Then in fiscal year 2009, the authority was granted and several major repair and maintenance projects were completed.

During fiscal year 2010, the decrease in expenditures of \$33,939 or 24% was due to the fact that the repairs, maintenance, and other capital expenditures were not as costly in fiscal year 2010 as compared to fiscal year 2009.

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES – CONTINUED
For the two years ended June 30, 2010

Refunds

Refunds increased by \$749 or 25% in fiscal year 2009 due to the due to the fluctuating nature of refunds. There will always be fluctuations in refunds from year to year.

Refunds decreased by \$2,340 or 63% in fiscal year 2010 due to the fluctuating nature of refunds. There will always be fluctuations in refunds from year to year.

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
ANALYSIS OF SIGNIFICANT VARIATIONS IN RECEIPTS
For the two years ended June 30, 2010

There were no significant fluctuations in receipts between fiscal years 2010, 2009 and 2008.

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
ANALYSIS OF SIGNIFICANT LAPSE PERIOD SPENDING
For the two years ended June 30, 2010

The Department's lapse period spending of \$4,219,295 for fiscal year 2010 and \$3,506,179 for fiscal year 2009, as shown in the Schedule of Appropriations, Expenditures and Lapsed Balances, represented 11% and 9% of the total expenditures, respectively. Following are the Department's explanations for lapse period spending which exceeded twenty percent (20%) of the total expenditure line item.

Fiscal Year 2010

State property

The approval process, procurement process, and vouchering process all occurred in the fourth quarter. Therefore, many of the invoices were received and paid during the lapse period.

Telecommunication services

The majority of the invoices paid during lapse period were from the Communications Revolving fund and were not received until the lapse period which included a large invoice for a phone system that was installed at the Lincoln warehouse.

Repairs, maintenance, and other capital

The approval process, procurement process, and vouchering process all occurred in the fourth quarter. Therefore, many of the invoices were received and paid during the lapse period.

Refunds

Refund invoices are received at arbitrary times and coincidentally there were two invoices that happened to be received in later June and were vouchered during the lapse period.

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
ANALYSIS OF SIGNIFICANT LAPSE PERIOD SPENDING – CONTINUED
For the two years ended June 30, 2010

Fiscal Year 2009

Continuing appropriation

This was a statewide continuing appropriation available only after retirement funds were no longer available. The retirement funding ran out late, therefore all the continuing appropriation occurred during lapse period.

Travel

There were two people sent to cover a vacancy late in the year which accounted for a large portion of spending. There was also a State Toll Highway Authority invoice received and paid during lapse period.

Printing

Spending was due to the purchase of inventory tags in June. The invoice was then later received and paid during lapse period.

State Property

There were three large purchases made late in the year for the Jacksonville sign shop along with several other small purchases. The approval process, procurement process, and vouchering process all occurred in the fourth quarter. Therefore, these invoices were received and paid during the lapse period.

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
ANALYSIS OF SIGNIFICANT ACCOUNT BALANCES
For the two years ended June 30, 2010

Accounts Receivable

Accounts receivable represents amounts due from sale of goods and services to State agencies, local governments and others. As of June 30, 2010 and 2009, ICI had accounts receivable of \$8,731,553 and \$9,957,207, respectively. The following represents an analysis of accounts receivable by customer at June 30, 2010 and June 30, 2009. Amounts due from other funds are included in these receivable amounts.

	2010	2009
Department of Corrections	\$ 5,540,476	\$ 7,183,799
Department of Healthcare and Family Services	1,282,890	999,241
Department of Commerce and Economic Opportunity	12,331	2,954
Department of Human Services	525,592	612,952
Central Management Services	37,415	20,067
Secretary of State	30,633	65,157
Department of Juvenile Justice	224,639	144,092
Department of Natural Resources	20,451	20,729
Department of Transportation	75,027	61,899
Department of Public Health	912	688
Department of Children and Family Services	15,988	8,643
Illinois State Police	16,164	6,307
Office of the Treasurer	10,617	-
Department of Veterans' Affairs	28,336	29,252
Other State Agencies	147,039	253,026
Local Government Units	17,664	-
State Colleges and Universities	7,622	8,164
Leases	860,487	-
Not for Profit Organizations	74,925	-
Other	200,636	761,161
	9,129,844	10,178,131
Less warrants in transit*	398,291	220,924
	\$ 8,731,553	\$ 9,957,207

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
ANALYSIS OF SIGNIFICANT ACCOUNT BALANCES - CONTINUED
For the two years ended June 30, 2010

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, and stores inventory are stated at the lower of cost or market. The following represent inventories by component as of June 30, 2010 and June 30, 2009.

	<u>2010</u>	<u>2009</u>
Finished goods	\$ 2,279,405	\$ 4,726,514
Work in process	71,189	117,791
Raw materials	4,772,686	4,799,337
Operating supplies	572,939	651,822
Stores inventory	<u>23,640</u>	<u>2,587</u>
	<u>\$ 7,719,859</u>	<u>\$ 10,298,051</u>

ANALYSIS OF ACCOUNTS RECEIVABLE

	<u>2010</u>	<u>2009</u>
Current	\$ 4,057,410	\$ 3,014,228
31 - 90 days old	1,654,424	3,588,557
91 - 180 days old	1,468,106	2,126,569
Over 180 days old	<u>1,949,904</u>	<u>1,448,777</u>
	9,129,844	10,178,131
Less warrants in transit*	<u>398,291</u>	<u>220,924</u>
Accounts Receivables Gross Balance	8,731,553	9,957,207
Less: Estimated Uncollectibles	-	-
Accounts Receivables Net Balance	<u>\$ 8,731,553</u>	<u>\$ 9,957,207</u>

These amounts represent receivables related to charges for sales and services
The State of Illinois, Department of Corrections - Correctional Industries uses
the Comptrollers Offset method to collect receivables.

*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 OPERATIONS
For the two years ended June 30, 2010**

AGENCY FUNCTIONS AND PLANNING PROGRAM

AGENCY FUNCTIONS

The Department of Corrections - Illinois Correctional Industries (the Department) operates as a productive enterprise employing prisoners from institutions under the jurisdiction of the Illinois Department of Corrections (Department). The Department's programs are supported by revenues derived 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 the Department preference when procuring items manufactured by the Department. County, municipal units and other public institutions qualify as Department customers. Not-for-profit corporations chartered in Illinois may also purchase Department produced goods and services.

The acting Director of the Illinois Department of Corrections is Gladys Taylor. The Chief Executive Officer of the Illinois Correctional Industries is Tim Gleason 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. The Department 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

The Department developed the following strategies to achieve its vision:

- 1) Direct future growth in areas where the Department displays maximum strength and ability;
- 2) Employ people and facilities that enhance these areas;
- 3) Improve continuously on these areas through education and knowledge;
- 4) Avoid participation in areas where the Department cannot make worthy and unique contributions;
- 5) Make total quality the Department's way of doing business; and
- 6) Make a fair profit on current operations to meet its obligations, sustain growth and reach the Department's goals.

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
ANALYSIS OF OPERATIONS
For the two years ended June 30, 2010

AGENCY FUNCTIONS AND PLANNING PROGRAM - CONTINUED

The management team of the Department is composed of the Chief Executive Officer, Assistant Chief Executive Officer, and Regional Managers meet regularly to discuss the planning process and progress of its operations toward the achievement of its vision.

**STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
ANALYSIS OF OPERATIONS
For the two years ended June 30, 2010**

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>2010</u>	<u>2009</u>	<u>2008</u>
Department Central Office	18	19	24
Illinois River	14	14	15
Centralia	2	3	4
Danville	2	3	3
Decatur	2	2	3
Dixon	5	6	6
Dwight	4	5	6
East Moline	6	7	8
Hill	9	10	10
Graham	4	4	5
Jacksonville	1	1	1
Jacksonville Modular Furniture	7	8	8
Lincoln Asbestos	6	6	6
Lincoln Sewing	2	1	1
Lincoln Central District	3	6	7
Logan	1	1	1
Menard	3	3	4
Menard Farm	5	5	5
Western Illinois	7	7	7
Pana	6	6	5
Shawnee	3	4	5
Sheridan	2	3	4
Stateville	1	2	3
Vandalia	8	8	10
	<u>121</u>	<u>134</u>	<u>151</u>
Total average employees	<u>121</u>	<u>134</u>	<u>151</u>

**STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
ANALYSIS OF OPERATIONS
For the two years ended June 30, 2010**

EMERGENCY PURCHASES

The Department reported the following emergency purchases to the Office of the Auditor General during Fiscal Years 2010 and 2009:

<u>Description of Emergency Purchases – FY 2010</u>	<u>Actual Cost</u>
Purchase of hand sanitizer	\$ 29,693
Purchase of collagen casings	\$ 53,400
Purchase of lenses	\$ 143,723
Purchase of sugar cookies	\$ 44,226
Emergency repair of meat grinder	\$ 35,140
 <u>Description of Emergency Purchases – FY 2009</u>	
Purchase of veggie burger mix	\$ 34,875
Purchase of men’s boxer shorts	\$ 48,990
Purchase of eyeglass frames	\$ 39,740
Purchase of beef briskets	\$ 213,672

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

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		
	2010	2009	2008
Gross profit	\$ 19,788,154	\$ 21,246,086	\$ 16,767,749
Selling, general and administrative expenses	19,042,444	19,130,397	15,542,574
Operating income	745,710	2,115,689	1,225,175
Other income (expenses)-net	549,882	591,198	(2,278)
Income before transfer	1,295,592	2,706,887	1,222,897
Transfer to other funds	(6,446,210)	(500,000)	-
Net (income) loss after transfer	(5,150,618)	2,206,887	1,222,897
Net assets, beginning of year	19,847,168	17,640,281	16,417,384
Net assets, end of year	\$ 14,696,550	\$ 19,847,168	\$ 17,640,281

**STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
ANALYSIS OF OPERATIONS
For the two years ended June 30, 2010**

ANNUAL COST STATISTICS

COMMODITIES EXPENDITURES

The following is an analysis of commodities expenditures for fiscal years 2010, 2009 and 2008:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Mechanical supplies	\$ 308,949	\$ 299,678	\$ 255,679
Household, laundry and cleaning Supplies	204,199	151,777	185,450
Industrial and shop materials	5,531,683	5,857,489	5,782,414
Gas, oil and antifreeze	9,277	6,430	40,615
Forage, farm and garden supplies	-	42	124,460
Food supplies	13,465,924	12,605,197	12,404,496
Wearing apparel	21,662	31,152	16,795
All other	1,487,776	1,408,877	1,185,782
 Total	 <u>\$21,029,470</u>	 <u>\$20,360,642</u>	 <u>\$19,995,691</u>

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
ANALYSIS OF OPERATIONS
For the two years ended June 30, 2010

ANNUAL COST STATISTICS (UNAUDITED)

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.

	<u>For the Fiscal Year Ended June 30,</u>	
	<u>2010</u>	<u>2009</u>
Central Administration:		
Marketing	\$ 835,873	\$ 906,811
Fiscal	235,372	342,316
Chief Administrative Office Section	986,300	820,778
Planning	265,662	160,036
	<u>2,323,207</u>	<u>2,229,941</u>
Shops:		
Illinois River	2,135,112	1,624,439
Centralia	531,278	622,379
Danville	295,943	396,423
Decatur	355,840	350,057
Dixon	1,567,952	1,135,636
Dwight	723,126	791,773
East Moline	887,009	869,188
Hill	1,908,692	1,482,625
Graham	539,487	524,262
Jacksonville	1,004,166	907,000
Lincoln	995,237	811,687
Logan	112,192	115,415
Menard	1,543,299	1,298,840
Western	1,688,468	1,104,353
Pana Warehouse	2,520,940	4,270,486
Shawnee	403,692	507,187
Sheridan	(32,582)	(107,108)
Stateville	446,833	446,479
Vandalia	1,400,595	1,058,626
Administrative expenses not allocated to individual shops	15,165	920,650
	<u>19,042,444</u>	<u>19,130,397</u>
 Total administrative expenses	 \$ 21,365,651	 \$ 21,360,338
 Total operating expenses including overhead costs	 <u>\$ 43,706,602</u>	 <u>\$ 41,152,894</u>
 Percent administrative expenses to total operating expenses	 <u>48.88%</u>	 <u>51.90%</u>

**STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
ANALYSIS OF OPERATIONS
For the two years ended June 30, 2010**

SERVICE EFFORTS AND ACCOMPLISHMENTS (UNAUDITED)

SALES BY CUSTOMER (UNAUDITED)

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Illinois Department of Corrections	\$ 30,635,060	\$ 31,848,686	\$ 30,266,816
Illinois Department of Human Services	1,299,533	1,197,846	1,534,883
Illinois Department of Transportation	123,266	171,865	181,566
Other State Agencies	12,265,693	10,594,583	10,556,276
Local Governments	197,732	147,713	155,686
Colleges and Universities	392,325	500,409	592,705
Not-for-Profit Organizations	531,729	387,872	474,347
Other Customers	591,134	602,436	1,040,190
	<u>46,036,472</u>	<u>45,451,410</u>	<u>44,802,469</u>
Less intershop sales	<u>(1,583,460)</u>	<u>(2,184,836)</u>	<u>(1,850,012)</u>
Total sales	<u>\$ 44,453,012</u>	<u>\$ 43,266,574</u>	<u>\$ 42,952,457</u>

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
ANALYSIS OF OPERATIONS
For the two years ended June 30, 2010

SERVICE EFFORTS AND ACCOMPLISHMENTS (UNAUDITED)

INMATE ASSIGNMENTS (UNAUDITED)

In fiscal years 2010 and 2009, Illinois Correctional Industries filled 88% of industry assignments throughout the year. The ratio of working inmates to available assignments remained consistent to the prior year.

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 2010		Fiscal Year 2009	
	Average Available	Average Working	Average Available	Average Working
Centralia Administration	4	4	4	4
Centralia Mattress	17	8	17	8
Centralia Sewing	12	10	12	10
Danville Administration	2	1	5	5
Danville Boxes	8	6	9	9
Danville Sportswear	30	22	26	26
Decatur Administration	2	2	3	3
Decatur Garment	28	28	40	36
Decatur Furniture	8	8	6	5
Decatur Dog Grooming	-	-	6	5
Dixon Administration	5	5	5	5
Dixon Optical	95	95	92	92
Dwight Administration	3	3	4	4
Dwight Garment	50	50	49	48
Dwight Helping Paws	15	15	12	12
East Moline Administration	3	3	5	5
East Moline Laundry	37	37	35	35
East Moline Metal Furniture	5	4	2	2
Graham Administration	3	2	4	2
Graham Furniture	34	21	34	20
Graham State Garage	8	6	9	6
Hill Administration	1	1	5	5
Hill Meat Processing	43	43	40	40
Hill Milk/Juice Processing	26	26	25	25

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
ANALYSIS OF OPERATIONS
For the two years ended June 30, 2010

SERVICE EFFORTS AND ACCOMPLISHMENTS (UNAUDITED) - CONTINUED

INMATE ASSIGNMENTS (UNAUDITED) - CONTINUED

Industry	Fiscal Year 2010		Fiscal Year 2009	
	Average Available	Average Working	Average Available	Average Working
Illinois River Administration	27	24	16	15
Illinois River Bakery	225	163	225	179
Jacksonville Sales Center	6	6	6	6
Jacksonville Engraving	1	1	2	2
Jacksonville Modular/AutoCAD	2	2	2	2
Lincoln Administration	3	3	3	3
Lincoln Sewing	16	16	17	17
Lincoln Administration Function 231	1	1	-	-
Lincoln Chair Shop	7	6	-	-
Logan Administration	1	1	5	5
Logan Furniture/Refinishing	18	18	14	14
Menard Broom & Wax	15	11	15	10
Menard Knit	38	33	40	40
Menard Farm Administration	7	5	5	5
Menard Farm Meat Processing	15	10	17	10
Menard Farm Waste Removal/Recycling	13	11	12	12
Pana Central Distribution	6	6	6	6
Shawnee Administration	4	4	5	4
Shawnee Metal Furniture	21	21	21	21
Sheridan Garment Cutting	24	26	24	28
Stateville Administration	1	1	1	1
Stateville Furniture	13	13	13	13
Stateville Soap	10	10	9	9
Vandalia Administration	5	5	5	5
Vandalia Meat Processing	25	25	40	20
Vandalia Milk/Juice/Oil Processing	20	20	36	25
Western Illinois Administration	4	4	3	3
Western Illinois Food Processing	101	92	105	95
	1,068	938	1,096	962

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
ANALYSIS OF OPERATIONS

SUMMARY OF OPERATIONS BY INDUSTRY (UNAUDITED)

Fiscal Year 2010

Industry	Revenue	Cost of Sales and Services	Selling, General and Administrative Expenses	Depreciation	Increase (Decrease) in Net Assets	Average # of Inmate Workers
Illinois River Bakery	\$ 6,233,472	\$ 3,333,258	\$ 2,143,915	\$ 108,387	\$ 647,912	163
Lincoln Garment	412,911	342,961	338,418	-	(268,468)	16
Lincoln Panel Installation	23,100	(246,696)	657,526	3,553	(391,283)	6
Lincoln Sign Shop	-	-	-	673	(673)	-
Pana Trucking	2,437,969	(101,137)	2,525,157	12,451	1,498	-
Decatur Furniture	149,204	357,753	131,749	827	(341,125)	8
Decatur Sewing	145,793	226,828	224,091	20,906	(326,032)	28
Pana Warehouse	11,520	10,508	(4,217)	4,217	1,012	6
Jacksonville Modular Furniture Installation	48,831	3,605	949,615	-	(904,389)	2
Jacsonville Engraving	-	284	44,683	4,132	(49,099)	1
Jacksonville Telemarketing	3,080	1,705	673	371	331	6
Vienna Garment	2,477	21,621	-	-	(19,144)	-
Centralia Mattress	525,307	333,735	212,286	-	(20,714)	8
Centralia Sewing	408,101	384,908	318,990	-	(295,797)	10
Graham Furniture	418,091	486,250	571,541	36,251	(675,951)	21
Graham State Garage	17,174	4,612	508	-	12,054	6
Dwight Garment	1,039,961	767,278	715,640	8,376	(451,333)	50
Dwight Helping Paws	7,486	14,277	7,486	-	(14,277)	15
Menard Broom & Wax	579,977	338,535	304,475	15,509	(78,542)	11
Menard Knit	1,445,595	1,513,723	670,008	12,780	(750,916)	33
Menard Farm Meat Processing	1,044,815	707,338	188,607	8,250	140,620	10
Menard Farm Waste Removal/Recycling	266,979	(2,041)	380,209	8,449	(119,638)	11
Logan Furniture/Refinishing	97,990	51,701	112,192	-	(65,903)	18
Sheridan Garment Cutting	151	31,274	(32,582)	1,442	17	26

(Continued)

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

SUMMARY OF OPERATIONS BY INDUSTRY (UNAUDITED)

Fiscal Year 2010 - Continued

Industry	Revenue	Cost of Sales and Services	Selling, General and Administrative Expenses	Depreciation	Increase (Decrease) in Net Assets	Average # of Inmate Workers
Stateville Furniture	\$ 321,873	\$ 330,391	\$ 206,511	\$ 87,697	\$ (302,726)	13
Stateville Soap	739,125	612,345	240,315	16,119	(129,654)	10
Stateville Garment	5,552	57,900	7	3,261	(55,616)	-
Vandalia Farm Milk/Juice/Oil Processing	1,334,978	1,036,540	884,809	40,773	(627,144)	20
Vandalia Farm Meat Processing	1,830,842	1,351,018	517,047	13,999	(51,222)	25
East Moline Laundry	558,236	56,486	842,606	50,855	(391,711)	37
East Moline Metal Furniture	95,318	79,959	44,404	-	(29,045)	4
Danville Boxes	209,961	19,894	121,118	5,196	63,753	6
Danville Sportswear	399,871	245,772	174,826	9,136	(29,863)	22
Dixon Optical	10,260,351	2,566,898	1,579,067	54,996	6,059,390	95
Hill Meat Processing	2,925,766	1,994,358	723,969	22,352	185,087	43
Hill Milk/Juice Processing	4,585,299	2,696,475	1,184,724	52,567	651,533	26
Western Illinois Food Processing	5,596,235	4,131,791	1,688,468	46,856	(270,880)	92
Shawnee Metal Furniture	268,233	170,696	405,818	9,937	(318,218)	21
Total	44,451,624	23,932,803	19,074,659	660,318	783,844	869
Other revenues/expenses not allocated to an Industry/Shop	1,388	-	(32,215)	71,237	(37,634)	
Net transfers	-	-	-	-	(6,446,210)	
Non-operating revenues, net	-	-	-	-	549,182	
Grand Total	\$ 44,453,012	\$ 23,932,803	\$ 19,042,444	\$ 731,555	\$ (5,150,818)	

Note: During the fiscal year 2010, Illinois Correctional Industries had an average of 69 inmate workers in administrative positions at various locations, bringing the total number of inmate workers to 938.

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
ANALYSIS OF OPERATIONS

SUMMARY OF OPERATIONS BY INDUSTRY (UNAUDITED)

Fiscal Year 2009

<u>Industry</u>	<u>Revenue</u>	<u>Cost of Sales and Services</u>	<u>Selling, General and Administrative Expenses</u>	<u>Depreciation</u>	<u>Increase (Decrease) in Net Assets</u>	<u>Average # of Inmate Workers</u>
Illinois River Bakery	\$ 6,368,849	\$ 3,306,660	\$ 1,708,601	\$ 160,673	\$ 1,192,915	179
Lincoln Asbestos Abatement	-	-	621,283	7,181	(628,464)	-
Decatur Furniture	188,051	236,234	58,250	-	(106,433)	5
Decatur Sewing	205,132	183,861	307,621	1,080	(287,430)	36
Decatur Dog Grooming	725	5,908	(788)	-	(4,395)	5
Pana Trucking	2,388,329	-	3,045,798	27,164	(684,633)	6
Jacksonville Modular Furniture Installation	95,686	5,807	872,787	3,120	(786,028)	2
Jacksonville Engraving/Signs	3,270	2,243	31,317	2,165	(32,455)	2
Lincoln Ind. Garment	350,027	167,729	290,547	-	(108,249)	17
Vienna Garment	6,140	1,959	-	-	4,181	-
Centralia Mattress	531,825	286,426	209,181	1,802	34,416	8
Centralia Sewing	474,110	225,318	366,872	1,686	(119,766)	10
Graham Furniture	459,940	254,555	472,463	63,318	(330,396)	20
Graham State Garage	16,765	-	6,764	-	10,001	6
Dwight Garment	1,315,403	632,247	812,120	8,376	(137,340)	48
Dwight Helping Paws	6,579	-	5,954	-	625	12
Menard Broom & Wax	476,930	319,739	215,604	15,087	(73,500)	10
Menard Knit	1,539,532	802,752	484,666	36,686	215,428	40
Menard Farm Meat Processing	1,105,300	714,702	293,806	11,937	84,855	10
Menard Farm Waste Removal	246,324	23,441	316,106	9,228	(102,451)	12
Logan Refinishing	95,950	71,802	120,741	-	(96,593)	14
Sheridan Garment Cutting	-	838,515	(86,121)	1,442	(753,836)	28

(Continued)

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

SUMMARY OF OPERATIONS BY INDUSTRY (UNAUDITED)

Fiscal Year 2009 - Continued

<u>Industry</u>	<u>Revenue</u>	<u>Cost of Sales and Services</u>	<u>Selling, General and Administrative Expenses</u>	<u>Depreciation</u>	<u>Increase (Decrease) in Net Assets</u>	<u>Average # of Inmate Workers</u>
Stateville Furniture	\$ 571,235	\$ 283,036	\$ 155,809	\$ 91,083	\$ 41,307	13
Stateville Soap	696,500	477,598	274,485	16,119	(71,702)	9
Stateville Garment	18,271	11,684	3,020	4,348	(781)	-
Vandalia Farm Milk Processing	2,411,198	1,096,596	833,059	53,448	428,095	25
Vandalia Farm Meat Processing	2,025,653	1,386,270	367,838	16,367	255,178	20
East Moline Laundry	331,350	40,500	765,754	101,788	(576,692)	35
East Moline Furniture	108,373	91,514	34,975	-	(18,116)	2
Danville Boxes	191,781	296,056	172,935	32,830	(310,040)	9
Danville Sportswear	474,668	286,110	197,626	316	(9,384)	26
Dixon Optical	8,279,797	1,961,170	1,422,168	64,904	4,831,555	92
Hill Meat Processing	2,810,115	2,258,186	657,891	-	(105,962)	40
Hill Milk Processing	3,798,981	2,389,409	858,647	66,933	483,992	25
Western Illinois Food Processing	5,289,236	3,920,403	1,367,370	48,156	(46,693)	95
Shawnee Metal Furniture	294,794	133,113	513,735	48,680	(400,734)	21
Total	<u>43,176,819</u>	<u>22,711,543</u>	<u>17,778,884</u>	<u>895,917</u>	<u>1,790,475</u>	<u>882</u>
Other revenues/expenses not allocated to an Industry/Shop	89,755	(1,669,055)	1,351,513	82,083	325,214	
Net transfers	-	-	-	-	(500,000)	
Investment Income	-	-	-	-	610,000	
Non-operating expenses	-	-	-	-	(18,802)	
Grand Total	<u>\$ 43,266,574</u>	<u>\$ 21,042,488</u>	<u>\$ 19,130,397</u>	<u>\$ 978,000</u>	<u>\$ 2,206,887</u>	

Note: During the fiscal year 2009, Illinois Correctional Industries had an average of 80 inmate workers in administrative positions at various locations, bringing the total number of inmate workers to 962.