



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

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

DEPARTMENT OF CORRECTIONS-CORRECTIONAL INDUSTRIES

FINANCIAL AUDIT

For the Year Ended June 30, 2012

COMPLIANCE EXAMINATION

For the Two Years Ended June 30, 2012

Summary of Findings:

Total this audit: 13

Total last audit: 6

Repeated from last audit: 5

Release Date: February 28, 2013

INTRODUCTION

This digest covers the financial audit for the year ended June 30, 2012 and the compliance examination for the two years ended June 30, 2012. Correctional Industries is a division of the Illinois Department of Corrections and operates manufacturing and service industries within the adult correctional centers.

SYNOPSIS

- The Department did not ensure the information utilized to prepare financial statements and report information to the Office of the State Comptroller was accurate. The Auditors issued a qualified opinion on the Department's financial statements because: 1) differences were noted in the customer account balance, and 2) payment posting errors were noted in the accounts receivable system. The information related to accounts receivable and revenues included in the financial statements could not be verified.
- The Department did not maintain adequate controls over accounts receivable.
- The Department failed to pursue collections of past due amounts owed from farm leases.
- The Department inappropriately paid a Manager \$16,875.

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

ILLINOIS DEPARTMENT OF CORRECTIONS-CORRECTIONAL INDUSTRIES
FINANCIAL AUDIT
For the Year Ended June 30, 2012
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2012

EXPENDITURE STATISTICS	2012 (Audited)	2011 (Not examined)	2010 (Audited)
Total Expenditures.....	\$ 48,895,538	\$ 44,097,251	\$ 39,911,186
Personal Services.....	\$ 10,404,200	\$ 9,709,136	\$ 8,576,555
Inmate Compensation.....	\$ 1,928,093	\$ 1,881,900	\$ 1,819,848
Other Payroll Costs (FICA, Retirement).....	\$ 6,879,399	\$ 5,765,332	\$ 4,917,283
All Other Operating Expenditures.....	\$ 29,683,846	\$ 26,740,883	\$ 24,597,500
Total Receipts.....	\$ 59,717,368	\$ 38,295,647	\$ 46,303,822

SELECTED ACTIVITY MEASURES (unaudited)	2012	2011	2010
Average Number of Inmate Workers*.....	843	884	869
Number of Industry Operations at June 30.....	33	33	38
Industry Operations reporting a profit.....	7	8	11
Industry Operations reporting a breakeven.....	5	5	0
Industry Operations reporting a loss.....	21	20	27

*Note: Excluding inmate workers assigned to administrative positions

CORRECTIONAL INDUSTRIES CHIEF EXECUTIVE OFFICER
During Examination Period: Timothy Gleason (5/16/10 to 9/15/12), Rich Mautino (9/16/12 to 11/30/12), Jen Aholt (12/1/12 to present)
Currently: Jen Aholt

FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS

INACCURATE FINANCIAL REPORTING

The Department did not ensure the information utilized to prepare financial statements and report information to the Office of the State Comptroller was accurate for the Working Capital Revolving Fund.

Inadequate customer accounts receivable records

During our review, we noted the Department did not maintain adequate and accurate records related to their customer accounts receivable. The Department's financial statements reported \$10,042,850 in customer accounts receivable for the Working Capital Revolving Fund at June 30, 2012.

Customer accounts receivable overstated, totaling \$440,918

As part of standard audit procedures, we selected a sample of 40 customer accounts receivable and requested the customer to confirm the balance they owed at June 30, 2012. Of the 16 confirmations returned, the customer indicated they owed \$4,641,117, whereas the Department records stated they owed \$5,082,035, for an overstatement of \$440,918.

Errors within accounts receivable system

Upon discussion with management, it was determined the Department customer accounts receivable system contained payment posting errors. According to Department management, between 2006 and 2012, payments had been posted at the customer level, rather than the invoice level, resulting in open invoices. In addition, management indicated there were payments which had been posted twice. Management also stated they did not have all the supporting detail to ensure the posting of payments to the proper invoice.

Auditors issued a qualified opinion on financial statements

The Auditors issued a qualified opinion on the Department's financial statements because: 1) differences were noted in the customer account balances, and 2) payment posting errors were noted within the accounts receivable system. The information related to accounts receivable and revenues included in the financial statements could not be verified. (Finding 12-1, pages 14-15)

We recommended the Department work with their customers to determine the accurate accounts receivable. In addition, the Department should ensure all invoices and payments are properly posted.

Department officials concur with auditors

Department officials accepted our recommendation and stated they will work to ensure that accurate and timely reconciliations and recordings of all customers' accounts receivable are maintained at the invoice level.

INADEQUATE CONTROLS OVER ACCOUNTS RECEIVABLE

The Department did not maintain adequate internal controls over accounts receivable.

During our testing of accounts receivable, we noted:

Monthly customer statements not sent

Failure to bill and collect receivables

Catch up billings not issued

- The Department did not send out monthly statements to their customers.
- The Department did not take actions to bill and collect receivables within the fiscal year in which the debt was incurred. According to Department records, accounts receivable due over one year totaled \$1,344,677 at June 30, 2012.
- The Department did not issue catch up billings in the subsequent fiscal year for accounts with balances from the prior fiscal year. According to Department records, accounts receivable at June 30, 2012 totaled \$10,042,850.
- The Quarterly Summary of Accounts Receivable Reports filed with the Office of the State Comptroller for fiscal years 2011 and 2012 were not signed by management for 7 of the 8 filings.
- The Quarterly Summary of Accounts Receivable Reports filed with the Office of the State Comptroller for the period ended June 30, 2011 was amended three times. (Finding 12-2, pages 16-17)

We recommended the Department maintain adequate controls over accounts receivable to ensure:

- Monthly statements are sent out,
- Reasonable efforts are put forth related to the billing and collection of accounts,
- Catch up billings are sent out, and
- Quarterly Summary of Accounts Receivable Reports are accurate and signed by an appropriate official.

Department officials concur with auditors

Department officials accepted our recommendation and stated they would ensure customer statements are sent out; efforts will be put forth to ensure proper invoicing and collection of accounts; will work to ensure catch up billing will be utilized when necessary; and the Comptroller's Quarterly Summary of Accounts Receivable Report is accurate and approved by an appropriate official.

LACK OF COLLECTION EFFORTS OVER FARM LEASES

The Department failed to pursue collections of past due amounts owed from farm leases.

The Department entered into 12 leases for 3,619 acres with

Annual lease rent for fiscal years 2011 and 2012 was \$601,578

annual rent totaling \$601,578 for fiscal years 2011 and 2012. According to Department records, accounts receivable at June 30, 2012 related to farm leases was \$209,737.

Department of Central Management Services is responsible for collection of delinquent accounts

During our review of the farm lease program, we noted:

- The Department of Central Management Services is responsible for the collection of any delinquent accounts. However, the lease agreement states monthly payments are to be submitted to the Department for deposit into the Working Capital Revolving Fund. We inquired with the Department regarding the communications to the Department of Central Management Services related to delinquent accounts; however, documentation was not provided.
- The Department of Central Management Services sent out two notices for collection. Both tenants paid; however, one tenant did not make payment of interest totaling \$9,305. Additionally, the Department did not record the outstanding interest as an accounts receivable on their financial statements at June 30, 2012.
- The Department did not follow their internal procedures for accounts receivable, whereby monthly statements are required to be sent on all delinquent accounts. According to the Department, they relied upon the lease as the tenant's notification of amounts owed.
- The lease agreements state monthly finance charges of 1.5% (18% annually) are to be assessed. However, interest was not assessed on past due accounts, totaling approximately \$89,910. In addition, the Department did not record the outstanding interest as an account receivable on their financial statements at June 30, 2012.
- The farm lease accounts receivable at June 30, 2012 included \$209,737 which has been outstanding over one year, and 90% past due for more than five years. However, the Department had not reviewed the accounts for collectability and had not established an allowance for doubtful accounts. (Finding 12-3, pages 18-19)

Tenant did not make interest payment totaling \$9,305

Department did not issue monthly statements

Interest not assessed on past due accounts totaling approximately \$89,910

Farm lease accounts receivable in arrears for more than five years

We recommended the Department work with the Department of Central Management Services regarding the administration of the farm leases. In addition, the Department should ensure all information is accurately reflected in the financial statements.

Department officials concur with auditors

Department officials accepted our recommendation and stated staff would ensure farm lease financial information is accurately reflected in the financial statements and would work with the Department of Central Management Services regarding the administration and collection of farm leases.

INAPPROPRIATE PAYROLL EXPENDITURES

The Department inappropriately paid a Manager \$16,875.

Department entered into an interagency agreement

On July 1, 2011, the Department entered into an Interagency Agreement with the Department of Commerce & Economic Opportunity related to the assignment of a Manager to the Department. According to the Interagency Agreement, the Department of Commerce & Economic Opportunity would “continue to pay costs associated with salary and benefits” of the Manager. The Department agreed to compensate the Department of Commerce & Economic Opportunity for such costs.

Overpayments total \$16,875

However, beginning in August 2011, the Department also began to pay the Manager. The Manager was paid by both the Department and the Department of Commerce & Economic Opportunity for the months of August, September and October 2011, totaling an overpayment of \$16,875.

Overpayment outstanding at June 30, 2012 totals \$5,639

In December 2011, the Department entered into an agreement with the Manager for repayment. The Manager left State employment in April 2012. As of June 30, 2012, the Manager still owed the Department \$5,639.

Department had not submitted request for salary reversals as of June 30, 2012

In addition, we noted the Department had not submitted to the Office of the State Comptroller salary reversals related to the erroneous overpayments. As of June 30, 2012 the Department had not submitted any requests for the salary reversals. (Finding 12-5, pages 21-22)

Department officials concur with auditors

We recommended the Department seek full reimbursement from the Manager for the improper payments. Additionally, the Department should submit salary reversals to the Office of the Comptroller within the time frame outlined in the SAMS Manual.

Department officials accepted our recommendation and stated they would monitor and ensure salary reversals are completed for improper payments made to the prior Manager. The final reimbursement from the prior Manager of \$5,639 was received thru the Comptroller’s Involuntary Withholding on August 8, 2012.

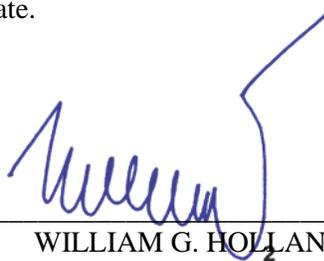
OTHER FINDINGS

With regards to the other findings noted in our report, Department management indicated they are being given attention. We will review the progress towards the implementation of our recommendations during our next engagement.

AUDITORS' OPINION

Our auditors issued a qualified opinion on the State of Illinois, Department of Corrections-Correctional Industries' basic financial statements as of June 30, 2012. These financial statements pertain to the Working Capital Revolving Fund. The auditors were unable to obtain sufficient appropriate audit evidence supporting accounts receivable stated at \$10,042,850 and revenues of \$50,757,000.

A compliance examination of the Department was also conducted as required by the Illinois State Auditing Act. The Accountant's Report noted the Department did not comply with certain requirements regarding applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations as well as requirements regarding obligating, expending, receiving and using public funds of the State.



WILLIAM G. HOLLAND
.. Auditor General

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AUDITORS ASSIGNED

West & Company, LLC were our special assistant auditors for this audit.