

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

FINANCIAL AUDIT

For the year ended June 30, 2012

And

COMPLIANCE EXAMINATION

For the two years ended June 30, 2012

**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, 2012
And
COMPLIANCE EXAMINATION
For the two years ended June 30, 2012

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AGENCY OFFICIALS

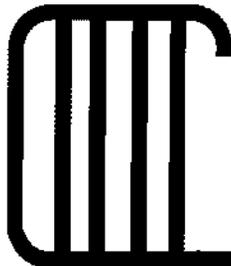
DEPARTMENT OF CORRECTIONS:

Director (5/2/11 to present)	Salvadore A. Godinez
Director, Acting (from 9/19/10 to 5/1/11)	Gladyse C. Taylor
Director (from 6/8/09 to 9/18/10)	Michael P. Randle
Assistant Director (from 5/2/11 to present)	Gladyse C. Taylor
Assistant Director, Acting (from 5/2/10 to 5/1/11)	Gladyse C. Taylor
Public Safety Shared Services Center Fiscal Deputy Director (from 6/16/10 to present)	Bryan Gleckler
Assistant Deputy Director, Public Safety Shared Services Fiscal Accounting Compliance (from 2/1/12 to present)	Tara Kessler
Assistant Deputy Director, Public Safety Shared Services Fiscal Accounting Compliance (from 9/17/11 to 1/31/12)	Vacant
Assistant Deputy Director, Public Safety Shared Services Fiscal Accounting Compliance (from 10/1/08 to 9/16/11)	MaryAnn Bohlen
Chief Internal Auditor, Acting (11/16/12 to present)	Ron Faith
Chief Internal Auditor (from 8/1/10 to 11/15/12)	Brett Finley

DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES:

Chief Executive Officer (from 12/1/12 to present)	Jen Aholt
Acting Chief Executive Officer (9/16/12 to 11/30/12)	Rich Mautino
Chief Executive Officer (from 5/16/10 to 9/15/12)	Timothy Gleason
Assistant Chief Executive Officer (12/1/12 to present)	Rich Mautino
Assistant Chief Executive Officer (9/16/12 to 11/30/12)	Vacant
Assistant Chief Executive Officer (3/1/11 to 9/15/12)	Rich Mautino
Assistant Chief Executive Officer (from 7/1/08 to 2/28/11)	Salvatore Raymond

Agency office is located at:
1301 Concordia Court
Springfield, IL 62794-9277



**Illinois
Department of
Corrections**

Pat Quinn
Governor

S. A. Godinez
Director

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

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

January 2, 2013

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

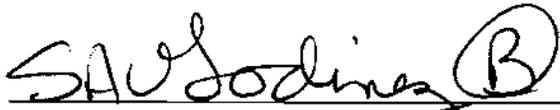
Ladies and Gentlemen:

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 Agency. 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 Agency's compliance with the following assertions during the two-year period ended June 30, 2012. Based on this evaluation, we assert that during the years ended June 30, 2011 and June 30, 2012, the Agency has materially complied with the assertions below.

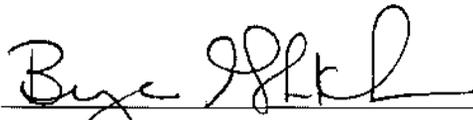
- A. The agency has obligated, expended, received and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The agency has obligated, expended, received and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.
- C. The agency 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 agency 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 agency 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



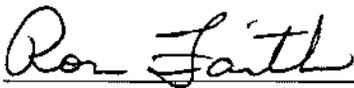
Salvadore A. Godinez, Director – Illinois Department of Corrections



Bryan Gleckler, Public Safety Shared Services Center,
Chief Fiscal Officer – Illinois Department of Corrections



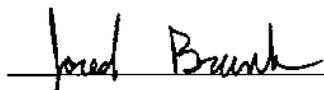
Tara Kessler, Asst. Deputy Director, Public Shared Services
Fiscal Accounting Compliance – Illinois Department of Corrections



Ron Faith, Acting Chief Internal Auditor –
Office of Internal Audit – Illinois Department of Corrections



Jeff Aholt, Chief Executive Officer
Illinois Department of Corrections – Correctional Industries



Jared Brunk, Chief Financial 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 contains a scope limitation, disclaimer, or other significant non-standard language.

SUMMARY OF FINDINGS

<u>Number of</u>	<u>This Audit</u>	<u>Prior Audit</u>
Findings	13	6
Repeated findings	5	4
Prior recommendations implemented or not repeated	1	8

SCHEDULE OF FINDINGS

<u>Item No.</u>	<u>Page</u>	<u>Description</u>	<u>Finding Type</u>
FINDINGS (<i>GOVERNMENT AUDITING STANDARDS</i>)			
12-01	14	Inaccurate financial reporting	Material weakness and material noncompliance
12-02	16	Inadequate controls over accounts receivable	Material weakness and material noncompliance
12-03	18	Lack of collection efforts over farm leases	Material weakness and material noncompliance

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COMPLIANCE REPORT – SUMMARY (Continued)

<u>Item No.</u>	<u>Page</u>	<u>Description</u>	<u>Finding Type</u>
FINDINGS (STATE COMPLIANCE)			
12-04	20	Untimely Posting of Expenditures	Significant deficiency and noncompliance
12-05	21	Inappropriate payroll expenditures	Significant deficiency and noncompliance
12-06	23	Failure to timely deposit cash receipts	Significant deficiency and noncompliance
12-07	25	All relevant costs not included in manufacturing costs	Significant deficiency and noncompliance
12-08	27	Records Were Unavailable	Significant deficiency and noncompliance
12-09	29	Temporary Assignments	Significant deficiency and noncompliance
12-10	31	Failure to Comply with the Unified Code of Corrections	Significant deficiency and noncompliance
12-11	32	Annual report deficiencies	Significant deficiency and noncompliance
12-12	34	Noncompliance with Property Control Procedures	Significant deficiency and noncompliance
12-13	36	Inventory Weakness	Significant deficiency and noncompliance

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COMPLIANCE REPORT – SUMMARY (Continued)

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>
12-01	14	Inaccurate financial reporting	Material noncompliance
12-02	16	Inadequate controls over accounts receivable	Material noncompliance
12-03	18	Lack of collection efforts over farm leases	Material noncompliance

PRIOR FINDINGS NOT REPEATED

<u>Item No.</u>	<u>Page</u>	<u>Description</u>
A	37	Inadequate control over financial reporting

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COMPLIANCE REPORT – SUMMARY (Continued)

EXIT CONFERENCE

The findings and recommendations appearing in this report were discussed with Department personnel at an exit conference on December 19, 2012. Attending were:

Department of Corrections

Ron Faith – Chief Internal Auditor, Acting
Bryan Gleckler – Public Safety Shared Services Center Fiscal Deputy Director
Tara Kessler – Assistant Deputy Director, Public Safety Shared Services Fiscal Accounting
Compliance
Debbie Knauer – Payroll Supervisor

Department of Corrections – Correctional Industries

Jen Aholt – Chief Executive Officer
Jared Brunk - Chief Financial Officer
Rich Mautino – Assistant Chief Executive Officer

Office of the Auditor General

Kathy Lovejoy – Manager
Paul Usherwood – Manager

West & Company, LLC

Janice K. Romack - Partner
Michael Lawler - Supervisor

Responses to the recommendations were provided by Ron Faith in a letter dated January 2, 2013.

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 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, 2012. 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.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants; the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States; the Illinois State Auditing Act (Act); and the Audit Guide as adopted by the Auditor General pursuant to the Act; and, accordingly, included examining, on a test basis, evidence about the State of Illinois, Department of Corrections – Correctional Industries’ compliance with those requirements 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.

As described in items 12-01, 12-02, and 12-03 in the accompanying schedule of findings, the State of Illinois, Department of Corrections – Correctional Industries did not comply with requirements regarding State mandates, the SAMS Manual, and general internal control procedures. Compliance with such requirements is necessary, in our opinion, for the State of Illinois, Department of Corrections – Correctional Industries to comply with the requirements listed in the first paragraph of this report.

In our opinion, except for the noncompliance described in the preceding paragraph, 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, 2012. 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 items 12-04, 12-05, 12-06, 12-07, 12-08, 12-09, 12-10, 12-11, 12-12, and 12-13.

Internal Control

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 an entity’s internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a 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 12-01, 12-02, and 12-03 to be material weaknesses.

A significant deficiency in an entity’s internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, 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 12-04, 12-05, 12-06, 12-07, 12-08, 12-09, 12-10, 12-11, 12-12, and 12-13 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.

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

January 2, 2013

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, 2012, and have issued our report thereon dated January 2, 2013. Our report noted a qualified opinion due to a scope limitation. 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

Management of the State of Illinois, Department of Corrections – Correctional Industries is responsible for establishing and maintaining effective 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 of the Working Capital Revolving Fund as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but 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 and other deficiencies that we consider to be significant deficiencies.

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 the accompanying schedule of findings 12-01, 12-02, and 12-03 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 items 12-01, 12-02 and 12-03.

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 the responses.

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

January 2, 2013

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Current Findings - Government Auditing Standards

12-01 FINDING: Inaccurate Financial Reporting

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

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

As part of standard audit procedures, we selected a sample of 40 customer accounts receivable and requested the customer to confirm to us 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.

Upon discussion with management, it was determined the Department customer accounts receivable system contained payment posting errors. According to Department management, between 2006 and early 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.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires “All State agencies shall establish and maintain a system, or systems of internal fiscal and administrative controls, which shall provide assurance that: (4) revenues, expenditures and transfer of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State’s resources.”

Due to the noted differences in customer account balances and the payment posting errors within the accounts receivable system, the information related to accounts receivable and revenues included in the financial statements cannot be verified. As a result, the Auditors issued a qualified opinion on the Departments’ financial statements. (Finding Code 12-01)

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Current Findings - Government Auditing Standards

12-01 FINDING: Inaccurate Financial Reporting – Continued

RECOMMENDATION

We recommend 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 RESPONSE

Recommendation accepted. IL Correctional Industries fiscal staff will work to ensure that accurate and timely reconciliations and recordings of all customers' accounts receivable are maintained at the invoice level.

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Current Findings - Government Auditing Standards

12-02 FINDING: Inadequate Controls Over Accounts Receivable

The Illinois Department of Corrections - Correctional Industries (Department) did not maintain adequate internal controls over their accounts receivable.

During our review of accounts receivable, we noted:

- The Department did not send out monthly statements to their customers. According to their Accounts Receivable Collection Procedures, customer statements are to be sent on a monthly basis in order to provide a reminder of outstanding amounts.
- 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. Section 117.50 of the Correctional Industries Code (20 Ill. Adm. Code 117) states “Correctional Industries shall make reasonable efforts to bill and collect receivables in the fiscal year which the debit was incurred.”
- 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. Section 117.50 of the Correctional Industries Code (20 Ill. Adm. Code 117) states “Correctional Industries shall issue catch-up billing in the subsequent fiscal year for those accounts that show a balance for the prior fiscal year.”
- The Quarterly Summary of Accounts Receivable Reports (C-97) filed with the Office of the 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 (C-97) filed with the Office of the Comptroller for the period ended June 30, 2011 was amended three times.

Chapter 26 of the SAMS Manual requires State agencies to report quarterly accurate information related receivables, collections, write-offs, uncollectible accounts and the number of accounts for gross receivables. In addition, the report is to contain the signature of a “responsible agency official.”

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Current Findings - Government Auditing Standards

12-02 FINDING: Inadequate Controls Over Accounts Receivable - Continued

Department Management stated the accounting software used for accounts receivable requires specific posting of customer payments with the actual invoice being paid. Between 2006 and 2012 the payments were not always posted properly to the matching invoices. As a result the customers detailed statement became lengthy and was no longer sent. Management stated the majority of their receivables are from state agencies. The Department also noted the responsibility for reviewing the receivable aging trial balance is the task of the Chief Financial Officer which was not permanently filled during the engagement period.

Failure to have adequate documentation for accounts receivable increases the chances of errors occurring in reporting the amounts receivable and the likelihood of accounts receivable not being accurately tracked for collection. (Finding Code No. 12-02).

RECOMMENDATION

We recommend 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 RESPONSE

Recommendation accepted. IL Correctional Industries fiscal staff will 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.

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12-03 FINDING: Lack of Collection Efforts Over Farm Leases

The Illinois Department of Corrections - Correctional Industries (Department) failed to pursue collections of past due amounts owed from farm leases.

The Department has entered into 12 leases totaling 3,619 acres and annual rent of \$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.

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

- Per correspondence dated January 2, 2012, as the lessor on behalf of Illinois Correctional Industries, 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 Illinois Correctional Industries for deposit into the Working Capital Revolving Fund (Fund 301). 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 states 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.

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12-03 FINDING: Lack of Collection Efforts Over Farm Leases - Continued

- 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.

Department Management stated, in prior years, the Department attempted to monitor and track farm leases. Upon a letter dated January 2, 2012 from the Department of Central Management Services Bureau of Property Management, it was determined that the Department Central Management Services has the role of administrator of these leases. In regards to the Department's procedures for monthly statements on accounts receivable, proposed language for amending the procedure was provided.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires “All State agencies shall establish and maintain a system, or systems of internal fiscal and administrative controls which shall provide assurance that (4) revenues, expenditures and transfer of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State’s resources.”

Revenue from the farm leases represent 40% of the Department’s net income. Failure to follow up on delinquent accounts increases the chances of receivables not being collected and accurately tracked. (Finding Code 12-03)

RECOMMENDATION

We recommend 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 RESPONSE

Recommendation accepted. IL Correctional Industries fiscal staff will ensure farm lease financial information is accurately reflected in the financial statements and will work with the Department of Central Management Services regarding the administration and collection of farm leases.

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12-04 FINDING: Untimely Posting of Expenditures

The Illinois Department of Corrections - Correctional Industries (Department) did not timely post expenditures to the Accounting Information System (AIS).

During our review of payroll expenditures, we noted the Department did not post the bi-monthly payroll expenditure to AIS until the next monthly Comptroller's report was received. The August 2012 reconciliation, completed on September 21, 2012, indicated reconciling items of \$366,613. Additionally, we noted reconciling items dating back to January 2011.

Department Management stated due to competing priorities, they cannot ensure these transactions are posted in a timely manner. They are working with Department of Corrections to bring this function back to the responsibility of Illinois Correctional Industries.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires "All State agencies shall establish and maintain a system, or systems of internal fiscal and administrative controls, which shall provide assurance that: (4) revenues, expenditures and transfer of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources."

Failure to timely post expenditures to the accounting system could impair the agency and the Comptroller's ability to take corrective action to ensure accurate accounting of expenditures. (Finding Code 12-04)

RECOMMENDATION

We recommend the Department timely post expenditures to the Accounting Information System. Additionally, the Department should timely investigate all outstanding reconciling items.

DEPARTMENT RESPONSE

Recommendation accepted. IL Correctional Industries fiscal staff will assume responsibility for the timely posting to the Accounting Information System. Fiscal staff will monitor and investigate outstanding reconciling items.

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12-05 FINDING: Inappropriate Payroll Expenditures

The Illinois Department of Corrections - Correctional Industries (Department) inappropriately paid a Manager \$16,875.

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.

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 (\$5,625 per month).

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.

In addition, we noted the Department had not submitted to the Office of the Comptroller salary reversals related to the erroneous overpayments. In fact, as of June 30, 2012 the Department had not submitted any requests for the salary reversals.

Department management stated the overpayment occurred when the Manager was processed in the Department's payroll system as a provisional exempt filing position. Department management which approved the provisional exempt filing was unaware this would allow payroll to begin from the Department. The Department's personnel who processed the provisional exempt filing position was not aware the Manager was being paid by the Department of Commerce & Economic Opportunity.

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12-05 FINDING: Inappropriate Payroll Expenditures – Continued

The State Finance Act (30 ILCS 105/9(c)) states “Amounts paid from appropriations for personal service of any officer or employee of the State, either temporary or regular, shall be considered as full payment for all services rendered between the dates specified in the payroll or other voucher and no additional sum shall be paid to such officer or employee from any lump sum appropriation, appropriation for extra help or other purpose or any accumulated balances in specific appropriations, which payments would constitute in fact an additional payment for work already performed and for which remuneration had already been made...”

According to the SAMS Manual, Procedure 23.20.60, “salary reversals should normally be processed within 45 days of the issue date on the original erroneous warrant; however, when errors occur near the end of the calendar year, reversals must be completed no later than the last pay period of the year for tax reporting purposes.”

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) states “All State agencies shall establish and maintain a system, or systems, of internal fiscal and administrative controls’ which shall provide assurance that: (3) funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use, and misappropriation.” The lack of controls increases the likelihood that an improper expenditure error, irregularity, or misappropriation of funds could occur. (Finding Code No. 12-05)

RECOMMENDATION

We recommend 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 RESPONSE

Recommendation accepted. IL Correctional Industries management will monitor and ensure salary reversals are completed for improper payments made to the prior Manager. The final reimbursement from prior Manager of \$5,639 was received thru the Comptroller’s Involuntary Withholding on August 8, 2012.

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12-06 FINDING: Failure to Timely Deposit Cash Receipts

The Illinois Department of Corrections - Correctional Industries (Department) did not pay into the State treasury the gross amount of the money received on a timely basis as required by State law.

During our testing of receipts and refunds for the fiscal year 2011 and 2012, we noted the following:

- Eight of 48 (17%) receipts totaling \$138,092 were not deposited timely. For fiscal year 2011, one receipt for \$1,488 was deposited 21 days late. For fiscal year 2012, seven receipts totaling \$136,604 were deposited 4 to 245 days late. The receipts were for sales of product of \$17,220 and collection of land lease payments of \$120,872.
- Six of 7 (86%) refunds totaling \$2,047 were not deposited timely. For fiscal year 2011, five refunds totaling \$1,938 were deposited 2 to 30 days late. For fiscal year 2012, one receipt for \$109 was deposited eight days late. The refunds were for overpayments to various State vendors.

The Department received a 15 day extension for the period December 6, 2009 through December 6, 2011 and another 15 day extension for the period December 6, 2011 through December 6, 2013. Even with the approved extensions, the Department did not deposit receipts and refunds in a timely manner.

The State Officers and Employees Money Disposition Act (30 ILCS 230/2(b)) requires agencies to “pay into the State treasury the gross amount of money so received on the day of actual physical receipt with respect to any single item of receipt exceeding \$10,000, within 24 hours of actual physical receipt with respect to an accumulation of receipts exceeding \$10,000 or more, or within 48 hours of actual physical receipt with respect to an accumulation of receipts exceeding \$500 but less than \$10,000...” The Act further allows the State Treasurer and State Comptroller to grant time extensions for the deposit of public funds.

Department management stated that in all but one instance, the Department processed the checks on the same day they were received. Once the deposits are moved to the D2 status, which involves Shared Services, the process is out of their control.

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12-06 FINDING: Failure to Timely Deposit Cash Receipts – Continued

The Department's total receipts for fiscal 2011 and 2012 were \$38,295,647 and \$59,717,368 respectively. Failure to deposit collections in a timely manner results in noncompliance with the State Officers and Employees Money Disposition Act. (Finding Code No. 12-06)

RECOMMENDATION

We recommend the Department implement controls to ensure cash receipts and refunds are deposited in a timely manner in accordance with State statutes.

DEPARTMENT RESPONSE

Recommendation accepted. IL Correctional Industries will make every effort to ensure receipts and refunds are processed timely and accurately.

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12-07 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, Pricing Products, states 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, the 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 Department is a statutorily created program that operates within the Illinois Department of Corrections, which has never provided a breakdown of occupancy costs, nor have the rates been factored into the annual spending authority for the Department. Accordingly, it is important to note the Department’s spending authority is approved by the Director of the Illinois Department of Corrections and included within the Department’s budget.

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12-07 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 Department records, sales to the Department of Corrections in the fiscal years ended June 30, 2010-2012 have ranged between 68% - 70%. If the occupancy costs are omitted, the other 30 %- 32% 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. 12-07, 10-4, 08-10, 06-7)

RECOMMENDATION

We recommend the Department include the occupancy costs for the manufacturing facilities in accordance with the Departments' Product Costing Manual and generally accepted accounting principles.

DEPARTMENT RESPONSE

Recommendation accepted. IL Correctional Industries will make every effort to develop a methodology that recognizes manufacturing overhead in our pricing and abides by State statute.

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12-08 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 employees’ payroll files, the Department could not provide:

- 17 of 25 (68%) employees medical insurance deduction authorizations,
- 15 of 23 (65%) employees union dues deduction authorizations, and
- 13 of 22 (59%) 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 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 129 employees at June 30, 2012.

Maintaining documentation for payroll deductions is an essential element of internal controls over the record keeping and accounting duties. (Finding Code No. 12-08, 10-5)

RECOMMENDATION

We recommend the Department obtain and maintain employee authorizations for medical insurance deductions and supporting documentation for all payroll deductions in accordance with the State Records Act and the Department’s Administrative Directive.

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12-08 FINDING: Records Were Unavailable - Continued

DEPARTMENT RESPONSE

Recommendation accepted. IL Correctional Industries will make every effort to review the payroll files and work with the employees to obtain a copy of all deduction authorization forms.

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12-09 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, 2012, the Department had 23 temporary employee assignments, of which testing indicated 8 (34.8%) of the assignments exceeded the allowable time limit, without the proper agreement allowing the extensions. The assignments ranged from 1 to 30 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 temporary appointment 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. 12-09, 10-6, 08-5, 06-3, 04-4, 02-5, 00-9, 98-7)

RECOMMENDATION

We recommend the Department comply with the 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.

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12-09 FINDING: Temporary Assignments - Continued

DEPARTMENT 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.

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12-10 FINDING: Failure to Comply with the Unified Code of Corrections

The Illinois Department of Corrections - Correctional Industries (Department) failed to prevent a committed person from accessing and entering personally identifiable information in computer systems.

We reviewed job descriptions for 71 inmate positions at 18 Department locations and found 12 positions allowed inmates to process inmate payroll or Medicaid billings, and 10 positions allowed inmates to process vouchers using computers. For the 12 inmate payroll processing positions, one reported having access to inmate social security numbers. Additionally, no formal procedures or policies were in place to describe personally identifiable information.

The Unified Code of Corrections (730 ILCS 5/3-12-15(b)) states “The Department may not assign or permit any committed person to enter any personally identifiable information in a computer processible medium.”

Department management stated they relied upon the Administrative Directive (01.05.110) which allows offenders to use hardware and software for Correctional Industries work assignments if it is limited to a stand-alone or closed system network. The Directive does not mention or describe personally identifiable information.

Failure to provide proper rules and oversight for protecting personally identifiable information for correctional employment programs could result in stolen identities. Breach of confidentiality of sensitive information can lead to undue financial and emotional distress for individuals as well as potential litigation for the Department. (Finding Code No. 12-10)

RECOMMENDATION

We recommend the Department comply with the statute and develop procedures to prevent committed persons from entering any personally identifiable information.

DEPARTMENT RESPONSE

Recommendation accepted. IL Correctional Industries management contacted the Shop where this deficiency was noted and ensured the situation was rectified. There are no more shops where inmates have this level of access. In addition, Illinois Correctional Industries will request an Administrative Directive addressing 730 ILCS 5/3-12-15(b).

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Current Findings – State Compliance

12-11 FINDING: Annual Report Deficiencies

The Illinois Department of Corrections - Correctional Industries (Department) did not prepare and timely file its annual report in accordance with the Unified Code of Corrections.

During our testing we noted the fiscal year 2011 Annual Report was submitted to the General Assembly three days late. Additionally, the Annual Report did not contain information about the actual total receipts by purchaser, the average length of time between the receipt of orders and delivery, and the average length of time between delivery and receipt of payment. The 2011 Annual Report listed the required filing date and factors for the report, which included each of these, even though the information was omitted.

The Unified Code of Corrections (730 ILCS 5/3-12-11) requires “By November 1st of each year, the Department shall furnish to the General Assembly a report with respect to the following factors for the preceding fiscal year:

- (a) A balance sheet;
- (b) A financial statement, including profit or loss figures;
- (c) The number and location of industries;
- (d) The quantity of each good produced;
- (e) The cost of materials and labor;
- (f) Sales and actual receipts, by purchaser and in total;
- (g) The average length of time between the receipt of orders and delivery;
- (h) The average length of time between delivery and receipt of payment;
- (i) The number of residents employed in each facility and industry, the number of vacancies occurring throughout the year, whether or not they have been subsequently filled, and the reasons for such vacancies; and
- (j) Beginning on November 1, 1981, recidivism and employment statistics on former resident employees.”

Department management stated an employee of the Department informed them the report was delivered on the due date; however, they do not have documentation of the delivery date. Secondly, the Department was not aware of the omission of information until October 28, 2011 and could not receive accurate information in time as to not delay report filing.

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Current Findings – State Compliance

12-11 FINDING: Annual Report Deficiencies-Continued

Failure to prepare and timely submit required reporting information to the General Assembly hinders their ability to receiving relevant feedback and monitoring on programs, which could affect future decisions if the information was provided. Also, by not timely filing and submitting the required information, the Department is not in compliance with the statute. (Finding Code No. 12-11)

RECOMMENDATION

We recommend the Department comply with statutory requirements for timely filing and content of the annual report.

DEPARTMENT RESPONSE

Recommendation accepted. IL Correctional Industries will make every effort to submit their annual report in a complete and timely manner as required. The FY12 report was filed complete and timely.

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12-12 FINDING: Noncompliance with Property Control Procedures

The Illinois Department of Corrections - Correctional Industries (Department) did not comply with property control procedures.

During our testing we noted:

- The capital lease valued at \$60,000 was not listed on property control records, but was properly capitalized on the Department's financial statements.
- One of eight (13%) quarterly Agency Reports of State Property (C-15) filed with the Comptroller was filed timely, but was not approved by personnel of the Department.
- Four of 146 (3%) items of equipment tested valued at \$ \$6,733 did not have a property control tag affixed.

SAMS Procedure 29.10.30 requires capital leases to be capitalized and recorded as an asset of the leasing State agency and should be reflected on the Agency Report of State Property. SAMS exhibit 29.20.10-B illustrates the Agency Report of State Property (C-15) which shows the Responsible Agency Official signature is to be presented on the form. Additionally, the Illinois Administrative Code (44 IL Adm. Code 5010.210) states agencies are responsible for marking each piece of State owned equipment in their possession with a unique six digit identification number.

Department management stated they followed the Administrative Directive for the property to be recorded in the property control system when title has passed. The Department's contract accounting firm signed the C-15 and stated they were told to do so by a previous employee of the Department. Additionally, the Department stated two tags had fallen off, one was waiting to be tagged, and one was on a donated asset valued at less than \$100 which they understood did not need a tag.

The Department's total Capital Assets at June 30, 2012 was \$2,188,421. Failure to record, approve reports, or tag equipment could result in intentional or unintentional misappropriation of capital assets. (Finding Code No. 12-12, 10-3, 08-2)

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Current Findings – State Compliance

12-12 FINDING: Noncompliance with Property Control Procedures – Continued

RECOMMENDATION

We recommend the Department maintain accurate property control records, review and approve all Comptroller property reports, and properly tag equipment in accordance with SAMS procedures.

DEPARTMENT RESPONSE

Recommendation accepted. IL Correctional Industries will make every effort to ensure capital leases are properly stated on property control records, Agency Reports of State Property (C-15) are filed timely, and all property has a control tag affixed.

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Current Findings – State Compliance

12-13 FINDING: Inventory Weakness

The Illinois Department of Corrections - Correctional Industries (Department) inventory was not properly valued at June 30, 2011.

Testing of the Department's finished goods inventory of \$2,117,173 at June 30, 2011 disclosed an overstatement of \$44,119 (2%). The discrepancy was attributable to 83 items which were not valued at the lower of cost or market.

The Statewide Accounting and Management System (SAMS) Manual, Procedure 27.20.77 requires agencies with inventory to report the value 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.

Department management stated the errors resulted from clerical errors. The majority of the error (\$34,091) was attributable to one item which had a decimal error in the software program that has now been corrected. Management noted that lower of cost or market formulas were put into place on January 1, 2012.

Total inventory at June 30, 2011 and 2012 was \$7,247,476 and \$6,796,828, respectively. Failure to maintain inventory records results in inaccurate reporting. (Finding Code No. 12-13, 10-2)

RECOMMENDATION

We recommend the Department strengthen internal controls over reporting of inventory to ensure inventory is valued at the lower of cost or market in accordance with the SAMS Manual, Procedure 27.20.77.

DEPARTMENT RESPONSE

Recommendation accepted. IL Correctional Industries will make every effort to strengthen internal controls and verify inventory is properly valued.

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SCHEDULE OF FINDINGS

Prior Year Findings Not Repeated

A. Finding (Inadequate Control Over Financial Reporting)

During the previous engagement, the Department inaccurately recorded accounts payable, compensated absences, inventory and capital assets on their financial statements. Additionally, the Department inaccurately reported cost of sales and service on form SCO-527. (Finding Code 10-01, 08-01, 06-01)

Status: Implemented

During the current engagement, testing of accounts payable, compensated absences and capital assets balances as well as reporting of cost of sales and services on form SCO-527, noted no exceptions. Testing of inventory showed improvement; however, inaccuracies were reported in finding 12-13.

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
FINANCIAL AUDIT
For the year ended June 30, 2012
And
COMPLIANCE EXAMINATION
For the two years ended June 30, 2012

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 a qualified opinion, due to a scope limitation, on the State of Illinois, Department of Corrections – Correctional Industries’ basic financial statements.

SUMMARY OF FINDINGS

The auditors identified matters involving the Department’s internal control over financial reporting that they considered to be material weaknesses. The material weaknesses are described in the accompanying Schedule of Findings 12-01, *Inaccurate financial reporting*, 12-02, *Inadequate controls over accounts receivable*, and 12-03, *Lack of collection efforts over farm leases*.

EXIT CONFERENCE

The findings and recommendations appearing in this report were discussed with Department personnel at an exit conference on December 19, 2012. Responses to the recommendations were provided by Ron Faith in a letter dated January 2, 2013.

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 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, 2012, 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.

Except as discussed in the following paragraph, 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, 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.

We were unable to obtain sufficient appropriate audit evidence supporting the State of Illinois, Department of Corrections - Correctional Industries' Working Capital Revolving Fund receivables balance stated at \$10,043 (in thousands) and charges for sales and services of \$50,757 (in thousands) at June 30, 2012; nor were we able to satisfy ourselves as to the accuracy of the balance by other auditing procedures.

As discussed in Note 2, the financial statements present only the Working Capital Revolving Fund and do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2012, and the changes in its financial position, and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, except for the effects of such adjustments referred to above, if any, as might have been determined to be necessary had we been able to examine evidence regarding the accuracy of the Working Capital Revolving Fund receivables and charges for sales and services, the financial statements of the Working Capital Revolving Fund of the State of Illinois, Department of Corrections-Correctional Industries 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, 2012, and the changes in financial position and its cash flows 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 January 2, 2013 on our consideration of the State of Illinois, Department of Corrections – Correctional Industries’ internal control over financial reporting of the Working Capital Revolving Fund and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management has omitted 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 require to be presented to supplement the fund financial statements. Such missing information, although not a part of the fund financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the fund financial statements in an appropriate operational, economic, or historical context. Our opinion on the fund financial statements is not affected by this missing information.

Our audit was conducted for the purpose of forming opinions on the financial statements of the Working Capital Revolving Fund of the State of Illinois, Department of Corrections – Correctional Industries. The accompanying supplementary information for the year ended June 30, 2012, in the State Compliance Schedules 1 and 3 through 12 is presented for purposes of additional analysis and is not a required part of the fund financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the fund financial statements. The accompanying supplementary information for the year ended June 30, 2012 in the State Compliance Schedule 1 and 3 through 12 has been subjected to the auditing procedures applied in the audit of the fund financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the

fund financial statements or to the fund financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, except for the effects of such adjustments referred to above, if any, as might have been determined to be necessary had we been able to examine evidence regarding the accuracy of the Working Capital Revolving Fund receivables as noted in Schedule 10 and 12, the accompanying supplementary information for the year ended June 30, 2012 in the State Compliance Schedules 1, 3 through 9 and 11 is fairly stated in all material respects in relation to the fund financial statements taken as a whole.

We have also previously audited, in accordance with auditing standards generally accepted in the United States of America, the Working Capital Revolving Fund of the State of Illinois, Department of Corrections-Correctional Industries fund financial statements for the year ended June 30, 2010 (not presented herein), and have issued our report thereon dated April 19, 2011, which contained unqualified opinions on the respective fund financial statements of the Working Capital Revolving Fund of the State of Illinois, Department of Corrections – Correctional Industries. The accompanying supplementary information for the year ended June 30, 2010 in the State Compliance Schedules 3 through 8 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2010 fund financial statements. The accompanying supplementary information for the year ended June 30, 2010 in the State Compliance Schedules 3 through 8 has been subjected to the auditing procedures applied in the audit of the 2010 fund financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare those statements or to those financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information for the year ended June 30, 2010 in the State Compliance Schedules 3 through 8 is fairly stated in all material respects in relation to the fund financial statements as a whole from which it has been derived.

The accompanying supplementary information for the year ended June 30, 2011 in the State Compliance Schedules 2 through 12 and the Analysis of Operations Section is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

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

January 2, 2013

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
WORKING CAPITAL REVOLVING FUND
STATEMENT OF NET ASSETS
June 30, 2012
(expressed in thousands)

ASSETS

CURRENT ASSETS

Cash	\$ 4,495
Receivables:	
Due from local government	51
Others	794
Due from other funds	9,051
Due from component units	147
Inventories	6,797
Prepaid expenses	43
Total current assets	21,378
Capital assets – net	2,188
TOTAL ASSETS	\$ 23,566

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable and accrued expenses	\$ 2,496
Due to federal government	37
Due to local government	1
Due to other funds	1,754
Due to component units	1
Lease payable	9
Compensated absences	290
Total current liabilities	4,588

NONCURRENT LIABILITIES

Lease payable	41
Compensated absences	873
Total noncurrent liabilities	914
TOTAL LIABILITIES	5,502

NET ASSETS

Invested in capital assets	2,138
Unrestricted	15,926
TOTAL NET ASSETS	18,064
TOTAL LIABILITIES AND NET ASSETS	\$ 23,566

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, 2012
(expressed in thousands)

OPERATING REVENUES:	
Charges for sales and services	<u>\$ 50,757</u>
Total operating revenues	<u>50,757</u>
OPERATING EXPENSES:	
Cost of sales and services	26,460
Selling, general and administrative expenses	22,783
Depreciation	<u>623</u>
Total operating expenses	<u>49,866</u>
Operating income	891
NONOPERATING REVENUES:	
Other revenues	<u>604</u>
Total nonoperating revenues	<u>604</u>
NONOPERATING EXPENSES:	
Other nonoperating expenses	<u>8</u>
Total nonoperating expenses	<u>8</u>
INCREASE IN NET ASSETS	1,487
NET ASSETS, beginning of year	<u>16,577</u>
NET ASSETS, end of year	<u><u>\$ 18,064</u></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, 2012
(expressed in thousands)

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from sales and services	\$ 1,519
Cash received from transactions with other funds	57,682
Payments to suppliers for goods and services	(47,070)
Payments to employees for services	(10,105)
Cash receipts from other operating activities	598
Net cash provided by operating activities	<u>2,624</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING	
Acquisition of capital assets	(918)
Payments on capital debt	(15)
Proceeds from the sale of equipment	7
Net cash used for capital and related financing activities	<u>(926)</u>
NET INCREASE IN CASH	1,698
CASH, beginning of year	<u>2,797</u>
CASH, end of year	<u><u>\$ 4,495</u></u>

See accompanying notes to the financial statements

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
WORKING CAPITAL REVOLVING FUND
STATEMENT OF CASH FLOWS (Continued)
For the year ended June 30, 2012
(expressed in thousands)

RECONCILIATION OF OPERATING INCOME TO NET CASH
PROVIDED BY OPERATING ACTIVITIES

Operating income	<u>\$ 891</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	623
Cash receipts from other nonoperating income	598
Changes in assets and liabilities:	
Accounts receivable	157
Due from local governments	(4)
Due from other funds	8,190
Due from component units	(125)
Inventories	450
Prepaid expenses	(33)
Accounts payable and accrued expenses	(8,000)
Due to federal government	12
Due to other funds	224
Due to component units	(2)
Compensated absences	<u>(357)</u>
Total adjustments	1,733
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 <u><u>\$ 2,624</u></u>
 NONCASH CAPITAL AND RELATED FINANCING ACTIVITY	
Fair Value of gain on disposal of capital assets	<u><u>\$ 1</u></u>

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, 2012

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, 2012**

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, 2012, 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.

C. Basis of Accounting

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

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

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
WORKING CAPITAL REVOLVING FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

C. Basis of Accounting-Continued

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. Stores inventory consists of fuel and automotive supplies and is principally valued using an average cost 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.

**STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
WORKING CAPITAL REVOLVING FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Continued

F. Interfund Transactions-Continued

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. No such activity occurred in the current fiscal year.

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
Site 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 the Department’s 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, 2012**

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, less the outstanding balances of any borrowings that are attributable to the acquisition, construction, or improvement of those assets.

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

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, 2012 totaled \$4,495 (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, 2012**

4. INTERFUND BALANCES AND ACTIVITIES

Balances Due to/from Other Funds

The following balances (amounts expressed in thousands) as of June 30, 2012 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 Central Management Services	\$ 28
Department of Children and Family Services	12
Department of Commerce and Economic Opportunity	3
Office of the Illinois State Comptroller	63
Department of Corrections	6,511
Department of Employment Security	9
Executive Ethics Commission	1
Department of Healthcare and Family Services	1,033
Historic Preservation Agency	1
Department of Human Services	956
Illinois Emergency Management Agency	1
Illinois State Police	8
Department of Insurance	10
Department of Juvenile Justice	212
Legislative Information System	5
Department of Natural Resources	36
Prisoner Review Board	1
Department of Revenue	1
Office of the Secretary of State	15
Office of the State Appellate Defender	1
State Board of Elections	7
Office of the Illinois State Treasurer	3
Supreme Court	1
Department of Transportation	104
Department of Veterans Affairs	29
	<hr/>
Total State Agencies	\$ 9,051

**STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
WORKING CAPITAL REVOLVING FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

4. INTERFUND BALANCES AND ACTIVITIES-Continued

The following balances (amounts expressed in thousands) as of June 30, 2012 represent amounts due to other departments and State of Illinois funds:

<u>State Agencies</u>	<u>Amount</u>
Court of Claims	\$ 47
Central Management Services	1,292
Department of Corrections	248
Department of Revenue	3
State Employees' Retirement System	<u>164</u>
Total State Agencies	\$ <u>1,754</u>

Balances Due to/from Component Units

The following balances (amounts expressed in thousands) as of June 30, 2012 represent amounts due from component units which represents sales of goods and services:

<u>Component Units</u>	<u>Amount</u>
Eastern Illinois University	\$ 81
Illinois State Toll Highway Authority	8
University of Illinois	<u>58</u>
Total Component Units	\$ <u>147</u>

**STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
WORKING CAPITAL REVOLVING FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

4. INTERFUND BALANCES AND ACTIVITIES-Continued

The following balance (amounts expressed in thousands) as of June 30, 2012 represent amounts due to component unit:

<u>Component Units</u>	<u>Amount</u>
Illinois State Toll Highway Authority	\$ 1
	\$ 1
Total Component Unit	\$ 1

5. INVENTORIES

Inventories (amounts expressed in thousands) as of June 30, 2012, consist of the following:

	<u>Cost</u>	<u>Lower of Cost or Market Adjustment</u>	<u>Net Value</u>
Finished goods	\$ 2,580	\$ (395)	\$ 2,185
Raw materials	4,386	(517)	3,869
Operating supplies	576	(15)	561
Work in process	195	(39)	156
Stores inventory	26	-	26
	\$ 7,763	\$ (966)	\$ 6,797
Total inventories	\$ 7,763	\$ (966)	\$ 6,797

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
WORKING CAPITAL REVOLVING FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

6. CAPITAL ASSETS

Capital asset activities (amounts expressed in thousands) for the year ended June 30, 2012 were as follows:

	<u>Balance</u> <u>July 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Net</u> <u>Transfers</u>	<u>Balance</u> <u>June 30, 2012</u>
Cost:					
Equipment	\$ 15,179	\$ 1,147	\$ (260)	\$ 16	\$ 16,082
Building and building improvements	5,898	-	(36)	-	5,862
Capital lease	60	-	-	-	60
Computer software	161	-	-	-	161
	<u>21,298</u>	<u>1,147</u>	<u>(296)</u>	<u>16</u>	<u>22,165</u>
Accumulated:					
Equipment	14,410	474	(255)	16	14,645
Building and building improvements	5,052	139	(35)	-	5,156
Capital lease	5	10	-	-	15
Computer software	161	-	-	-	161
	<u>19,628</u>	<u>623</u>	<u>(290)</u>	<u>16</u>	<u>19,977</u>
	<u>\$ 1,670</u>	<u>\$ 524</u>	<u>\$ (6)</u>	<u>\$ -</u>	<u>\$ 2,188</u>

7. LONG-TERM OBLIGATIONS

Changes in long-term obligations (amounts expressed in thousands) for the year ended June 30, 2012 were as follows:

	<u>Balance</u> <u>July 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2012</u>	<u>Due Within</u> <u>One Year</u>
Other long-term obligations:					
Compensated absences	\$ 1,520	\$ 757	\$ (1,114)	\$ 1,163	\$ 290
Lease payable	57	-	(7)	50	9
Totals	<u>\$ 1,577</u>	<u>\$ 757</u>	<u>\$ (1,121)</u>	<u>\$ 1,213</u>	<u>\$ 299</u>

**STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
WORKING CAPITAL REVOLVING FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

7. LONG-TERM OBLIGATIONS-Continued

The future minimum lease payments required under the capital leases and the present value of the net minimum lease payments (amounts expressed in thousands) as of June 30, 2012, are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2013	\$ 15
2014	15
2015	15
2016	15
2017	<u>7</u>
Total minimum lease payments	67
Less: Amount representing interest	<u>(17)</u>
Present value of minimum lease payments	50
Less: Current maturities of capital lease obligations	<u>(9)</u>
Long-term capital lease obligations	<u><u>\$ 41</u></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 2012 are included in State of Illinois’ Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2012. 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.

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
WORKING CAPITAL REVOLVING FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

8. PENSION PLAN-Continued

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 2012, the employer contribution rate was 34.190%. The Department contributions to SERS for the year ended June 30, 2012 were \$3,570 (expressed in thousands).

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, 2012. 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. However, Public Act 97-0695, effective July 1, 2012, alters the contributions to be paid by the State, annuitants, survivors, and retired employees under the State Employees Group Insurance Act. This Act requires the Director of Central Management Services to, on an annual basis, determine the amount the State should contribute. The remainder of the cost of coverage shall be the responsibility of the annuitant, survivor, or retired employee.

**STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
WORKING CAPITAL REVOLVING FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

10. COMMITMENTS AND CONTINGENCIES

The Department has the following commitments and contingencies at June 30, 2012:

A. Operating Lease Obligations

During fiscal year 2012, the Department leased semi-tractors and office equipment. Rental payments for the semi-tractors and office equipment totaled \$249 (amount expressed in thousands) during the fiscal year. Future minimum payments required by the lease agreements are as follows:

<u>Year Ending June 30,</u>	<u>Operating Leases</u>
2013	\$ 127
2014	69
2015	68
2016	<u>68</u>
Total minimum payments	<u><u>\$ 332</u></u>

B. Litigation

In *State of Illinois (Illinois Department of Central Management Services) v. American Federation of State, County, and Municipal Employees, Council 31* (“AFSCME”), Case No. 11 CH 31591 (Cir. Ct. Cook County), the State of Illinois seeks to vacate and AFSCME seeks to confirm an arbitration award for certain FY2012 wage increases allegedly owed to State employees in bargaining units represented by AFSCME at six State agencies. The State has contested the obligation to pay the wage increases on Constitutional and public policy grounds, and the matter is currently pending before the Circuit Court of Cook County. Dependent on whether, or to what extent, the arbitration award is confirmed, and the related impact of an adverse decision, the estimated possible loss ranges from \$0 to \$667,500.

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.

**STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
WORKING CAPITAL REVOLVING FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

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, 2012

SUMMARY

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

- Fiscal Schedules and Analysis:

- Schedule 1: Schedule of Appropriations, Expenditures and Lapsed Balances – Fiscal Year 2012

- Schedule 2: Schedule of Appropriations, Expenditures and Lapsed Balances – Fiscal Year 2011

- Schedule 3: Comparative Schedule of Net Appropriations, Expenditures and Lapsed Balances

- Schedule 4: Schedule of Changes in State Property

- Schedule 5: Comparative Schedule of Cash Receipts

- Schedule 6: Reconciliation Schedule of Cash Receipts to Deposits Remitted to the State Comptroller

- Schedule 7: Analysis of Significant Variations in Expenditures

- Schedule 8: Analysis of Significant Variations in Receipts

- Schedule 9: Analysis of Significant Lapse Period Spending

- Schedule 10 & 11: Analysis of Significant Account Balances

- Accounts Receivable (Unaudited)

- Inventories

- Schedule 12: Analysis of Accounts Receivable (Unaudited)

- Analysis of Operations (Unaudited)

- Agency Functions and Planning Program (Unaudited)

- Average Number of Employees (Unaudited)

- Annual Cost Statistics (Unaudited)

- Emergency Purchases (Unaudited)

- Working Capital Revolving Fund Activity (Unaudited)

- Service Efforts and Accomplishments (Unaudited)

- Sales by Customer (Unaudited)

- Inmate Assignments (Unaudited)

- Summary of Operations by Industry (Unaudited)

- Farm Leases by Location (Unaudited)

The accountants' report that covers the Supplementary Information for State Compliance Purposes for the years ended June 30, 2012 and June 30, 2010 presented in the Compliance Report Section states that it has been subjected to the auditing procedures applied in the audit of the fund financial statements and, in the auditors' opinion, except for portions marked "unaudited" for the effects on the supplementary information, if any, as might have been determined to be necessary had the auditors had been able to examine evidence regarding the accuracy of accounts receivable and revenues is fairly stated in all material respects in relation to the fund financial statements as a whole from which it has been derived. The accountants' report also states the Supplementary Information for State Compliance Purposes for the year ended June 30, 2011 and the Analysis of Operations Section has not been subjected to the auditing procedures applied in the audit of the fund financial statements, and accordingly, they do not express an opinion or provide any assurance on it.

**STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES
Appropriations for Fiscal Year 2012**

FOURTEEN MONTHS ENDED AUGUST 31, 2012

PA 097-0065 & 097-0685	Appropriations (Net After Transfers)	Expenditures Through June 30	Approximate Lapse Period Expenditures July 1 to August 31	Approximate Total Expenditures 14 Months Ended August 31	Approximate Balances Lapsed August 31
APPROPRIATED FUNDS					
<u>Working Capital Revolving Fund - 301</u>					
Personal services	\$ 10,890,900	\$ 9,900,106	\$ 504,094	\$ 10,404,200	\$ 486,700
Student, member and inmate compensation	1,934,000	1,705,326	222,767	1,928,093	5,907
State contributions to State Employee's Retirement	3,723,600	3,396,241	173,776	3,570,017	153,583
State contributions to Social Security	782,600	742,022	38,417	780,439	2,161
Group insurance	2,599,300	2,422,816	106,127	2,528,943	70,357
Contractual services	2,603,500	2,085,078	165,157	2,250,235	353,265
Travel	99,900	18,801	3,224	22,025	77,875
Commodities	25,758,600	22,998,181	1,924,852	24,923,033	835,567
Printing	9,400	2,299	954	3,253	6,147
State property	1,117,500	996,363	83,081	1,079,444	38,056
Telecommunications services	64,400	42,828	8,904	51,732	12,668
Operation of automotive equipment	1,264,100	1,086,315	144,353	1,230,668	33,432
Repairs, maintenance and other capital improvements	147,000	121,067	-	121,067	25,933
Refunds	7,400	1,987	402	2,389	5,011
	<u>51,002,200</u>	<u>45,519,430</u>	<u>3,376,108</u>	<u>48,895,538</u>	<u>2,106,662</u>
Total Fiscal Year 2012	<u>\$ 51,002,200</u>	<u>\$ 45,519,430</u>	<u>\$ 3,376,108</u>	<u>\$ 48,895,538</u>	<u>\$ 2,106,662</u>

Notes:

A: Appropriations, expenditures, and lapsed balances were obtained from records of the State Comptroller and reconciled to Department's records.

B: Approximate lapse period expenditures do not include interest payments approved for payment by the Department 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 2011**

EIGHTEEN MONTHS ENDED DECEMBER 31, 2011

PA 096-0956	Appropriations (Net After Transfers)	Expenditures Through June 30	Lapse Period Expenditures July 1 to December 31	Total Expenditures 18 Months Ended December 31	Balances Lapsed December 31
APPROPRIATED FUNDS					
<u>Working Capital Revolving Fund - 301</u>					
Personal services	\$ 10,527,600	\$ 9,229,063	\$ 480,073	\$ 9,709,136	\$ 818,464
Student, member and inmate compensation	1,890,300	1,628,665	253,235	1,881,900	8,400
State contributions to State Employee's Retirement	3,184,900	2,726,611	134,503	2,861,114	323,786
State contributions to Social Security	805,400	691,844	36,029	727,873	77,527
Group insurance	2,631,900	2,069,347	106,998	2,176,345	455,555
Contractual services	2,370,300	1,506,093	156,706	1,662,799	707,501
Travel	99,900	26,566	4,822	31,388	68,512
Commodities	24,610,100	20,397,533	2,923,365	23,320,898	1,289,202
Printing	9,400	1,250	-	1,250	8,150
State property	913,000	344,589	81,670	426,259	486,741
Telecommunications services	64,400	45,321	10,303	55,624	8,776
Operation of automotive equipment	1,254,100	951,416	281,929	1,233,345	20,755
Repairs, maintenance and other capital improvements	147,000	8,060	-	8,060	138,940
Refunds	7,400	1,226	34	1,260	6,140
	<u>7,400</u>	<u>1,226</u>	<u>34</u>	<u>1,260</u>	<u>6,140</u>
Total Fiscal Year 2011	<u><u>\$ 48,515,700</u></u>	<u><u>\$ 39,627,584</u></u>	<u><u>\$ 4,469,667</u></u>	<u><u>\$ 44,097,251</u></u>	<u><u>\$ 4,418,449</u></u>

Notes:
A: Appropriations, expenditures, and lapsed balances were obtained from records of the State Comptroller and reconciled to the Department's 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		
	2012	2011	2010
	PA 097-0065 PA 097-0685	PA 096-0956	PA 90-0042
APPROPRIATED FUNDS			
<u>Working Capital Revolving Fund - 301</u>			
Appropriations (Net After Transfers)	\$ 51,002,200	\$ 48,515,700	\$ 43,052,100
Expenditures:			
Personal services	10,404,200	9,709,136	8,576,555
Student, member and inmate compensation	1,928,093	1,881,900	1,819,848
State contributions to State Employee’s Retirement System	3,570,017	2,861,114	2,437,165
State contributions to Social Security	780,439	727,873	644,783
Group insurance	2,528,943	2,176,345	1,835,335
Contractual services	2,250,235	1,662,799	2,146,338
Travel	22,025	31,388	65,477
Commodities	24,923,033	23,320,898	21,029,470
Printing	3,253	1,250	3,756
State property	1,079,444	426,259	65,907
Telecommunications services	51,732	55,624	69,077
Operation of automotive equipment	1,230,668	1,233,345	1,105,734
Repairs, maintenance and other capital improvements	121,067	8,060	110,373
Refunds	2,389	1,260	1,368
Total expenditures	<u>48,895,538</u>	<u>44,097,251</u>	<u>39,911,186</u>
Lapsed Balances	<u>\$ 2,106,662</u>	<u>\$ 4,418,449</u>	<u>\$ 3,140,914</u>

Notes:

A: Appropriations, expenditures, and lapsed balances were obtained from records of the State Comptroller and reconciled to the Department's records.

B: Approximate lapse period expenditures do not include interest payments approved for payment by the Department 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, 2012**

	<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, 2011	\$ 25,900,074	\$ 19,194,229	\$ 6,705,845	\$ -	\$ -
Additions	1,600,978	1,540,978	-	-	60,000
Deletions	(480,518)	(480,518)	-	-	-
Net Transfers	<u>(51,533)</u>	<u>(51,533)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance, June 30, 2012	<u>\$ 26,969,001</u>	<u>\$ 20,203,156</u>	<u>\$ 6,705,845</u>	<u>\$ -</u>	<u>\$ 60,000</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 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, 2011**

	<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, 2010	\$ 26,404,574	\$ 19,599,637	\$ 6,804,937	\$ -	\$ -
Additions	334,779	273,409	61,370	-	-
Deletions	(712,587)	(552,125)	(160,462)	-	-
Net Transfers and Adjustments	<u>(126,692)</u>	<u>(126,692)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance, June 30, 2011	<u><u>\$ 25,900,074</u></u>	<u><u>\$ 19,194,229</u></u>	<u><u>\$ 6,705,845</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
COMPARATIVE SCHEDULE OF CASH RECEIPTS**

	For the Fiscal Year Ended June 30,		
	2012	2011	2010
WORKING CAPITAL REVOLVING FUND - 301			
Receipts from sales of products	\$ 59,111,719	\$ 37,200,782	\$ 45,967,325
Rent from farm leases	597,649	948,333	335,303
Proceeds from sales of equipment	7,401	-	9
State property sales	-	3,200	-
Miscellaneous	-	141,386	-
Prior year refunds	599	1,946	1,185
Cash receipts per the Department	<u>\$ 59,717,368</u>	<u>\$ 38,295,647</u>	<u>\$ 46,303,822</u>

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

Cash receipts per the Department	\$ 59,717,368	\$ 38,295,647	\$ 46,303,822
Budgetary refunds	2,021	1,601	-
Held intergovernmental payments			
Due from:			
Prior year	(11,450,611)	(2,552,000)	(3,981,000)
Current year	2,651,533	11,450,611	2,552,000
Add deposit in transit, beginning of year	1,001,667	593,291	220,924
Less deposit in transit, end of year	(1,540,100)	(1,001,667)	(593,291)
Other	<u>1,450</u>	<u>3,995</u>	<u>3,000</u>
Receipts per Comptroller's records	<u>\$ 50,383,328</u>	<u>\$ 46,791,478</u>	<u>\$ 44,505,455</u>

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES
For the two years ended June 30, 2012

The Comparative Schedule of Net Appropriations, Expenditures and Lapsed Balances documents the expenditure activities for fiscal years 2012, 2011 and 2010.

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 \$708,903 or 24.8% in fiscal year 2012. This is a result of the contribution rate increasing from 30.25% to 34.19% and the fact that personal services spending increased by 7.16% from fiscal year 2011 to fiscal year 2012. The State employee retirement spending has a direct correlation with Personal Service spending as it is a percentage of personal services.

Contractual Services

Contractual Services expenditures decreased by \$483,539 in 2011 or 22.5% due to the fact that warehouse operations were moved from a leased warehouse to a state owned warehouse facility. This savings is approximately \$451,000 per year.

During fiscal year 2012 expenditures increased by \$587,436 or 35.3% due to contracted accounting services, costing \$464,423 for fiscal year 2012.

State property

State property expenditures increased by \$360,352 or 546.8% in fiscal year 2011 and \$653,185 or 153.2% in fiscal year 2012. This increase was due to the purchase of more equipment items. Spending in fiscal year 2010 was kept at a minimum in order to save on spending.

Repairs, maintenance, and other capital expenditures

Repairs, maintenance and other capital expenditures decreased by \$102,313 or 92.7% in fiscal year 2011 due to the fact that repairs, maintenance, and other capital expenditures were not as costly in fiscal year 2011 as compared to fiscal year 2010.

During fiscal year 2012, the increase in expenditures of \$113,007 or 1,402.1% was due to the fact that repairs, maintenance, and other capital expenditures were more costly in fiscal year 2012 as compared to fiscal year 2011.

Refunds

Refunds increased by \$1,129 or 89.6% in fiscal year 2012 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, 2012**

Significant variations in receipts are considered to be those varying between years by twenty percent (20%) or more and \$350,000. Following are the Department's explanations for these significant variations.

Receipts from sales of products

Receipts from sales of products increased by \$21,910,937 or 58.9% in fiscal year 2012. The variances were caused by held intergovernmental payments.

Rent from farm leases

Receipts from the rent of farm ground increased by \$613,030 or 182.8% in fiscal year 2011 and decreased by \$350,684 or 37.0% in fiscal year 2012. This is a result of receiving delinquent rental payments of \$392,871 in fiscal year 2011 for the rental of farm ground.

**STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
ANALYSIS OF SIGNIFICANT LAPSE PERIOD SPENDING
For the two years ended June 30, 2012**

The Department's lapse period spending of \$3,376,108 for fiscal year 2012 and \$4,469,667 for fiscal year 2011, as shown in the Schedule of Appropriations, Expenditures and Lapsed Balances, represented 7% and 10% 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 2012

None noted over 20% of the total expenditure line item.

Fiscal Year 2011

Operation of Auto

There will inherently be a lag in the amount of time it takes for the shops to submit their invoices to Central Office and have them properly recorded and vouchered by the Illinois Office of Comptroller.

**STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
ANALYSIS OF SIGNIFICANT ACCOUNT BALANCES
For the two years ended June 30, 2012
(Unaudited)**

ACCOUNTS RECEIVABLE

Accounts receivable represents amounts due from sales of goods and services to State agencies, local governments and others. As of June 30, 2012 and 2011, the Department had reported accounts receivable of \$10,042,850 and \$18,255,949, respectively. The following represents an analysis of accounts receivable by customer at June 30, 2012 and June 30, 2011. Amounts due from other funds are included in these accounts receivable amounts.

	2012	2011
Department of Corrections	\$ 6,507,685	\$ 15,002,282
Department of Healthcare and Family Services	1,643,825	1,037,438
Department of Commerce and Economic Opportunity	2,818	1,944
Department of Human Services	948,363	1,040,675
Central Management Services	27,587	29,187
Secretary of State	14,967	10,274
Department of Juvenile Justice	214,405	657,054
Department of Natural Resources	35,637	32,875
Department of Transportation	103,500	78,472
Department of Children and Family Services	12,234	159,740
Illinois State Police	7,953	16,781
Office of the Treasurer	2,947	2,299
Office of the Comptroller	62,610	9,004
Department of Veterans' Affairs	31,561	35,118
Illinois Department of Employment Security	8,782	8,782
Illinois State Toll Highway Authority	7,447	-
Department of Insurance	10,203	-
State Board of Elections	6,751	479
Office of the Governor	-	6,517
Department of Military Affairs	-	11,770
Executive Ethics Commission	877	6,102
Legislation Information System	5,075	-
Other State Agencies	7,309	15,934
Local Government Units	50,619	46,617
State Colleges and Universities	195,673	116,472
Land Leases	498,924	490,675
Not for Profit Organizations	70,766	80,519
Other	112,400	138,775
Subtotal	10,590,918	19,035,785
Less warrants in transit	(617,332)	(831,996)
Plus credit balances reclassification and other adjustments, net	69,264	52,160
Accounts Receivable Gross Balance	\$ 10,042,850	\$ 18,255,949

As noted in Finding 12-1, the Department did not maintain adequate and accurate records related to their customer accounts receivables. Because of these weaknesses, this schedule is unaudited.

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
ANALYSIS OF SIGNIFICANT ACCOUNT BALANCES - CONTINUED
For the two years ended June 30, 2012

INVENTORIES

SCHEDULE 11

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 finished goods, work in process, raw materials and operating supplies are stated at the lower of cost or market. Stores inventory consists of fuel and automotive supplies and is principally valued using an average cost method. The following represent inventories by component as of June 30, 2012 and June 30, 2011.

	2012	2011
Finished goods	\$ 2,185,248	\$ 2,117,173
Work in process	155,638	85,571
Raw materials	3,869,240	4,482,175
Operating supplies	560,963	518,757
Stores inventory	25,739	43,800
	\$ 6,796,828	\$ 7,247,476

ANALYSIS OF ACCOUNTS RECEIVABLE-(Unaudited)

SCHEDULE 12

As noted in Finding 12-1, the Department did not maintain adequate and accurate records related to their customer accounts receivables. Because of these weaknesses, this schedule is unaudited.

	2012	2011
Current	\$ 4,116,588	\$ 4,631,868
31 - 90 days old	3,941,474	6,444,305
91 - 180 days old	900,546	1,863,868
Over 180 days old	1,632,310	6,095,744
	10,590,918	19,035,785
Less warrants in transit	(617,332)	(831,996)
Plus credit balances reclassification and other adjustments, net	69,264	52,160
Accounts receivables gross balance	10,042,850	18,255,949
Less estimated uncollectibles	-	-
Accounts receivable net balance	\$ 10,042,850	\$ 18,255,949

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
ANALYSIS OF OPERATIONS
For the two years ended June 30, 2012

AGENCY FUNCTIONS AND PLANNING PROGRAM (UNAUDITED)

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. The Department 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, as well as individuals, may also purchase Department produced goods and services.

The Director of the Illinois Department of Corrections is S. A. Godinez. The Chief Executive Officer of the Illinois Correctional Industries (as of June 30, 2012) was Tim Gleason, who reported 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 securely 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 has 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, 2012

AGENCY FUNCTIONS AND PLANNING PROGRAM (UNAUDITED) – CONTINUED

The Department strives to adhere the following values in achieving their vision:

- 1) We listen to our customers and improve our products to meet their needs;
- 2) We recognize the personal work of employees;
- 3) We recognize the educational and social benefits of providing inmates with job opportunities comparable to those available in the private sector and helping inmates become productive citizens upon release;
- 4) We are prudent and effective in the use of the resources entrusted to us;
- 5) We maintain good citizenship as a company by holding ourselves to the highest standards of ethical conduct and environmental responsibility;
- 6) We improve the security of facilities by keeping inmates constructively occupied in meaningful work assignments.

The management team of the Department, composed of the Chief Executive Officer, Assistant Chief Executive Officer, and Facility 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, 2012

AVERAGE NUMBER OF EMPLOYEES (UNAUDITED)

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

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Department Central Office	28	31	18
Illinois River	14	14	14
Centralia	3	3	2
Danville	3	2	2
Decatur	3	2	2
Dixon	8	7	5
Dwight	5	4	4
East Moline	7	8	6
Galesburg-Hill	7	9	9
Graham	3	4	4
Jacksonville	1	1	1
Jacksonville Modular Furniture	-	1	7
Lincoln Asbestos	-	-	6
Lincoln Sewing	2	3	2
Lincoln Central District	4	3	3
Logan	2	1	1
Menard	3	4	3
Menard Farm	5	4	5
Pana	10	8	6
Shawnee	4	3	3
Sheridan	1	2	2
Stateville	2	2	1
Vandalia	8	8	8
Western Illinois	6	8	7
	<u>129</u>	<u>132</u>	<u>121</u>
Total average employees	<u>129</u>	<u>132</u>	<u>121</u>

**STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
ANALYSIS OF OPERATIONS
For the two years ended June 30, 2012**

ANNUAL COST STATISTICS (UNAUDITED)

COMMODITIES EXPENDITURES (UNAUDITED)

The following is an analysis of commodities expenditures for fiscal years 2012, 2011 and 2010:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Mechanical supplies	\$ 302,910	\$ 299,750	\$ 308,949
Household, laundry and cleaning Supplies	202,093	211,651	204,199
Industrial and shop materials	6,609,152	5,866,777	5,531,683
Gas, oil and antifreeze	8,001	9,411	9,277
Forage, farm and garden supplies	-	536	-
Food supplies	16,074,900	15,481,917	13,465,924
Wearing apparel	24,342	10,803	21,662
All other	1,525,142	1,420,287	1,432,793
	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 24,746,540</u>	<u>\$ 23,301,132</u>	<u>\$ 20,974,487</u>

ADMINISTRATIVE COSTS (UNAUDITED)

The following schedule of administrative costs, prepared by the Department, consists of Central Administration expenses.

	<u>For the Fiscal Year Ended June 30,</u>	
	<u>2012</u>	<u>2011</u>
Central Administration:		
Marketing	\$ 1,176,266	\$ 928,193
Fiscal	891,219	1,576,811
Chief Administrative Office Section	1,053,467	994,606
Planning	76,975	263,491
Services	934,479	886,572
	<u> </u>	<u> </u>
	<u>\$ 4,132,406</u>	<u>\$ 4,649,673</u>

(The Central Administration costs shown above are included in shop costs shown in the next schedule.)

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ANNUAL COST STATISTICS (UNAUDITED)

ADMINISTRATIVE COSTS (UNAUDITED) – CONTINUED

Administration expenses incurred at the shops and each shops allocation of Central Administration expenses shown in the previous schedule are as follows:

	For the Fiscal Year Ended June 30,	
	2012	2011
Shops:		
Illinois River	\$ 2,547,575	\$ 2,464,658
Centralia	672,144	574,743
Danville	501,803	373,086
Decatur	442,915	337,393
Dixon	2,398,451	2,251,767
Dwight	877,073	753,883
East Moline	1,283,665	1,185,085
Hill	2,330,071	2,596,895
Graham	579,768	506,313
Jacksonville	1,621	2,392
Lincoln	4,022,378	3,653,045
Logan	301,314	148,647
Menard	1,880,499	1,716,040
Western	2,064,447	2,024,805
Shawnee	588,071	473,552
Sheridan	(211,960)	(33,193)
Stateville	684,962	591,622
Vandalia	1,893,561	1,496,579
Central Administrative Expenses	(14,010)	52,248
Administrative expenses not allocated to individual shops	(61,634)	(47,576)
	<u>\$ 22,782,714</u>	<u>\$ 21,121,984</u>
Total selling, general and administrative expenses	<u>\$ 22,782,714</u>	<u>\$ 21,121,984</u>
Total operating expenses	<u>\$ 49,865,402</u>	<u>\$ 46,042,133</u>
Percent of administrative expenses to total operating expenses	<u>45.69%</u>	<u>45.88%</u>

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EMERGENCY PURCHASES (UNAUDITED)

The Department reported the following emergency purchases to the Office of the Auditor General during Fiscal Years 2011 and 2012:

<u>Description of Emergency Purchases – FY 2011</u>	<u>Estimated Cost</u>	<u>Actual Cost</u>
Purchase of cardboard		\$ 47,100
Purchase of cardboard		25,893
Purchase of veggie burger mix		44,400
Purchase of broadcloth		182,339
Purchase of collagen casings and cook bags		60,024
Purchase of dark blue twill		53,797
Purchase of collagen casings and cook bags		49,470
Purchase of juice concentrate		86,136
Purchase of juice concentrate		168,358
Purchase of cloth		57,000
Purchase of cardboard		105,720
 <u>Description of Emergency Purchases – FY 2012</u>		
Purchase of soy products		110,808
Purchase of yarn and thread		73,170
Purchase of a milk tank cleaning system	17,300	
Purchase of yeast		42,578
Purchase of chicken patty seasoning		12,852
Purchase of powder		1,221,060
Purchase of thinsulate		130,864
Purchase of three edger machines		24,525
Purchase of blue poplin material		83,451
Purchase of eye glass frames	70,000	
Purchase of mineral oil		28,281
Purchase of nylon mesh material	24,520	
Purchase of polo shirts	16,030	
Purchase of dark blue twill	163,688	
Purchase of sock raw material	34,650	
Purchase of optical lenses	170,000	
Purchase of PET containers	22,539	
Purchase of loop mop raw material	25,000	
Repair of edging machine		5,166
Purchase of lens generator machine		71,516
Purchase of fleece		111,430
Purchase of thread	12,877	
Repair of blast freezer		14,997
Purchase of juice concentrate		124,256
Purchase of steel and aluminum		33,824

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WORKING CAPITAL REVOLVING FUND ACTIVITY (UNAUDITED)

The following is a summary of overall activity in the Working Capital Revolving Fund:

	For the Fiscal Year Ended June 30,		
	2012	2011	2010
Gross profit	\$ 23,674,377	\$ 22,276,454	\$ 19,788,154
Selling, general and administrative expenses	<u>22,782,714</u>	<u>21,121,984</u>	<u>19,042,444</u>
Operating income	891,663	1,154,470	745,710
Other income (expenses), net	<u>594,864</u>	<u>724,715</u>	<u>549,882</u>
Income before transfer	1,486,527	1,879,185	1,295,592
Net transfers	<u>-</u>	<u>500</u>	<u>(6,446,210)</u>
Net income (loss) after transfer	1,486,527	1,879,685	(5,150,618)
Net assets, beginning of year	<u>16,576,235</u>	<u>14,696,550</u>	<u>19,847,168</u>
Net assets, end of year	<u><u>\$ 18,062,762</u></u>	<u><u>\$ 16,576,235</u></u>	<u><u>\$ 14,696,550</u></u>

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SERVICE EFFORTS AND ACCOMPLISHMENTS (UNAUDITED)

SALES BY CUSTOMER (UNAUDITED)

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

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Illinois Department of Corrections	\$ 35,365,201	\$ 32,009,206	\$ 30,635,060
Illinois Department of Human Services	1,706,169	1,599,174	1,299,533
Illinois Department of Transportation	155,940	119,652	123,266
Other State Agencies	13,689,259	13,134,263	12,265,693
Local Governments	154,843	225,212	197,732
Colleges and Universities	239,697	151,151	392,325
Not-for-Profit Organizations	510,249	566,684	531,729
Other Customers	527,035	564,385	591,134
	<u>52,348,393</u>	<u>48,369,727</u>	<u>46,036,472</u>
Less intershop sales	<u>(1,591,328)</u>	<u>(1,173,124)</u>	<u>(1,583,460)</u>
Total sales	<u>\$ 50,757,065</u>	<u>\$ 47,196,603</u>	<u>\$ 44,453,012</u>

**STATE OF ILLINOIS
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SERVICE EFFORTS AND ACCOMPLISHMENTS (UNAUDITED)

INMATE ASSIGNMENTS (UNAUDITED)

In fiscal year 2012, Illinois Correctional Industries filled 93% of industry assignments throughout the year while in fiscal year 2011 the Department filled 90% of industry assignments.

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.

<u>Industry</u>	<u>Fiscal Year 2012</u>		<u>Fiscal Year 2011</u>	
	<u>Average Available</u>	<u>Average Working</u>	<u>Average Available</u>	<u>Average Working</u>
Centralia Administration	12	11	4	4
Centralia Mattress	7	7	8	8
Centralia Sewing	11	10	12	12
Danville Administration	5	5	1	1
Danville Boxes	9	9	7	7
Danville Sportswear	26	26	19	19
Decatur Administration	2	2	1	1
Decatur Garment	26	24	30	27
Dixon Administration	5	5	5	5
Dixon Optical	99	99	104	104
Dwight Administration	3	3	3	3
Dwight Garment	50	50	50	50
Dwight Helping Paws	13	13	15	15
East Moline Administration	4	4	4	4
East Moline Laundry	42	42	37	37
East Moline Metal Furniture	8	8	8	4
Graham Administration	3	2	3	2
Graham Furniture	34	17	34	16
Graham State Garage	8	6	8	6
Hill Administration	6	6	2	2
Hill Meat Processing	37	37	42	42
Hill Milk/Juice Processing	28	28	28	28

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SERVICE EFFORTS AND ACCOMPLISHMENTS (UNAUDITED)

INMATE ASSIGNMENTS (UNAUDITED) – CONTINUED

<u>Industry</u>	<u>Fiscal Year 2012</u>		<u>Fiscal Year 2011</u>	
	<u>Average Available</u>	<u>Average Working</u>	<u>Average Available</u>	<u>Average Working</u>
Illinois River Administration	19	19	24	24
Illinois River Bakery	159	159	225	175
Jacksonville Sales Center	5	5	6	6
Jacksonville Engraving/AutoCAD	2	2	1	1
Jacksonville Modular/AutoCAD	-	-	2	2
Lincoln Administration	4	4	1	1
Lincoln Sewing	14	14	21	21
Lincoln Administration	3	2	2	2
Lincoln Chair Shop	8	6	7	7
Lincoln Warehouse Central Distribution	6	6	6	6
Logan Administration	3	1	2	2
Logan Furniture/Refinishing	18	9	17	17
Menard Broom & Wax	15	13	10	10
Menard Knit	61	59	55	55
Menard Farm Administration	10	10	5	5
Menard Farm Meat Processing	5	5	17	8
Menard Farm Waste Removal/Recycling	11	11	13	13
Shawnee Administration	3	3	4	4
Shawnee Metal Furniture	18	18	17	17
Sheridan Garment Cutting	26	26	26	24
Stateville Administration	3	3	3	3
Stateville Furniture	10	10	12	12
Stateville Soap	8	8	9	8
Vandalia Administration	4	4	6	6
Vandalia Meat Processing	23	23	26	26
Vandalia Milk/Juice/Oil Processing	18	18	22	22
Western Illinois Administration	5	5	4	4
Western Illinois Food Processing	105	80	105	85
	<u>1,004</u>	<u>937</u>	<u>1,073</u>	<u>963</u>

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

SUMMARY OF OPERATIONS BY INDUSTRY (UNAUDITED)

Fiscal Year 2012

Industry/Shop	Revenue	Cost of Sales and Services	Selling, General and Administrative Expenses	Depreciation	Other Income (Expenses) and Transfers	Increase (Decrease) in Net Assets	Average # of Inmate Workers
Illinois River Bakery	\$ 6,431,311	\$ 3,746,651	\$ 2,547,575	\$ 56,204	\$ -	\$ 80,881	159
Lincoln Furniture	439,222	387,366	623,276	-	-	(571,420)	6
Lincoln Sign Shop	-	4,453	51,666	8,965	-	(65,084)	-
Decatur Sewing/Garment	120,227	122,514	442,915	17,226	-	(462,428)	24
Lincoln Warehouse	-	2,258	(5,610)	877	(2,475)	-	6
Lincoln Trucking	2,853,663	(116,460)	2,950,690	19,433	-	-	-
Jacksonville Engraving	2,037	416	1,621	-	-	-	2
Lincoln Sewing/Garment	341,814	272,453	402,356	-	-	(332,995)	14
Centralia Mattress	526,084	381,227	231,814	-	-	(86,957)	7
Centralia Sewing/Garment	374,766	253,661	440,330	-	-	(319,225)	10
Graham Furniture	397,748	428,789	571,704	6,757	-	(609,502)	17
Graham Vehicle	21,953	7,669	8,064	-	-	6,220	6
Dwight Sewing/Garment	914,493	376,744	885,032	6,235	-	(353,518)	50
Dwight Canine Program	7,699	15,658	(7,959)	-	-	-	13
Menard Broom, Wax & Soap	663,304	436,983	276,319	11,267	-	(61,265)	13
Menard Knit	1,666,177	1,121,589	709,848	10,864	-	(176,124)	59
Menard Meat/Food Processing	1,299,277	729,492	517,999	8,651	-	43,135	5
Menard Waste Removal/Recycling	203,105	(84,077)	376,333	5,809	(743)	(95,703)	11
Logan Refinishing/Reupholstering	76,136	63,666	301,314	-	-	(288,844)	9
Sheridan Garment Cutting	-	210,517	(211,960)	1,443	-	-	26

(Continued)

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

SUMMARY OF OPERATIONS BY INDUSTRY (UNAUDITED)

Fiscal Year 2012 – Continued

<u>Industry/Shop</u>	<u>Revenue</u>	<u>Cost of Sales and Services</u>	<u>Selling, General and Administrative Expenses</u>	<u>Depreciation</u>	<u>Other Income (Expenses) and Transfers</u>	<u>Increase (Decrease) in Net Assets</u>	<u>Average # of Inmate Workers</u>
Stateville Furniture	\$ 196,558	\$ 166,832	\$ 322,855	\$ 49,026	\$ -	\$ (342,155)	10
Stateville Soap	660,666	525,250	362,107	20,467	-	(247,158)	8
Vandalia Milk/Juice Processing	1,463,058	1,158,380	910,679	32,181	-	(638,182)	18
Vandalia Meat/Food Processing	3,748,077	2,103,691	982,882	11,681	-	649,823	23
East Moline Laundry	697,639	53,664	1,190,239	35,019	-	(581,283)	42
East Moline Metal Furniture	87,424	77,778	93,426	-	-	(83,780)	8
Danville Boxes	256,914	34,688	306,206	5,196	-	(89,176)	9
Danville Silkscreening & Embroidery	168,545	154,137	195,597	-	-	(181,189)	26
Dixon Optical	11,412,655	2,660,595	2,398,451	27,376	-	6,326,233	99
Hill Meat/Food Processing	3,300,213	2,188,205	777,210	10,395	-	324,403	37
Hill Milk/Juice Processing	6,086,994	4,055,015	1,552,861	150,441	-	328,677	28
Western Illinois Meat/Food Processing	6,147,024	4,744,013	2,064,447	17,892	-	(679,328)	80
Shawnee Metal Furniture	164,465	175,977	588,071	9,525	-	(609,108)	18
Total	<u>50,729,248</u>	<u>26,459,794</u>	<u>22,858,358</u>	<u>522,930</u>	<u>(3,218)</u>	<u>884,948</u>	<u>843</u>
Central Administration	27,817	-	(14,010)	46,905	5,078	-	
Other Administrative Shops	-	(237)	(61,634)	53,296	(8,575)	-	
Other income (expenses), net	-	-	-	-	601,579	601,579	
Grand Total	<u>\$ 50,757,065</u>	<u>\$ 26,459,557</u>	<u>\$ 22,782,714</u>	<u>\$ 623,131</u>	<u>\$ 594,864</u>	<u>\$ 1,486,527</u>	

Note: During fiscal year 2012, Illinois Correctional Industries had an average of 94 inmate workers in administrative positions at various locations, bringing the total number of inmate workers to 937.

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

Fiscal Year 2011

Industry/Shop	Revenue	Cost of Sales and Services	Selling, General and Administrative Expenses	Depreciation	Other Income (Expenses) and Transfers	Increase (Decrease) in Net Assets	Average # of Inmate Workers
Illinois River Bakery	\$ 6,400,877	\$ 3,980,561	\$ 2,464,658	\$ 80,809	\$ 7,270	\$ (117,881)	175
Lincoln Furniture	361,647	330,215	586,724	744	-	(556,036)	7
Lincoln Sign Shop	-	-	2,709	8,105	-	(10,814)	-
Decatur Sewing/Garment	71,002	118,073	337,393	20,051	-	(404,515)	27
Lincoln Warehouse	-	2,364	(6,279)	3,915	-	-	6
Lincoln Trucking	2,636,527	(74,945)	2,697,411	14,061	-	-	-
Jacksonville Engraving	3,296	39	2,392	865	-	-	3
Lincoln Sewing/Garment	243,273	205,940	372,480	-	-	(335,147)	21
Centralia Mattress	575,143	353,278	260,410	-	-	(38,545)	8
Centralia Sewing/Garment	389,387	310,280	314,333	-	-	(235,226)	12
Graham Furniture	169,470	128,573	497,125	28,371	-	(484,599)	16
Graham Vehicle	29,125	9,903	9,188	-	-	10,034	6
Dwight Sewing/Garment	793,136	398,054	766,481	7,841	-	(379,240)	50
Dwight Canine Program	7,200	19,798	(12,598)	-	-	-	15
Menard Broom, Wax & Soap	643,904	357,856	327,232	14,670	300	(55,554)	10
Menard Knit	1,657,186	789,728	560,714	10,690	(11,657)	284,397	55
Menard Meat/Food Processing	1,364,972	834,767	450,043	8,805	1,226	72,583	8
Menard Waste Removal/Recycling	317,450	5,129	378,051	7,595	4,500	(68,825)	13
Logan Refinishing/Reupholstering	81,097	42,903	148,647	-	-	(110,453)	17
Sheridan Garment Cutting	-	31,751	(33,193)	1,442	-	-	24

(Continued)

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

SUMMARY OF OPERATIONS BY INDUSTRY (UNAUDITED)

Fiscal Year 2011 – Continued

Industry/Shop	Revenue	Cost of Sales and Services	Selling, General and Administrative Expenses	Depreciation	Other Income (Expenses) and Transfers	Increase (Decrease) in Net Assets	Average # of Inmate Workers
Stateville Furniture	\$ 259,893	\$ 130,439	\$ 229,614	\$ 82,138	\$ -	\$ (182,298)	12
Stateville Soap	731,793	468,059	362,008	20,467	-	(118,741)	8
Vandalia Milk/Juice Processing	1,151,448	936,123	609,087	36,284	64,169	(365,877)	22
Vandalia Meat/Food Processing	3,094,813	2,177,981	887,492	13,817	-	15,523	26
East Moline Laundry	602,456	63,698	1,134,547	51,499	-	(647,288)	37
East Moline Metal Furniture	94,277	83,689	50,538	-	-	(39,950)	4
Danville Boxes	214,759	16,050	143,866	5,196	-	49,647	7
Danville Silkscreening & Embroidery	188,872	101,444	229,220	2,284	-	(144,076)	19
Dixon Optical	11,025,917	2,673,960	2,251,767	45,210	-	6,054,980	104
Hill Meat/Food Processing	3,070,069	2,003,573	1,027,723	18,366	-	20,407	42
Hill Milk/Juice Processing	5,515,032	3,732,782	1,569,172	42,710	-	170,368	28
Western Illinois Meat/Food Processing	5,209,737	3,874,033	2,024,805	32,531	-	(721,632)	85
Shawnee Metal Furniture	273,826	157,339	473,552	10,003	-	(367,068)	17
Total	<u>47,177,584</u>	<u>24,263,437</u>	<u>21,117,312</u>	<u>568,469</u>	<u>65,808</u>	<u>1,294,174</u>	<u>884</u>
Central Administration	15,209	2,398	52,248	36,448	75,885	-	
Other Administrative Shops	3,810	(89)	(47,576)	49,486	(1,989)	-	
Transfer In	-	-	-	-	500	500	
Other income (expenses), net	-	-	-	-	585,011	585,011	
Grand Total	<u>\$ 47,196,603</u>	<u>\$ 24,265,746</u>	<u>\$ 21,121,984</u>	<u>\$ 654,403</u>	<u>\$ 725,215</u>	<u>\$ 1,879,685</u>	

Note: During fiscal year 2011, Illinois Correctional Industries had an average of 79 inmate workers in administrative positions at various locations, bringing the total number of inmate workers to 963.

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FARM LEASES BY LOCATION (UNAUDITED)

<u>Location</u>	<u>Acres</u>	<u>Expiration Date</u>	<u>Annual Billing</u>	<u>Past Due Receivable at June 30,</u>	
				<u>2011</u>	<u>2012</u>
Dixon	102.68	12/31/2012	\$ 18,500	\$ 4,121	\$ 4,121
Dwight	33.75	12/31/2012	7,766	-	-
Grayville	N/A	N/A	-	9,416	9,416
Kewanee	4.00	12/31/2012	400	-	-
Lawrence	62.21	12/31/2012	9,020	306	306
Menard	305.80	12/31/2013	42,148	-	-
Menard	583.40	12/31/2013	42,886	-	-
Pontiac	311.13	12/31/2012	87,586	-	-
Stateville	603.91	12/31/2012	152,185	190,380	190,380
Tamms	81.62	12/31/2013	1,200	-	-
Vandalia	890.73	12/31/2012	206,774	-	-
Vienna	364.52	12/31/2012	27,339	-	-
Vienna	274.97	12/31/2012	5,774	5,687	5,514
Total			<u>\$ 601,578</u>	<u>\$ 209,910</u>	<u>\$ 209,737</u>

Detail on past due receivable:

180 - 360 Days past due	\$ 8,480	\$ -
Over 1 year past due	<u>201,430</u>	<u>209,737</u>
Total	<u>\$ 209,910</u>	<u>\$ 209,737</u>

The Illinois Department of Central Management Services (CMS) is responsible for the negotiation of the lease arrangements including determining fair market conditions and customary practices for the lease arrangements. CMS has a practice of obtaining bids in order to obtain fair market conditions.

Rent for the above leases are negotiated as a flat rate per acre per year. As expressly written in the leases, annual rent for most of the lease agreements is due each December first for that calendar year. Lessees are responsible for all taxes and other expenses for the purpose of cultivating the farm. Lessees have no reporting requirements to the State.