



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

DEPARTMENT OF CORRECTIONS

**Financial Audit
 For the Year Ended June 30, 2022**

Release Date: July 6, 2023

FINDINGS THIS AUDIT: 8	AGING SCHEDULE OF REPEATED FINDINGS						
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
Category 1:	0	6	6	2008	22-1, 22-2	22-7, 22-8	
Category 2:	0	2	2	2012	22-3		
Category 3:	0	0	0	2018	22-6		
TOTAL	0	8	8	2020	22-4, 22-5		
FINDINGS LAST AUDIT: 8							

INTRODUCTION

This digest covers the Department’s Financial Audit as of and for the year ended June 30, 2022. A separate digest covering the Department’s Compliance Examination will be released at a later date.

SYNOPSIS

- (22-2) The Department did not maintain accurate and adequate property records and did not timely and accurately record all capital asset information in its financial records.
- (22-4) The Department did not ensure proper financial reporting was performed for the Offender 360 project.
- (22-5) The Department did not properly reconcile and adequately document its reconciliation process to provide assurance census data submitted to its pension and other postemployment benefits (OPEB) plans was complete and accurate.

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

**ILLINOIS DEPARTMENT OF CORRECTIONS
FINANCIAL AUDIT
For the Year Ended June 30, 2022**

FINANCIAL INFORMATION - Governmental funds (in thousands)	FY 2022	FY 2020
REVENUES		
Federal government.....	\$ 196,694	\$ 246,293
Interest and other investment income.....	51	175
Other.....	9,267	4,830
Other charges for services.....	53,140	60,452
Total revenues.....	<u>259,152</u>	<u>311,750</u>
EXPENDITURES		
Public Protection and Justice.....	2,348,855	2,229,902
Debt service - principal.....	1,555	488
Debt service - interest.....	219	254
Capital outlays.....	7,366	4,972
Total expenditures.....	<u>2,357,995</u>	<u>2,235,616</u>
OTHER SOURCES (USES)		
Appropriations from State resources.....	2,260,435	2,323,111
Lapsed appropriations.....	(108,775)	(240,336)
Receipts collected and transmitted to State Treasury.....	(85,100)	(20,796)
Transfers-in.....	10,623	10,806
Transfers-out.....	(10,623)	(10,806)
Proceeds from capital lease financing.....	2,323	910
Total other sources (uses).....	<u>2,068,883</u>	<u>2,062,889</u>
Net change in fund balance.....	(29,960)	139,023
Fund balance (deficit) July 1.....	21,920	(43,778)
Increase for changes in inventories.....	32,481	2,296
Fund balance (deficit) June 30.....	<u>\$ 24,441</u>	<u>\$ 97,541</u>
SELECTED ACCOUNT BALANCES - Governmental funds (in thousands)		
	June 30, 2022	June 30, 2020
ASSETS		
Unexpended appropriations.....	\$ 215,950	\$ 77,680
Cash and cash equivalents.....	24,583	28,988
Receivables.....	40,342	250,703
Inventories.....	47,540	13,800
Total assets.....	<u>\$ 328,415</u>	<u>\$ 371,171</u>
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES		
Accounts payable and accrued liabilities.....	\$ 166,565	\$ 178,476
Due to other funds and entities.....	137,399	95,118
Unearned revenue.....		36
Unavailable revenue.....	10	
Total liabilities and deferred inflows of resources.....	<u>303,974</u>	<u>273,630</u>
FUND BALANCE (DEFICIT)		
Fund balance (deficit).....	<u>24,441</u>	<u>97,541</u>
Total liabilities, deferred inflows of resources and fund balance (deficit).....	<u>\$ 328,415</u>	<u>\$ 371,171</u>
AGENCY ACTING DIRECTOR		
During Audit Period: Rob Jeffreys (through 3/31/23)		
Currently: Latoya Hughes, Acting Director (effective 4/1/23)		

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

**WEAKNESSES IN THE FINANCIAL ACCOUNTING
FOR, AND INACCURATE AND INADEQUATE
RECORDKEEPING OF CAPITAL ASSETS**

The Department of Corrections (Department) did not maintain accurate and adequate property records and did not timely and accurately record all capital asset information in its financial records.

The Enterprise Resource Planning (ERP) asset module used for property records was not updated timely and accurately for numerous assets capitalized by the Department. Therefore, the Department used manually compiled capital asset summaries and depreciation calculations to prepare financial reporting forms related to capital assets for submission to the Office of Comptroller and in determining the amounts reported in the financial statements. Some conditions noted include:

**Additions totaling \$935,757 were not
timely entered in the ERP system**

- The Department did not update its property records accurately and timely. Auditors noted additions totaling \$935,757 and Capital Development Board (CDB) capitalized transfers from 116 projects totaling \$116,817,154 dating back to Fiscal Year 2011 were reflected in the capital asset amounts in the financial statements but not entered in the ERP records. Auditors also noted duplicate entries in the ERP system amounting to \$294,822.

**Capital assets totaling \$16,667,148
were not recorded in the ERP system**

- The Department did not record in the ERP system capital assets totaling \$16,667,148 and related accumulated depreciation, totaling \$250,007, for a CDB Project transferred from the Department of Juvenile Justice in Fiscal Year 2018. Beginning accumulated depreciation was understated by \$2,800,129, Fiscal Year 2022 depreciation expense was understated by \$833,357, loss on disposal was overstated by \$2,161,452 and the net book value as of June 30, 2022 was overstated by \$1,380,972.

**Capital asset recording errors
resulted in the net book value as of
June 30, 2022 being overstated by
\$1,380,972**

**Approximately 176,690 asset items
recorded in ERP had manually
calculated depreciation**

- The Department did not use the default useful life and depreciation calculation in ERP for various asset classes. There are approximately 176,690 asset items recorded in ERP for which the Department had to manually calculate the depreciation and accumulated depreciation amounts.
- The Department did not consistently apply its capitalization policy and did not accurately maintain its manual capital asset schedules supporting the financial statements. Some of the errors noted were:

Capital asset costs were understated by \$1,734,070

Beginning net position was understated by \$4,803,545

Capital assets that were transferred or demolished were still reported with a net book value of \$174,941

- Inaccuracies caused understatements in capital asset costs by \$1,734,070, depreciation by \$4,282,871, loss on disposal by \$140,327, beginning accumulated depreciation by \$1,353,723, and beginning net position by \$4,803,545.
- Miscalculations caused Fiscal Year 2022 depreciation to be understated by \$3,574,164.
- Assets transferred out or demolished in prior years totaling \$1,279,793 were still included as capital assets and reported with a net book value of \$174,941 as of June 30, 2022.
- A CDB Project for demolition of buildings totaling \$3,702,033 was erroneously capitalized rather than expensed.
- Impairment adjustments totaling \$950,983 to reduce the reported value for assets determined to be impaired in prior years were not reflected in the capital asset balances.

The Department subsequently adjusted the financial statements to correct the significant errors and included the required disclosures in the notes to the financial statements. (Finding 2, pages 68 – 72) **This finding has been reported since 2008.**

The auditors recommended the Department:

- Identify and assign sufficient resources to perform the required tasks related to property record keeping and capital assets reporting.
- Strengthen its procedures over property and equipment to ensure complete, accurate and timely recording in the ERP property system.
- Develop and document procedures for tracking, monitoring and proper accounting of construction in progress from inception to completion.
- Incorporate internal review procedures within its property function to ensure capital asset information is complete, properly recorded, and accounted for to permit the preparation of reliable financial information and reports to the Office of Comptroller.

Department accepted recommendation

The Department accepted the recommendation and stated they have been working diligently to maintain resources to adequately update records. The Department noted this is historically an area of high turnover.

The Department also stated that although the topic sentence of the finding has been repeated since the Fiscal Year 2008

engagement, the issues noted in the current year finding are significantly different from those noted during the Fiscal Year 2008 and subsequent year's engagements. The Department stated that over the years, various issues have been identified by the auditors and corrected by the Department, including the Department's utilization of an entirely different fixed asset recordkeeping system than in Fiscal Year 2008. Therefore, the Department stated they believe they have implemented an effective corrective action plan to address the individual items noted in the findings over the years since the Fiscal Year 2008 engagement.

Auditor's Comment

Capital asset weaknesses persist

An Auditor's Comment noted that although the Department has implemented a different property system since 2008, the concerns reported 16 years ago continue to exist: improper recording of CDB transfers, depreciation misstatements, and insufficient support for reported capital asset amounts. Despite the Department's progress on some individual exceptions over the years, weaknesses persist in the Department's process for financial accounting for and reporting of capital assets.

LACK OF PROPER FINANCIAL REPORTING OVER OFFENDER 360 PROJECT

The Department did not ensure proper financial reporting was performed for the Offender 360 project.

The Department adjusted its books to record total internally generated software costs of \$103,775,797 and accumulated amortization costs of \$59,683,728 as a prior period adjustment in the Fiscal Year 2022 financial statements and amortization costs of \$13,144,538 for the current fiscal year. Auditors noted the following:

Over \$103 million in project costs were capitalized

- The Department recorded and capitalized the full project costs as of June 30, 2021 of \$103,775,797 provided by the Department.
 - The Department had not maintained sufficient records to determine the project development costs related to the Offender 360 and the Youth 360 system or to be able to separate the costs between capitalizable amounts and expenses.
 - \$75,489,958 of vendor support and Department staffing costs could not be broken down in any reliable manner to determine the proper amount of development costs to be capitalized. The Department also had not maintained detailed time records for staff involvement in development tasks.
 - The Department incorrectly capitalized subscriptions for licenses totaling \$28,285,839.

Department records insufficient to determine capitalizable costs

Amortization totaling \$72,828,266 was overstated by an unknown amount

- The Department calculated amortization on the capitalized costs based on the incorrect date. As a result, accumulated amortization calculated by the Department totaling \$72,828,266 as of June 30, 2022 was overstated by an unknown amount.
- The Department miscalculated a \$7,359,021 amortization adjustment, which caused beginning accumulated amortization costs to be understated and current year amortization costs to be overstated by unknown amounts. (Finding 4, pages 76 – 78) **This finding has been reported since 2014.**

The auditors recommended the Department assign and train responsible staff and implement internal controls to ensure the costs related to future internally developed software are adequately tracked by development stage and project, analyzed for accurate calculation of costs to be capitalized and amortized, and accurately recorded in the financial statements.

Department accepted recommendation

The Department accepted the recommendation and stated responsible staff within the Department are ensuring development costs are adequately tracked, analyzed, and accurately recorded in the financial statements.

INADEQUATE INTERNAL CONTROLS OVER CENSUS DATA

The Department did not properly reconcile and adequately document its reconciliation process to provide assurance census data submitted to its pension and other postemployment benefits (OPEB) plans was complete and accurate.

Employee listings maintained by the Department did not agree to file received from SERS

The data file from State Employee’s Retirement System of Illinois (SERS) and the Department’s listing of employees indicated 12,556 and 12,626 employees, respectively. The Department was unable to provide adequate documentation to support the reconciliation between both data sets to isolate the details of employees not found in each of the data sets and the disposition of the differences to properly establish completeness.

Unable to determine if a complete reconciliation was performed to establish a base year of complete and accurate census data

As a part of the reconciliation process, the Department did not receive responses from all employees to verify data accuracy and no documentation was provided to the auditors on how the Department established accuracy of the data for these employees. As a result, auditors were unable to obtain assurance the Department had properly performed a complete initial reconciliation of its census data recorded by SERS to its internal records to establish a base year of complete and accurate census data. (Finding 5, pages 79 – 81)

The auditors recommended the Department ensure complete reconciliation of its active members' census data from its underlying records to the SERS report of census data submitted to the plan's actuary to provide assurance census data submitted to the pension plan was complete and accurate. Auditors further recommended the Department re-evaluate the data for the base year ended June 30, 2021 to identify any instances where data discrepancies may still exist and work with SERS to correct all such unresolved errors in the full reconciliation of Department and SERS records.

Department accepted recommendation

The Department accepted the recommendation and noted the difference in the number of employees identified by SERS and the Department is a total of 70 (0.56%) employees, which represents less than 1% of the population provided by SERS. The Department also stated the census data reconciliation instructions provided by SERS instructed the Department to verify the census data contained within a file provided by SERS against Department records to determine accuracy but did not mention the Department should compare the file received from SERS to the Department's payroll records to determine the SERS file contained all the employees eligible for retirement. The Department also stated they will work to complete the base year reconciliation of the employee census data.

Auditor's comment

In an auditor's comment, we noted the requirement to agree Department and SERS records is implicit in the definition of reconciliation, which means ensuring two sets of records are in agreement. The Guidance also required Department staff to verify, for each employee in service on June 30, 2021, that the employee's personnel file contents matched the SERS census data extract provided and the Department's personnel and payroll systems. Further, reconciliation and documentation requirements were also communicated in the Finding 2020-005 and in meetings with the Department.

OTHER FINDINGS

The remaining findings pertain to inadequate controls over year-end financial reporting, computer systems, service providers, locally held funds and inventory. We will review the Agency's progress towards the implementation of our recommendations in our next financial audit.

AUDITOR'S OPINIONS

The auditors qualified their opinion on the governmental activities for Finding 2022-004. Except for this matter, the auditors stated the financial statements of the Department as of and for the year ended June 30, 2022 are fairly stated in all material respects.

This financial audit was conducted by Adelfia LLC.

SIGNED ORIGINAL ON FILE

JANE CLARK
Division Director

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

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

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