

**STATE OF ILLINOIS  
DEPARTMENT OF NATURAL RESOURCES**

**FINANCIAL AUDIT OF CAPITAL ASSET ACCOUNT  
For the Year Ended June 30, 2020**

**Performed as Special Assistant Auditors  
for the Auditor General, State of Illinois**

STATE OF ILLINOIS  
DEPARTMENT OF NATURAL RESOURCES  
FINANCIAL AUDIT OF CAPITAL ASSET ACCOUNT  
For the Year Ended June 30, 2020

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Other Reports Issued Under a Separate Cover

The State of Illinois, Department of Natural Resources' *Compliance Examination* for the two years ended June 30, 2020, will be issued under a separate cover.

STATE OF ILLINOIS  
**DEPARTMENT OF NATURAL RESOURCES**  
FINANCIAL AUDIT OF CAPITAL ASSET ACCOUNT  
For the Year Ended June 30, 2020

**AGENCY OFFICIALS**

Director	Ms. Colleen Callahan
Assistant Director	Mr. John Rogner
Deputy Director	Vacant
Chief of Staff	Ms. Kristin DiCenso
Deputy Chief of Staff	Ms. Rachel Torbert
General Counsel/Legal	Ms. Renee Snow
Chief Fiscal Officer	Mr. Bradley Colantino
Chief Information Officer	Mr. Steve Washko
GAAP Coordinator	Ms. Rebecca Wilson

The State of Illinois, Department of Natural Resources' primary administrative office is located at:

Joel D. Brunsvold Building  
One Natural Resources Way  
Springfield, Illinois 62702-1271

STATE OF ILLINOIS  
DEPARTMENT OF NATURAL RESOURCES  
FINANCIAL AUDIT OF CAPITAL ASSET ACCOUNT  
For the Year Ended June 30, 2020

**FINANCIAL STATEMENT REPORT**

**SUMMARY**

The audit of the accompanying Schedule of Capital Assets of the State of Illinois, Department of Natural Resources (Department) was performed by Roth & Company, LLP.

Based on their audit, the auditors expressed an unmodified opinion on the Department's Schedule of Capital Assets.

**SUMMARY OF FINDINGS**

The auditors identified a matter involving the Department's internal control over financial reporting that they considered to be a material weakness. Further, the auditors identified a noncompliance matter.

CURRENT FINDING

<u>Item No.</u>	<u>Page</u>	<u>Last/First Report</u>	<u>Description</u>	<u>Finding Type</u>
2020-001	14	New	Inadequate Control over Capital Assets	Material Weakness and Material Noncompliance

**EXIT CONFERENCE**

The Department waived an exit conference in a correspondence from Ms. Rebecca Wilson, GAAP Coordinator, on January 19, 2021. The response to the recommendation was provided by Ms. Rebecca Wilson, GAAP Coordinator, in a correspondence dated January 20, 2021.



## INDEPENDENT AUDITOR'S REPORT

Honorable Frank J. Mautino  
Auditor General  
State of Illinois

### **Report on the Financial Statements**

As Special Assistant Auditors for the Auditor General, we have audited the accompanying Schedule of Capital Assets (Schedule) of the State of Illinois, Department of Natural Resources (Department), as of June 30, 2020, and the related notes to the Schedule, as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of the Schedule in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Schedule that is free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on the Schedule based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Schedule. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Schedule, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Schedule in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Schedule.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## ***Opinion***

In our opinion, the Schedule referred to above presents fairly, in all material respects, the Capital Asset Account of Department as of June 30, 2020, in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As discussed in Note 2 to the Schedule, the Schedule and its related footnotes are intended to present the financial position and the changes in financial position of only the Capital Asset Account of the Department. The Schedule does not purport to, and does not, present fairly the financial position of the Department as of June 30, 2020, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2021, on our consideration of the Department's internal control over financial reporting of the Schedule and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters as they relate to the Schedule. The purpose of that report is solely 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 effectiveness of the Department's internal control over financial reporting of the Schedule or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting of the Schedule and its compliance.

## **Restricted Use of this Auditor's Report**

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 Department management and is not intended to be and should not be used by anyone other than these specified parties.

**SIGNED ORIGINAL ON FILE**

Chicago, Illinois  
January 22, 2021

STATE OF ILLINOIS  
DEPARTMENT OF NATURAL RESOURCES  
SCHEDULE OF CAPITAL ASSETS  
June 30, 2020

	<u>AMOUNTS</u> (in thousands)
<b>Capital Assets not being depreciated:</b>	
Land and land improvements	\$ 435,882
Construction in progress	6,828
Internally generated intangible assets in development	372
Easements/rights of way/water-timber-mineral rights	<u>144,984</u>
<b>Total Capital Assets not being depreciated</b>	<u><u>588,066</u></u>
 <b>Capital Assets being depreciated:</b>	
Site improvements	546,962
Buildings and building improvements	291,008
Equipment	83,101
Capital leases - equipment	58
Infrastructure	70,740
Non-internally generated software	36
Internally generated software	3,360
Easements/rights of way/water-timber-mineral rights	1,511
Other intangible assets	<u>6,939</u>
<b>Total Capital Assets being depreciated</b>	<u><u>1,003,715</u></u>
 <b>Less Accumulated Depreciation for:</b>	
Site improvements	421,442
Buildings and building improvements	216,651
Equipment	63,039
Capital leases - equipment	46
Infrastructure	42,107
Non-internally generated software	36
Internally generated software	3,360
Easements/rights of way/water-timber-mineral rights	1,493
Other intangible assets	<u>4,604</u>
<b>Total Accumulated Depreciation</b>	<u><u>752,778</u></u>
 <b>Total Capital Assets being depreciated, net</b>	 <u><u>250,937</u></u>
 <b>Total Capital Assets, net</b>	 <u><u>\$ 839,003</u></u>

The accompanying Notes to the Schedule of Capital Assets are an integral part of this schedule.

STATE OF ILLINOIS  
DEPARTMENT OF NATURAL RESOURCES  
NOTES TO THE SCHEDULE OF CAPITAL ASSETS  
For the Year Ended June 30, 2020

**NOTE 1 - DESCRIPTION OF CAPITAL ASSET ACCOUNT**

The State of Illinois, Department of Natural Resources (Department) maintains a Capital Asset Account. Capital assets include construction in progress, infrastructure, intangibles, land and land improvements, site improvements, buildings and building improvements, equipment, and all other tangible assets that are used in operations and that have expected useful lives extending beyond a single reporting period.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Schedule of Capital Assets (Schedule) maintained by the Department has 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 Schedule, summarized below are the more 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 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.

Based upon the required criteria, the Capital Asset Account does not have component units, nor is it a component unit of any other entity. However, because the Capital Asset Account is not legally separate from the State of Illinois (State), it is included in the financial statements of the State. The State's Comprehensive Annual Financial Report may be obtained from the Office of the Comptroller's website ([www.illinoiscomptroller.gov](http://www.illinoiscomptroller.gov)) or by writing to the State Comptroller's Office, Financial Reporting Department, 325 West Adams Street, Springfield, Illinois, 62704-1871.

STATE OF ILLINOIS  
DEPARTMENT OF NATURAL RESOURCES  
NOTES TO THE SCHEDULE OF CAPITAL ASSETS  
For the Year Ended June 30, 2020

The Schedule presents only the capital assets administered by the Department and does not purport to, and does not, present fairly the financial position of the State or the Department as of June 30, 2020, and changes in its financial position, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

(b) Basis of Presentation

The Capital Asset Account balances are reported in the State's Comprehensive Annual Financial Report. For its reporting purposes, the Department has presented the Schedule of Capital Assets using a columnar format that presents capital assets, net of accumulated depreciation, as of June 30, 2020.

(c) Basis of Accounting

The Capital Asset Account is reported using the economic resources measurement focus and the accrual basis of accounting.

(d) Use of Estimates

The preparation of the Schedule in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and accumulated depreciation at the date of the Schedule. Actual results could differ from those estimates.

(e) Valuation

Capital assets are reported at cost or estimated historical cost or, if donated, at their acquisition value. Historical costs include the amount paid for the asset and ancillary charges necessary to place the asset into its intended location and condition for use. Assets acquired in various amounts for a single purpose which may not individually meet the capitalization threshold are capitalized if the estimated total of the project exceeds the capitalization threshold.

For capital assets that are depreciated, expenditures that extend the useful lives of capital assets beyond their initial estimated useful lives (preservation costs), improve their efficiency (improvements), or capacity (additions) are capitalized whereas expenditures for repairs and maintenance are expensed.

Capital assets are depreciated using the straight-line method.

STATE OF ILLINOIS  
**DEPARTMENT OF NATURAL RESOURCES**  
 NOTES TO THE SCHEDULE OF CAPITAL ASSETS  
 For the Year Ended June 30, 2020

(f) Capitalization Policies

Capitalization thresholds and the estimated useful lives are as follows:

<b>Capital Asset Category</b>	<b>Capitalization Threshold</b>	<b>Estimated Useful Life (in years)</b>
Land	\$100,000	N/A
Land Improvements	25,000	N/A
Construction in Progress	5,000- 1,000,000	N/A
Infrastructure	250,000	20-40
Site Improvements	25,000	20
Buildings and Building Improvements	25,000- 100,000	20-50
Equipment	5,000	3-20
Capital Leases - Equipment	5,000	Varies/depends on contract

<b>Intangible Asset Type</b>	<b>Capitalization Threshold</b>	<b>Estimated Useful Life (in years)</b>
Easement other than right of way indefinite	\$25,000	Indefinite
Water-timber-mineral rights indefinite	25,000	Indefinite
Right of way indefinite	25,000	Indefinite
Internally generated software in development	25,000	Indefinite
Internally generated software	1,000,000	5-10
Non-internally generated software	25,000	5-10
Easements/rights of way/water-timber-mineral rights	25,000	Varies/depends on contract
Other intangible assets	25,000	Varies/depends on contract

Effective January 1, 2019, the Department implemented an Enterprise Resource Planning (ERP) System that includes a module to track its capital assets. With the implementation of the ERP System, capital assets acquired after the implementation date were classified into various asset classes within the asset category and depreciated using estimated useful lives defined within the ERP System for the asset classes. Assets acquired prior to the implementation date were continued to be depreciated using the estimated useful lives determined in prior years.

STATE OF ILLINOIS  
DEPARTMENT OF NATURAL RESOURCES  
NOTES TO THE SCHEDULE OF CAPITAL ASSETS  
For the Year Ended June 30, 2020

(g) Infrastructure

The Department maintains infrastructure assets, including waterways, dams, tunnels, and drainage systems.

In the majority of cases, a legal title document was not created when these assets were constructed or placed into service. The Department capitalizes all infrastructure assets supported by purchasing documentation (e.g., contracts, requisitions, purchase orders, payment documents, etc.). In cases where infrastructure assets are jointly developed or constructed by the Department and neighboring states or local municipalities, the Department capitalizes only those assets which are maintained by the Department and legal title has not been established by another legal entity.

(h) Historical Treasures and Works of Art

The Department maintains extensive collections of historical treasures and works of art. Items meeting the following conditions are not capitalized: 1) held for public exhibition, education, or research in furtherance of public service, rather than financial gain; 2) protected, kept unencumbered, cared for, and preserved; and, 3) subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections. All Department historical treasures and works of art meet these conditions and are not capitalized in the Schedule of Capital Assets.

(i) Intangible Assets

The Department maintains various types of intangible assets. These assets lack physical substance, are nonfinancial in nature, and have an initial useful life extending beyond a single reporting period. Examples of intangible assets include, but are not limited to, software (both internally generated and non-internally generated), easements and rights of way, and water and land use rights. Intangible assets are capitalized and depreciated based on conventions in the Capitalization Policies table.

(j) Construction in Progress

The Department maintains assets that are constructions in progress. This includes costs incurred during construction of assets. Those accumulated costs are held in the Construction in Progress category until such time as the project is determined to be “substantially complete” (i.e. ready for its intended use). At that time, the asset is moved to the proper asset category, capitalized, and depreciated based on conventions listed in the Capitalization Policies table. The Department considers infrastructure and bikeways to be a series of networks and sub-systems. As such, those assets have met the requirement of being ready for intended use, and therefore, are not held in the Construction in Progress category.

STATE OF ILLINOIS  
**DEPARTMENT OF NATURAL RESOURCES**  
NOTES TO THE SCHEDULE OF CAPITAL ASSETS  
For the Year Ended June 30, 2020

(k) Networks and Sub-Systems

The Department maintains networks and sub-systems. A network is composed of all assets that provide a particular type of service for the State or an agency. A network of assets may be only one asset that is composed of many components. A sub-system is composed of all assets that make up a portion or segment of a network. Assets acquired in various amounts for a single purpose, which may not individually meet the capitalization threshold, may be capitalized if the estimated total of the project exceeds the capitalization threshold. Also, for capital assets that are depreciated, expenditures that extend the useful lives of capital assets beyond their initial estimated useful lives (preservation costs), improve their efficiency (improvements), or capacity (additions) are capitalized whereas expenditures for repairs and maintenance are expensed.

**NOTE 3 - CAPITAL ASSET MANAGEMENT SYSTEM**

The Department implemented the ERP System on January 1, 2019. The fixed assets module of the ERP System is used to track all assets which includes, the major asset category, description of the asset, date of acquisition, method of acquisition, cost or other value, responsible organizational unit, location of the asset, identification of applicable network or sub-system (for infrastructure assets), estimated life, estimated salvage value, and annual accumulated depreciation.

**NOTE 4 - REPORTING REQUIREMENTS**

The Department is required to complete and submit the Capital Asset Summary (SCO-538) form, to the Office of the Comptroller as part of the year-end reporting process related to capital assets. The amounts reported on the Fiscal Year 2020 SCO-538 form did not reconcile to the Schedule of Capital Assets as of June 30, 2020. Please refer to Finding 2020-001.

STATE OF ILLINOIS  
**DEPARTMENT OF NATURAL RESOURCES**  
NOTES TO THE SCHEDULE OF CAPITAL ASSETS  
For the Year Ended June 30, 2020

**5. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2020, was as follows (amounts are in thousands):

	Balance At June 30, 2019	Additions	Deletions	Net Transfers	Balance At June 30, 2020
<b>Capital Assets not being depreciated:</b>					
Land and land improvements	\$ 433,626	\$ 2,256	\$ -	\$ -	\$ 435,882
Construction in progress	3,100	4,598	1,367	497	6,828
Internally generated intangible assets in development	372	-	-	-	372
Easements/rights of way/water-timber-mineral rights	140,551	4,433	-	-	144,984
<b>Total Capital Assets not being depreciated</b>	<u>577,649</u>	<u>11,287</u>	<u>1,367</u>	<u>497</u>	<u>588,066</u>
<b>Capital Assets being depreciated:</b>					
Site improvements	542,853	4,105	-	4	546,962
Buildings and building improvements	289,006	1,979	5	28	291,008
Equipment	78,139	8,570	227	(3,381)	83,101
Capital leases-equipment	58	-	-	-	58
Infrastructure	65,941	4,799	-	-	70,740
Non-internally generated software	36	-	-	-	36
Internally generated software	3,360	-	-	-	3,360
Easements/rights of way/water-timber-mineral rights	1,511	-	-	-	1,511
Other intangible assets	6,939	-	-	-	6,939
<b>Total Capital Assets being depreciated</b>	<u>987,843</u>	<u>19,453</u>	<u>232</u>	<u>(3,349)</u>	<u>1,003,715</u>
<b>Less Accumulated Depreciation for:</b>					
Site improvements	402,628	18,814	-	-	421,442
Buildings and building improvements	209,484	7,167	-	-	216,651
Equipment	60,235	6,352	167	(3,381)	63,039
Capital leases-equipment	34	12	-	-	46
Infrastructure	40,486	1,621	-	-	42,107
Non-internally generated software	36	-	-	-	36
Internally generated software	3,360	-	-	-	3,360
Easements/rights of way/water-timber-mineral rights	1,472	21	-	-	1,493
Other intangible assets	4,123	481	-	-	4,604
<b>Total Accumulated Depreciation</b>	<u>721,858</u>	<u>34,468</u>	<u>167</u>	<u>(3,381)</u>	<u>752,778</u>
<b>Total Capital Assets being depreciated, net</b>	<u>265,985</u>	<u>(15,015)</u>	<u>65</u>	<u>32</u>	<u>250,937</u>
<b>Total Capital Assets, net</b>	<u>\$ 843,634</u>	<u>\$ (3,728)</u>	<u>\$ 1,432</u>	<u>\$ 529</u>	<u>\$ 839,003</u>



**INDEPENDENT AUDITOR'S 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 Frank J. Mautino  
Auditor General  
State of Illinois

**Report on the Financial Statements**

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with the 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, the Schedule of Capital Assets of the State of Illinois, Department of Natural Resources (Department), as of June 30, 2020, and the related notes to the Schedule of Capital Assets, and have issued our report thereon dated January 22, 2021.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Department's Schedule of Capital Assets is free from 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 the Schedule of Capital Assets' 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 an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings as item 2020-001.

**Internal Control Over Financial Reporting**

Management of the Department is responsible for establishing and maintaining effective internal control over financial reporting (internal control).

In planning and performing our audit of the Schedule of Capital Assets, we considered the Department's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Schedule of Capital Assets, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

*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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the second paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings as item 2020-001 that we consider to be a material weakness.

### **Department's Response to the Finding**

The Department's response to the finding identified in our audit is described in the accompanying Schedule of Findings. The Department's response was not subjected to the auditing procedures applied in the audit of the Schedule of Capital Assets and, accordingly, we express no opinion on the response.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**SIGNED ORIGINAL ON FILE**

Chicago, Illinois  
January 22, 2021

STATE OF ILLINOIS  
**DEPARTMENT OF NATURAL RESOURCES**  
SCHEDULE OF FINDINGS – *GOVERNMENT AUDITING STANDARDS*  
For the Year Ended June 30, 2020

**2020-001. Finding** (Inadequate Control over Capital Assets)

The Department of Natural Resources (Department) did not maintain adequate control over its capital assets.

The Department implemented the Enterprise Resource Planning (ERP) system on January 1, 2019 while simultaneously operating its legacy capital assets system. Effective June 1, 2020, the Department discontinued the legacy system keeping the ERP as its primary system to track its capital assets.

As of June 30, 2019, the Department indicated it had not fully implemented the ERP and the information from the legacy capital asset system was used to prepare FY19 capital asset schedules. The Department prepared its FY20 capital asset schedules using the ERP system.

During testing, auditors noted the following:

- The Department did not reconcile the ERP reports with the legacy system reports during the transition. Auditors noted variances between ERP reports and the legacy system reports of \$3.5 million and \$6 million of costs and accumulated depreciation, respectively. Additionally, the Department could not explain the variances noted between FY20 beginning balances of capital assets prepared using the ERP and FY19 ending balances of capital assets prepared using the legacy system. Based on further analysis, auditors determined the beginning balances in the ERP report were accurate and the variances identified were due to accumulated errors in prior years' legacy system reports. Specifically, the variances were costs and related accumulated depreciation of capitalizable assets that were categorized as noncapitalizable assets in error coupled with erroneous depreciation calculations in the legacy system over the years. These prior years' errors were deemed not material for restatement, therefore, were recorded against additions or deletions, as applicable, in the FY20 Schedule of Capital Assets.

COBIT® 2019 Framework, page 198, requires the Department to collect, convert, and verify data converted, and identify and resolve errors found during conversion, including comparing the original data and converted data for completeness and integrity.

Additionally, the Statewide Accounting Management System (SAMS) (Procedure 03.30.30) requires the Department to capitalize assets that individually equal or exceed its established capitalization threshold. Improvements extend the useful lives of existing assets are required to be depreciated over the remaining useful lives of the assets.

- The Department did not exercise adequate control and oversight over the preparation of the Capital Asset Summary (SCO-538) resulting in an inaccurate SCO-538 submitted to the Office of the Comptroller. During testing, auditors noted variances of \$578,000 and \$30.7 million in cost and accumulated depreciation, respectively, between amounts reported on SCO-538 and those amounts from ERP at June 30, 2020. The Department indicated the variances identified on FY20 SCO-538 were not corrected because they were immaterial to the State's Comprehensive Annual Financial Report.

The Statewide Accounting Management System (SAMS) (Procedure 27.20.38) requires the Department to report capital assets and related accumulated depreciation on SCO-538. The SCO-538 forms ensure all capital assets of State agencies are reported in the State of Illinois' Comprehensive Annual Financial Report.

Further, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires State agencies to establish and maintain a system, or systems, of internal and fiscal administrative controls, to provide assurance revenues, expenditures, and transfers 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 to maintain accountability over the State's resources. Effective internal controls should include adequate oversight over the preparation of SCO-538 to ensure accurate capital assets information is reported to the Office of the Comptroller for presentation in the State of Illinois' Comprehensive Annual Financial Report.

Department personnel indicated these issues were due to staff shortages and inadequate training and guidance during the transition from the legacy system to ERP.

Inadequate controls over capital assets may result in inaccurate information used by Office of the Comptroller in preparing the Statewide Comprehensive Annual Financial Report. (Finding Code No. 2020-001)

## **RECOMMENDATION**

We recommend the Department improve its control over its capital assets by maintaining adequate oversight over personnel responsible for capital asset management and reviewing SCO-538 forms for accuracy before transmitting to the Comptroller.

## **DEPARTMENT RESPONSE**

The Department agrees to the recommendation to improve control over capital assets by maintaining adequate oversight and reviewing forms for accuracy. The Department did review reports but due to a new system and lack of training the errors were not identified and corrected timely.