



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

Frank J. Mautino, Auditor General

**SUMMARY REPORT DIGEST**

**ENVIRONMENTAL PROTECTION AGENCY**  
**WATER REVOLVING FUND**

**Financial Audit**  
**For the Year Ended June 30, 2020**

**Release Date: May 25, 2021**

| FINDINGS THIS AUDIT: 1        | AGING SCHEDULE OF REPEATED FINDINGS |          |          |                           |            |            |            |
|-------------------------------|-------------------------------------|----------|----------|---------------------------|------------|------------|------------|
|                               | New                                 | Repeat   | Total    | Repeated Since            | Category 1 | Category 2 | Category 3 |
| <b>Category 1:</b>            | <b>1</b>                            | <b>0</b> | <b>1</b> | <b>No Repeat Findings</b> |            |            |            |
| <b>Category 2:</b>            | <b>0</b>                            | <b>0</b> | <b>0</b> |                           |            |            |            |
| <b>Category 3:</b>            | <b>0</b>                            | <b>0</b> | <b>0</b> |                           |            |            |            |
| <b>TOTAL</b>                  | <b>1</b>                            | <b>0</b> | <b>1</b> |                           |            |            |            |
| <b>FINDINGS LAST AUDIT: 1</b> |                                     |          |          |                           |            |            |            |

**SYNOPSIS**

- **(20-01)** The Agency had not substantiated why student interns were paid on regular, as opposed to contractual, payroll vouchers and did not have a reconciliation process to provide assurance census data submitted to its pension and other postemployment benefits (OPEB) plans was complete and accurate for the Water Revolving Fund (Fund).

**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.

**ENVIRONMENTAL PROTECTION AGENCY**  
**FINANCIAL AUDIT - WATER REVOLVING FUND**  
**For the Year Ended June 30, 2020**

| STATEMENT OF NET POSITION (in thousands)                        | 2020                       | 2019                       |
|---|----------------------------|----------------------------|
| <b>Assets</b>   |                            |                            |
| Current Assets  |                            |                            |
| Cash and Cash Equivalents.....                                  | \$ 177,543                 | \$ 107,725                 |
| Securities lending collateral equity with State Treasurer.....  | 59,938                     | 31,333                     |
| Loans and notes receivable.....                                 | 93,196                     | 72,460                     |
| Other receivables.....  | 17,012                     | 15,480                     |
| Due from federal government.....                                | 582                        | 307                        |
| Due from component unit.....                                    | 11,277                     | 8,131                      |
| Restricted assets - accrued interest receivable.....            | 9,446                      | 11,687                     |
| Restricted assets - loans receivable .....                      | 212,561                    | 200,820                    |
| Prepaid expenses .....  | 10                         | 17                         |
| Total current assets.....                                       | <u>581,565</u>             | <u>447,960</u>             |
| Noncurrent Assets   |                            |                            |
| Loans and notes receivable, net of current portion.....         | 1,489,331                  | 1,231,325                  |
| Restricted assets - loans receivable.....                       | 2,865,036                  | 2,997,630                  |
| Capital assets, net of accumulated depreciation.....            | 7                          | 9                          |
| Total noncurrent assets.....                                    | <u>4,354,374</u>           | <u>4,228,964</u>           |
| <b>Deferred Outflows of Resources</b>                           |                            |                            |
| Deferred amount of pension liability.....                       | 5,947                      | 7,350                      |
| Deferred amount on OPEB liability .....                         | 2,745                      | 740                        |
| Total deferred outflows of resources.....                       | <u>8,692</u>               | <u>8,090</u>               |
| <b>Total Assets and Deferred Outflows of Resources.....</b>     | <u><b>4,944,631</b></u>    | <u><b>4,685,014</b></u>    |
| <b>Liabilities</b>  |                            |                            |
| Total Current liabilities.....                                  | 61,655                     | 33,476                     |
| Total Noncurrent liabilities.....                               | 1,381,706                  | 1,230,927                  |
| Total Liabilities.....  | <u>1,443,361</u>           | <u>1,264,403</u>           |
| <b>Deferred Inflows of Resources</b>                            |                            |                            |
| Deferred amount on pension liability.....                       | 6,765                      | 9,200                      |
| Deferred amount on OPEB liability .....                         | 11,118                     | 15,182                     |
| Unearned revenue.....   | 58                         | -                          |
| Total deferred inflows of resources.....                        | <u>17,941</u>              | <u>24,382</u>              |
| <b>Total Liabilities and Deferred Inflows of Resources.....</b> | <u><b>1,461,302</b></u>    | <u><b>1,288,785</b></u>    |
| <b>Net Position</b>   |                            |                            |
| Net investment in capital assets.....                           | 7                          | 9                          |
| Restricted for:   |                            |                            |
| Debt Service.....   | 3,087,043                  | 3,210,137                  |
| Other Purposes.....   | 833,163                    | 632,412                    |
| Unrestricted.....   | (438,884)                  | (446,329)                  |
| <b>Total Net Position.....</b>                                  | <u><b>\$ 3,481,329</b></u> | <u><b>\$ 3,396,229</b></u> |

| STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (in thousands) | 2020                       | 2019                       |
|--|----------------------------|----------------------------|
| Operating Revenues.....  | \$ 80,934                  | \$ 77,487                  |
| Operating Expenses.....  | 79,577                     | 43,697                     |
| Operating Income.....  | <u>1,357</u>               | <u>33,790</u>              |
| Nonoperating Revenues.....   | 115,573                    | 148,931                    |
| Nonoperating Expenses.....   | 29,830                     | 26,678                     |
| Change in Net Position.....  | 87,100                     | 156,043                    |
| Net Position, Beginning of Year .....                                      | 3,396,229                  | 3,240,186                  |
| Net Position, End of Year.....   | <u><b>\$ 3,483,329</b></u> | <u><b>\$ 3,396,229</b></u> |

**AGENCY DIRECTOR**

During Engagement Period: John J. Kim  
Currently: John J. Kim

**FINDINGS, CONCLUSIONS, AND  
RECOMMENDATIONS**

**INADEQUATE INTERNAL CONTROLS OVER  
CENSUS DATA**

The Agency had not substantiated why student interns were paid on regular, as opposed to contractual, payroll vouchers and did not have a reconciliation process to provide assurance census data submitted to its pension and other postemployment benefits (OPEB) plans was complete and accurate for the Water Revolving Fund (Fund)

During testing, some of the more significant issues we noted included:

**No initial complete reconciliation of  
census data**

1) The Agency had not performed an initial complete reconciliation of its census data recorded by the State Employees' Retirement System (SERS) and the Department of Central Management Services (CMS) to its internal records to establish a base year of complete and accurate census data.

**No document to support student  
interns eligibility**

2) Seven of 35 (20%) employees tested were student interns. We reviewed the eligibility criteria for participation in SERS and the Statewide Accounting Management System (SAMS) for payroll vouchers. We noted the Agency does not have documentation supporting its conclusion why these student interns are eligible to be paid on a regular payroll voucher, which would then make the student interns eligible for pension and OPEB benefits, as opposed to a contractual payroll vouchers. (Finding 1, pages 51-53)

We recommended the Agency review the applicable laws, rules, and regulations that govern student intern payroll and document its conclusions on whether a regular or contractual payroll voucher should be used to pay its student interns. Further, we recommended the Agency work with SERS and CMS to develop an annual reconciliation process of its active members' census data from its underlying records to a report from each plan of census data submitted to the plan's actuary.

**Agency partially agrees**

Agency officials stated they will implement a reconciliation process with SERS in accordance with guidance from the same. The Agency agreed to disagree in part to the student worker portion. Student workers have a State classification and pay plan, therefore are employees of the State. The Agency will pursue efforts with SERS, the Auditor General, and CMS to further clarify student workers payroll.

**Auditors' comment**

In an auditors' comment, we stated the Agency should evaluate whether they have a contractual relationship as opposed to a permanent and continuous employment relationship with the student workers. If applicable laws, rules, and regulations require the Agency to pay the student interns on a regular payroll voucher which makes the student interns eligible for pension and OPEB benefits, adequate documentation should be maintained to document the conclusions.

**AUDITOR'S OPINION(S)**

The auditors stated the financial statements of the Agency's Water Revolving Fund as of and for the year ended June 30, 2020, are fairly stated in all material respects.

This financial audit was conducted by Roth and Company, LLP.

**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

FJM:PH