



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, 2021

Release Date: June 1, 2022

FINDINGS THIS AUDIT: 2	AGING SCHEDULE OF REPEATED FINDINGS						
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
				2020		21-02	
Category 1:	1	0	1				
Category 2:	0	1	1				
Category 3:	0	0	0				
TOTAL	1	1	2				
FINDINGS LAST AUDIT: 1							

SYNOPSIS

- **(21-01)** The Agency failed to exercise adequate controls over financial reporting to ensure the draft financial statements of the Water Revolving Fund, (Fund 270), provided to the auditors were properly supported and free of errors.

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, 2021

STATEMENT OF NET POSITION (in thousands)	2021	2020
Assets		
Current Assets		
Cash and Cash Equivalents.....	\$ 236,480	\$ 177,543
Securities lending collateral equity with State Treasurer.....	88,301	59,938
Loans and notes receivable.....	52,367	93,196
Other receivables.....	13,214	17,012
Due from federal government.....	474	582
Due from component unit.....	6,537	11,277
Restricted assets - accrued interest receivable.....	14,343	9,446
Restricted assets - loans receivable	266,564	212,561
Prepaid expenses	10	10
Total current assets.....	<u>678,290</u>	<u>581,565</u>
Noncurrent Assets		
Loans and notes receivable, net of current portion.....	725,768	1,489,331
Restricted assets - loans receivable.....	3,722,851	2,865,036
Capital assets, net of accumulated depreciation.....	5	7
Total noncurrent assets.....	<u>4,448,624</u>	<u>4,354,374</u>
Deferred Outflows of Resources		
Deferred amount of pension liability.....	8,160	5,947
Deferred amount on OPEB liability	2,300	2,745
Total deferred outflows of resources.....	<u>10,460</u>	<u>8,692</u>
Total Assets and Deferred Outflows of Resources.....	<u>5,137,374</u>	<u>4,944,631</u>
Liabilities		
Total Current liabilities.....	93,475	61,655
Total Noncurrent liabilities.....	1,436,621	1,381,706
Total Liabilities.....	<u>1,530,096</u>	<u>1,443,361</u>
Deferred Inflows of Resources		
Deferred amount on pension liability.....	3,156	6,765
Deferred amount on OPEB liability	5,676	11,118
Unearned revenue.....	-	58
Total deferred inflows of resources.....	<u>8,832</u>	<u>17,941</u>
Total Liabilities and Deferred Inflows of Resources.....	<u>1,538,928</u>	<u>1,461,302</u>
Net Position		
Net investment in capital assets.....	5	7
Restricted for:		
Debt Service.....	4,003,758	3,087,043
Other Purposes.....	-	833,163
Unrestricted.....	(405,317)	(438,884)
Total Net Position.....	<u>\$ 3,598,446</u>	<u>\$ 3,481,329</u>

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (in thousands)	2021	2020
Operating Revenues.....	\$ 82,004	\$ 80,934
Operating Expenses.....	74,808	79,577
Operating Income.....	<u>7,196</u>	<u>1,357</u>
Nonoperating Revenues.....	98,018	115,573
Nonoperating Expenses.....	44,897	29,830
Net Transfers.....	46,000	-
Change in Net Position.....	106,317	87,100
Net Position, Beginning of Year (as restated).....	3,492,129	3,396,229
Net Position, End of Year.....	<u>\$ 3,598,446</u>	<u>\$ 3,483,329</u>

AGENCY DIRECTOR

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

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

**INADEQUATE CONTROLS OVER FINANCIAL
REPORTING**

The Agency failed to exercise adequate controls over financial reporting to ensure the draft financial statements of the Water Revolving Fund, (Fund 270), provided to the auditors were properly supported and free of errors.

During testing, we noted the following:

**Overstatement of Loans and Notes
Receivable by \$1.036 billion**

- The loan data file generated from the Agency's loan tracking system, as of June 30, 2021, was not adjusted to correctly classify loans based on the December 2020 bond issuance. This resulted in the overstatement of Loans and Notes Receivable, Long-Term by \$1.036 billion and a corresponding understatement of Restricted Assets – Loans and Notes Receivable, Long-Term by the same amount. An adjusting entry was required.

**Overstatement of Interest and Other
Investment Income by \$1,502
thousand**

- The Agency recorded capitalized interest for three loans which were not yet completed and due to be amortized as of June 30, 2021. This resulted in an overstatement of Loans and Notes Receivable, Long-Term by \$405 thousand and Restricted Assets – Loans and Notes Receivable, Long-Term by \$1,097 thousand and overstatement of Interest and Other Investment Income by \$1,502 thousand. An adjusting entry was required.

**Disclosures did not agree to
supporting documentation**

- Three of 18 (17%) disclosures in the draft Notes to Financial Statements did not agree to supporting documentation. (Finding 1, pages 53-54)

We recommended the Agency strengthen its internal controls over the financial reporting process, including an adequate review of financial statements, notes to the financial statements, and its supporting documentation to ensure accurate submission of financial data.

Agency agreed

Agency officials agreed with the finding and stated the issue was resolved with management's implementation of a written procedure.

OTHER FINDING

The remaining finding pertains to the lack of a reconciliation of the Agency's census data submitted to its pension and other postemployment benefits plans that were used in the fund financial statements. We will review the Agency's progress towards the implementation of our recommendations in our next financial audit.

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, 2021, 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