



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, 2022**

**Release Date: June 6, 2023**

FINDINGS THIS AUDIT: 1	AGING SCHEDULE OF REPEATED FINDINGS						
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
				2020		22-01	
<b>Category 1:</b>	<b>0</b>	<b>1</b>	<b>1</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>0</b>	<b>1</b>	<b>1</b>				
<b>FINDINGS LAST AUDIT: 2</b>							

This digest covers the Agency’s financial audit as of and for the year ended June 30, 2022. The Agency’s State Compliance Examination covering the two years ended June 30, 2022 will be separately released at a later date.

**SYNOPSIS**

- **(22-01)** The Agency did not take sufficient measures to ensure all census data submitted to its pension and other postemployment benefits plans was complete and accurate.

<p><b>Category 1:</b> Findings that are <b>material weaknesses</b> in internal control and/or a <b>qualification</b> on compliance with State laws and regulations (material noncompliance).</p> <p><b>Category 2:</b> Findings that are <b>significant deficiencies</b> in internal control and <b>noncompliance</b> with State laws and regulations.</p> <p><b>Category 3:</b> Findings that have <b>no internal control issues but are in noncompliance</b> with State laws and regulations.</p>
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**ENVIRONMENTAL PROTECTION AGENCY  
FINANCIAL AUDIT - WATER REVOLVING FUND  
For the Year Ended June 30, 2022**

FINANCIAL INFORMATION (in thousands)	FY 2022	FY 2021
<b>OPERATING REVENUES</b>		
Interest income on loans - unpledged.....	\$ 50,191	\$ 46,385
Interest income on loans - pledged.....	33,492	35,619
Total operating revenues.....	<u>83,683</u>	<u>82,004</u>
<b>OPERATING EXPENSES</b>		
General and administrative.....	21,592	20,080
Principal forgiveness.....	53,432	54,726
Depreciation.....	5	2
Total operating expenses.....	<u>75,029</u>	<u>74,808</u>
<b>NONOPERATING REVENUES.....</b>	128,903	98,018
<b>NONOPERATING EXPENSES.....</b>	44,676	44,897
<b>NET TRANSFERS.....</b>	64,816	46,000
<b>CHANGE IN NET POSITION.....</b>	157,697	106,317
<b>NET POSITION, BEGINNING OF YEAR (AS RESTATED).....</b>	3,598,446	3,492,129
<b>NET POSITION, END OF YEAR.....</b>	<u>\$ 3,756,143</u>	<u>\$ 3,598,446</u>
<b>STATEMENT OF NET POSITION (in thousands)</b>		
	<b>June 30, 2022</b>	<b>June 30, 2021</b>
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>		
<b>Assets</b>		
<b>Current Assets</b>		
Cash and Cash Equivalents.....	\$ 400,589	\$ 236,480
Securities lending collateral equity with State Treasurer.....	64,416	88,301
Loans and notes receivable.....	58,092	52,367
Other receivables.....	15,632	13,214
Due from federal government.....	-	474
Due from component unit.....	6,732	6,537
Restricted assets - accrued interest receivable.....	13,456	14,343
Restricted assets - loans receivable .....	254,792	266,564
Prepaid expenses .....	21	10
Total current assets.....	<u>813,730</u>	<u>678,290</u>
<b>Noncurrent Assets</b>		
Loans and notes receivable, net of current portion.....	1,018,054	725,768
Restricted assets - loans receivable.....	3,458,175	3,722,851
Capital assets, net of accumulated depreciation.....	165	5
Total noncurrent assets.....	<u>4,476,394</u>	<u>4,448,624</u>
<b>Deferred Outflows of Resources</b>		
Deferred amount of pension liability.....	10,077	8,160
Deferred amount on OPEB liability .....	8,742	2,300
Total deferred outflows of resources.....	<u>18,819</u>	<u>10,460</u>
Total assets and deferred outflows of resources.....	<u>\$ 5,308,943</u>	<u>\$ 5,137,374</u>
<b>LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>		
Total current liabilities.....	66,622	93,475
Total noncurrent liabilities.....	1,469,758	1,436,621
Deferred amount on pension liability.....	5,777	3,156
Deferred amount on OPEB liability .....	10,643	5,676
Total liabilities and deferred inflows of resources.....	<u>1,552,800</u>	<u>1,538,928</u>
<b>NET POSITION</b>	<u>\$ 3,756,143</u>	<u>\$ 3,598,446</u>
<b>AGENCY DIRECTOR</b>		
During Audit Period: John J. Kim		
Currently: John J. Kim		

**FINDINGS, CONCLUSIONS, AND  
RECOMMENDATIONS**

**INADEQUATE INTERNAL CONTROLS OVER  
CENSUS DATA**

The Agency did not take sufficient measures to ensure all census data submitted to its pension and other postemployment benefits (OPEB) plans was complete and accurate for the Water Revolving Fund (Fund).

**Uncorrected inaccuracies found in 5% of census data tested**

**Lacked sufficient documentation a complete reconciliation was properly performed**

The Agency performed an initial reconciliation of its census data recorded by the State Employee's Retirement System (SERS) to its internal records in order to establish a base year of complete and accurate census data. During our testing of a sample of 40 transactions reported by the Agency to SERS, we noted two (5%) reporting errors, which the Agency did not identify and correct in its reconciliation. We also noted the Agency did not maintain sufficient documentation that a complete reconciliation was properly performed (Finding 1, pages 51-53). **This finding was first reported in 2020.**

We recommended the Agency ensure reconciliation of its active members' census data from its underlying records to a report of the census data submitted to each plan's actuary is complete and accurate. We further recommend the Agency re-evaluate the data for the base year ended June 30, 2021 to identify any other instances where data discrepancies may still exist and work with SERS to correct all such unresolved errors in the full reconciliation of Agency and SERS records.

**Agency disagreed**

Agency officials stated the census reconciliation of employee data was performed screen by screen along with personnel (paper) file documents. Officials also stated the State Record Act requirements are encompassed in the employees' system record and HR file, which have been retained in accordance with the Records Act. Agency officials also stated the two errors found could not have skewed reliance on actuarial statistics when combined with all other agencies' employee data. Agency officials also responded that both errors have been corrected and stated they will ensure personnel record data is correct.

**Auditor's Comment**

In an Auditor's Comment, we noted the Agency did not provide the auditors documentation to support each employee's information was verified using the source documents indicated in the SERS reconciliation guidance (Guidance). The Guidance also requires Agency staff to verify, for each employee in service on June 30, 2021, that the employee's personnel file contents match the SERS census data extract provided and the Agency's personnel and payroll systems. The State Records Act

(5 ILCS 160/8) requires the Agency to make and preserve records containing adequate and proper documentation of its essential transactions, which would also include documentation of the Agency's complete base year reconciliation and verification of agency and Plan records.

**Sample errors indicate other uncorrected errors may exist**

The errors identified in our sample indicated there could be other uncorrected errors in the census data, and the reconciliation performed was not effective in detecting and correcting all errors. As a result, assurance could not be obtained regarding the accuracy and reliability of the census data the plan actuaries used to calculate pension and OPEB balances used for both the Agency's and the State's financial statements.

**Assurance could not be obtained regarding accuracy and reliability of census data**

We will review the Agency's progress towards the implementation of our recommendations in our next financial audit.

### **AUDITOR'S OPINION**

The auditors stated the financial statements of the Agency's Water Revolving Fund as of and for the year ended June 30, 2022, 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:lkw