



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, 2019

Release Date: February 11, 2020

FINDINGS THIS AUDIT: 1	AGING SCHEDULE OF REPEATED FINDINGS						
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
Category 1:	1	0	1	No Repeat Findings			
Category 2:	0	0	0				
Category 3:	0	0	0				
TOTAL	1	0	1				
FINDINGS LAST AUDIT: 0							

INTRODUCTION

This digest covers the financial audit of the Agency’s Water Revolving Fund as of and for the year ended June 30, 2019. Our next engagement will include a State Compliance Examination of the entire Agency for the two years ending June 30, 2020.

SYNOPSIS

- **(19-01)** The Agency failed to exercise adequate controls over financial reporting to ensure 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.

{Financial data is summarized on next page.}

**ENVIRONMENTAL PROTECTION AGENCY
FINANCIAL AUDIT - WATER REVOLVING FUND
For the Year Ended June 30, 2019**

STATEMENT OF NET POSITION (in thousands)	2019	2018
Assets		
Current Assets		
Cash and Cash Equivalents.....	\$ 107,725	\$ 139,331
Securities lending collateral equity with State Treasurer.....	31,333	52,399
Loans and notes receivable.....	72,460	75,686
Other receivables.....	15,480	15,433
Due from federal government.....	307	274
Due from other funds.....	-	278
Due from component unit.....	8,131	9,225
Restricted assets - accrued interest receivable.....	11,687	11,665
Restricted assets - loans receivable	200,820	164,223
Prepaid expenses	17	12
Total current assets.....	<u>447,960</u>	<u>468,526</u>
Noncurrent Assets		
Loans and notes receivable, net of current portion.....	1,231,325	1,358,165
Restricted assets - loans receivable.....	2,997,630	2,518,695
Capital assets, net of accumulated depreciation.....	9	14
Total noncurrent assets.....	<u>4,228,964</u>	<u>3,876,874</u>
Deferred Outflows of Resources		
Deferred amount of pension liability.....	7,350	10,901
Deferred amount on OPEB liability	740	827
Deferred amount on refunding of long-term obligation.....	-	318
Total deferred outflows of resources.....	<u>8,090</u>	<u>12,046</u>
Total Assets and Deferred Outflows of Resources.....	<u>4,685,014</u>	<u>4,357,446</u>
Liabilities		
Total Current liabilities.....	33,476	53,145
Total Noncurrent liabilities.....	1,230,927	1,041,443
Total Liabilities.....	<u>1,264,403</u>	<u>1,094,588</u>
Deferred Inflows of Resources		
Deferred amount on pension liability.....	9,200	9,949
Deferred amount on OPEB liability	15,182	12,671
Deferred amount on refunding of long-term obligation.....	-	52
Total deferred inflows of resources.....	<u>24,382</u>	<u>22,672</u>
Total Liabilities and Deferred Inflows of Resources.....	<u>1,288,785</u>	<u>1,117,260</u>
Net Position		
Net investment in capital assets.....	9	14
Restricted for:		
Debt Service.....	3,210,137	2,694,849
Other Purposes.....	632,412	623,062
Unrestricted.....	(446,329)	(77,739)
Total Net Position.....	<u>\$ 3,396,229</u>	<u>\$ 3,240,186</u>

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (in thousands)	2019	2018
Operating Revenues.....	\$ 77,487	\$ 70,908
Operating Expenses.....	<u>43,697</u>	<u>41,044</u>
Operating Income.....	33,790	29,864
Nonoperating Revenues.....	148,931	65,061
Nonoperating Expenses.....	<u>26,678</u>	<u>22,174</u>
Change in Net Position.....	156,043	72,751
Net Position, Beginning of Year	3,240,186	3,167,435
Net Position, End of Year.....	<u>\$ 3,396,229</u>	<u>\$ 3,240,186</u>

AGENCY DIRECTOR

During Engagement Period: Alec Messina (through 1-20-19); John J. Kim, Acting (1-21-19 through 5-30-19); John J. Kim, Acting (effective 5-31-19)
Currently: John J. Kim

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

INADEQUATE CONTROLS OVER FINANCIAL REPORTING

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

During our testing, we noted the following:

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| Incorrect entry to reverse prior year accrual entries | <ul style="list-style-type: none">• The Agency made an incorrect entry to reverse prior year accrual entries to the General and Administrative Expenses. The entry resulted in an understatement of General and Administrative Expenses by \$1,613 thousand, an understatement of Interest and Investment Income, Non-Operating by \$859 thousand and an overstatement of Other Expenses by \$754 thousand. An adjusting entry was required. Additionally, \$626 thousand of this journal entry was not adequately supported. |
| \$626 thousand of the journal entry was not adequately supported | |
| Note disclosures did not agree to supporting documentation | <ul style="list-style-type: none">• Three of 16 (19%) disclosures in the draft Notes to Financial Statements did not agree to supporting documentation. |

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

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| Agency agrees with recommendation | Agency officials agreed with the recommendation and stated the Agency will assure a more proactive approach to quarterly financial statements and will assure established GAAP financial procedures are followed. |
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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, 2019 are fairly stated in all material respects.

This financial audit was performed by E.C. Ortiz & Co. 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

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