



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

DEPARTMENT OF INNOVATION AND TECHNOLOGY

**Financial Audit
 For the Year Ended June 30, 2023**

Release Date: May 2, 2024

FINDINGS THIS AUDIT: 4				AGING SCHEDULE OF REPEATED FINDINGS			
	<u>New</u>	<u>Repeat</u>	<u>Total</u>	Repeated Since	Category 1	Category 2	Category 3
Category 1:	4	0	4	FY23 is the first financial audit of the Department of Innovation and Technology			
Category 2:	0	0	0				
Category 3:	0	0	0				
TOTAL	4	0	4				
FINDINGS LAST AUDIT: N/A							

SYNOPSIS

- **(23-02)** The Department failed to exercise adequate controls to ensure the new standard, GASB Statement No. 96 – *Subscription-Based Information Technology Arrangements*, was properly implemented.
- **(23-04)** The Department did not adequately review the billing rates utilized to bill agencies for Information Technology and Telecommunications services, and its accounts receivable.

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.

DEPARTMENT OF INNOVATION AND TECHNOLOGY
FINANCIAL AUDIT
For the Year Ended June 30, 2023

STATEMENT OF NET POSITION	
Technology Management Revolving Fund (in thousands)	June 30, 2023
ASSETS	
Cash and cash equivalents.....	\$ 14,890
Due from federal government.....	151
Due from local government, net.....	867
Other receivables, net.....	502
Due from other funds.....	163,279
Due from component unit.....	520
Lease receivable.....	335
Capital assets, net of accumulated depreciation.....	239,784
Total assets.....	<u>\$ 420,328</u>
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	
Accounts Payable and Accrued Liabilities.....	\$ 151,801
Due to Federal Government.....	8,353
Due to local government.....	44
Due to other funds.....	15,440
Due to component units.....	14
Unearned revenue.....	95
Leases payable.....	840
Compensated absences.....	11,889
Other obligations.....	65,523
Deferred amount on leases.....	3,787
Total liabilities and deferred inflows of resources.....	<u>257,786</u>
NET POSITION	
Net investment in capital assets.....	173,421
Unrestricted (deficit).....	<u>(10,879)</u>
Total Net Position.....	<u><u>\$ 162,542</u></u>
AGENCY DIRECTOR	
During Audit Period: Jennifer Ricker (7/1/22-1/8/23); Brandon Ragle (1/9/23-5/31/23); Sanjay Gupta (6/1/23-present)	
Currently: Sanjay Gupta	

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

**INADEQUATE CONTROLS OVER THE
IMPLEMENTATION OF NEW STANDARD**

The Department failed to exercise adequate controls to ensure the new standard, GASB Statement No. 96 – *Subscription-Based Information Technology Arrangements (SBITA)*, was properly implemented.

Original population not complete

During testing, we requested the Department provide the population of SBITA contracts. The Department provided the list of SBITA contracts with the cut-off date of November 15, 2022, therefore the population provided was not complete.

We used the contract listing from HANA Live as of June 30, 2023, and performed testing to determine whether the Department has properly identified SBITA contracts and accurately calculated and recorded subscription liabilities and subscription assets, including the assets' amortization.

During testing, we noted the Department's process in identifying all contracts in the calculation of GASB Statement No. 96 was not adequate. The following issues were noted:

13 contracts not recorded as SBITAs

- The Department did not record 13 contracts totaling, \$24.386 million, as SBITA.
- The Department erroneously classified and reported as SBITA two contracts. One contract has an unamortized cost of \$18 thousand, which is less than \$25 thousand. The other contract amounting to \$280 thousand was erroneously included in Fund 304's SBITA listing instead of Fund 141.
- The Department did not accurately report the fixed payments for two contracts. The Department cannot provide documentation to support the initial amounts of fixed payments.

**Financial statement adjustments
required**

After the Department was notified by the auditors of the exceptions, the Department re-evaluated the contracts and submitted the Form SCO-560S to the Office of Comptroller to include all SBITA contracts. The issues above resulted in financial statement accounts being incorrect, with the total Net Position being understated by \$3.868 million. The Department made the required adjustments. (Finding 2, pages 28-30).

We recommended the Department exercise adequate controls to ensure proper implementation of the requirements of GASB Statement No. 96.

Department officials agreed

The Department accepted the finding and recommendation and stated they have already strengthened relevant controls to ensure SBITAs are recorded and reported in accordance with GASB 96.

INADEQUATE REVIEW OF BILLING RATES AND ACCOUNTS RECEIVABLE

The Department did not adequately review the billing rates utilized to bill agencies for Information Technology and Telecommunications services, and its accounts receivable.

During testing, we noted the following:

No mark up methodology

- The Department adds an administrative mark up to the telecommunication rate; however, we noted the Department had not developed a methodology to determine the administrative mark up.
- The Department had billed service rates that differed from the approved rates. Several rates were overstated from 11% to 19%, while some rates were understated by 1%.

\$2.1 million unreconciled differences

- For five of 15 (33%) accounts receivable confirmations received from State agencies, there were unreconciled differences totaling \$2,146 thousand, therefore, we cannot determine if accounts receivable and revenues are fairly stated.

Qualified financial statement opinion

Due to the Department's inability to reconcile differences in the accounts receivable confirmation replies from State agencies, we were unable to determine whether Fund 304's financial statements are fairly stated. Therefore, we are issuing a qualified opinion over Fund 304's Fiscal Year 2023 financial statements. (Finding 4, pages 33-34)

We recommended the Department develop a methodology for determining the administrative markup and ensure approved rates are used to bill the client agencies correctly. We also recommended the Department ensure disputes over invoices are timely resolved so auditors can determine whether Department accounts receivable and revenues are fairly stated.

Department officials agreed

The Department accepted the finding and recommendation and stated they will review the current methodology of administrative mark up and billing to ensure accounts receivable and revenues are fairly stated.

OTHER FINDINGS

The remaining findings pertain to weaknesses in accounting and financial reporting and inaccurate property records and

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

AUDITOR'S OPINION

The auditors qualified their opinion on the financial statements of the Department of Innovation and Technology, Technology Management Revolving Fund (Fund) as of and for the year ended June 30, 2023. Except for the matter described in the Basis for Qualified Opinion section in the report, the financial statements of the Fund are fairly stated in all material respects.

This financial audit was conducted by Roth & 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:skm