

**State of Illinois
Department of Innovation
and Technology
Technology Management
Revolving Fund (Fund 304)**

FINANCIAL AUDIT

**FOR THE YEAR ENDED
JUNE 30, 2023**

**PERFORMED AS SPECIAL
ASSISTANT AUDITORS FOR THE
AUDITOR GENERAL,
STATE OF ILLINOIS**

**STATE OF ILLINOIS
DEPARTMENT OF INNOVATION AND TECHNOLOGY
TECHNOLOGY MANAGEMENT REVOLVING FUND (FUND 304)
FINANCIAL AUDIT
For the Year Ended June 30, 2023**

TABLE OF CONTENTS

	<u>Page</u>
Department Officials.....	1
Financial Statement Report	
Summary	2
Independent Auditor’s Report.....	4
Financial Statements	
Statement of Net Position.....	8
Statement of Revenues, Expenses, and Changes in Net Position	9
Statement of Cash Flows	10
Notes to the Financial Statements.....	11
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	24
Schedule of Findings	
Current Findings	26

**STATE OF ILLINOIS
DEPARTMENT OF INNOVATION AND TECHNOLOGY
TECHNOLOGY MANAGEMENT REVOLVING FUND (FUND 304)
FINANCIAL AUDIT
For the Year Ended June 30, 2023**

DEPARTMENT OFFICIALS

Secretary (Acting) (6/1/23 – present)	Sanjay Gupta
Secretary (Acting) (1/9/23 – 5/31/23)	Brandon Ragle
Secretary (7/1/22 – 1/8/23)	Jennifer Ricker
Deputy Secretary (6/7/23 – present)	Brandon Ragle
Assistant Secretary (6/7/23 – present)	Vacant
Assistant Secretary (6/1/23 – 6/6/23)	Brandon Ragle
Assistant Secretary (1/9/23 – 5/31/23)	Vacant
Assistant Secretary (7/8/22 – 1/8/23)	Brandon Ragle
Assistant Secretary (7/1/22 – 7/7/22)	Vacant
Chief Administrative Officer (1/1/23 – present)	Albert Coll
Chief Administrative Officer (11/1/22 – 12/31/22)	Vacant
Chief Administrative Officer (7/1/22 – 10/31/22)	Nina Harris
Chief of Staff	Jenifer Johnson
Chief Fiscal Officer (9/15/22 – present)	Mary Feagans
Chief Fiscal Officer (7/1/22 – 9/14/22)	Vacant
General Counsel (12/1/23 – present)	Radhika Lakhani
General Counsel (1/1/23 – 11/30/23)	Margaret Van Dijk
General Counsel (Acting) (12/29/22 – 12/31/22)	Jenifer Johnson
General Counsel (Acting) (11/1/22 – 12/28/22)	Kristen Sweat
General Counsel (7/1/22 – 10/31/22)	Matthew Runyen
Chief Internal Auditor	John Valtierra

The Department of Innovation and Technology’s primary administrative office is located at:

120 West Jefferson Street
Springfield, Illinois 62702

**STATE OF ILLINOIS
DEPARTMENT OF INNOVATION AND TECHNOLOGY
TECHNOLOGY MANAGEMENT REVOLVING FUND (FUND 304)
FINANCIAL AUDIT
For the Year Ended June 30, 2023**

FINANCIAL STATEMENT REPORT

SUMMARY

The audit of the accompanying individual nonshared proprietary fund financial statements of the Technology Management Revolving Fund of the Department of Innovation and Technology (Department) was performed by Roth and Company, LLP.

Based on their audit, the auditors expressed a qualified opinion on the Department’s individual nonshared proprietary fund financial statements of the Technology Management Revolving Fund.

SUMMARY OF FINDINGS

Number of	<u>Current Report</u>
Findings	4
Repeated Findings	N/A*
Prior Recommendations Implemented or Not Repeated	N/A*

*This is the first Financial Audit of the Department of Innovation and Technology.

SCHEDULE OF FINDINGS

<u>Item No.</u>	<u>Page</u>	<u>Description</u>	<u>Finding Type</u>
Findings			
2023-001	26	Weaknesses in Accounting and Financial Reporting	Material Weakness
2023-002	28	Inadequate Controls Over the Implementation of New Standard	Material Weakness and Noncompliance
2023-003	31	Inaccurate Property Records and Capital Assets Reporting	Material Weakness and Noncompliance
2023-004	33	Inadequate Review of Billing Rates and Accounts Receivable	Material Weakness

**STATE OF ILLINOIS
DEPARTMENT OF INNOVATION AND TECHNOLOGY
TECHNOLOGY MANAGEMENT REVOLVING FUND (FUND 304)
FINANCIAL AUDIT
For the Year Ended June 30, 2023**

EXIT CONFERENCE

The findings and recommendations appearing in this report were discussed with Department personnel at an exit conference on April 10, 2024.

Attending were:

Department of Innovation and Technology

Sanjay Gupta, Acting Secretary
Brandon Ragle, Deputy Secretary
Jenifer Johnson, Chief of Staff
Radhika Lakhani, General Counsel
Mary Feagans, Chief Fiscal Officer
Hemant Modi, Comptroller
John Valtierra, Chief Internal Auditor
Jessica Micenheimer, External Audit Coordinator
Kelly Guerrero, Internal Auditor

Office of the Auditor General

Sara Metzger, Assistant Director

Roth and Company, LLP

Elda Arriola, Partner
Lou Jonathan Cabrera, Manager
Derrick Separo, Associate
Karen Joy Catacutan, Associate
Cassandra Enriquez, Associate

The responses to the recommendations were provided by John Valtierra, Chief Internal Auditor, in a correspondence dated April 17, 2024.



INDEPENDENT AUDITOR'S REPORT

Honorable Frank J. Mautino
Auditor General
State of Illinois

Report on the Audit of the Financial Statements

Qualified Opinion

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the Technology Management Revolving Fund (Fund 304) of the State of Illinois, Department of Innovation and Technology (Department), as of and for the year ended June 30, 2023, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the financial statements referred to above present fairly, in all material respects, the financial position of the Technology Management Revolving Fund (Fund 304) of the Department, as of June 30, 2023, and the changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Department, and to meet our ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

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Matter Giving Rise to the Qualified Opinion

As discussed in Finding 2023-004, the Department did not reconcile differences, totaling \$2.15 million, noted in the Accounts Receivable confirmation replies which prevented us in determining whether the revenue and accounts receivable balances are fairly stated.

Emphasis of Matter

As discussed in Note 2, the financial statements present only the Technology Management Revolving Fund and do not purport to, and do not, present fairly the financial position of either the State of Illinois or the Department as of June 30, 2023, the respective changes in its financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Further, as discussed in Note 10 to the financial statements, the Technology Management Revolving Fund (Fund 304) net position as of July 1, 2022 has been restated as a result of the implementation of GASB Statement 96, *Subscription-Based Information Technology Arrangements*.

Our opinion is not modified with respect to these matters.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.



In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Management has omitted the management's discussion and analysis, pension, and other post-employment benefit (OPEB) related information that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements of the Technology Management Revolving Fund (Fund 304). Such missing information, although not a part of the financial statements of the Technology Management Revolving Fund (Fund 304), is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements of the Technology Management Revolving Fund (Fund 304) is not affected by this missing information.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the Department officials page but does not include the financial statements of the Technology Management Revolving Fund (Fund 304) and our auditor's report thereon. Our opinion on the financial statements of the Technology Management Revolving Fund (Fund 304) does not cover the other information, and we do not express an opinion or any form of assurance thereon.



In connection with our audit of the financial statements of the Technology Management Revolving Fund (Fund 304), our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements of the Technology Management Revolving Fund (Fund 304), or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 18, 2024 on our consideration of the Department’s internal control over financial reporting of the Technology Management Revolving Fund (Fund 304) and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department’s internal control over financial reporting and compliance.

Restricted Use of this Auditor’s Report

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, the Comptroller, and the Department’s management and is not intended to be and should not be used by anyone other than these specified parties.

SIGNED ORIGINAL ON FILE

Chicago, Illinois
April 18, 2024



**STATE OF ILLINOIS
DEPARTMENT OF INNOVATION AND TECHNOLOGY
FUND 304 - TECHNOLOGY MANAGEMENT REVOLVING FUND
INDIVIDUAL NONSHARED PROPRIETARY FUND**

STATEMENT OF NET POSITION

June 30, 2023

(amounts in thousands)

	Technology Management Revolving Fund (304 Fund)
ASSETS	
Current 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, current	20
Total current assets	180,229
Noncurrent assets	
Capital assets, net of accumulated depreciation	239,784
Lease receivable, long-term	315
Total noncurrent assets	240,099
TOTAL ASSETS	420,328
LIABILITIES	
Current liabilities	
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, current	696
Compensated absences, current	729
Other obligations, current	53,300
Total current liabilities	230,472
Noncurrent liabilities	
Leases payable, long-term	144
Compensated absences, long-term	11,160
Other obligations, long-term	12,223
Total noncurrent liabilities	23,527
TOTAL LIABILITIES	253,999
DEFERRED INFLOWS OF RESOURCES	
Deferred amount on leases	3,787
Total deferred inflows of resources	3,787
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	257,786
NET POSITION	
Net investment in capital assets	173,421
Unrestricted (deficit)	(10,879)
TOTAL NET POSITION	\$ 162,542

See accompanying notes to financial statements.

**STATE OF ILLINOIS
DEPARTMENT OF INNOVATION AND TECHNOLOGY
FUND 304 - TECHNOLOGY MANAGEMENT REVOLVING FUND
INDIVIDUAL NONSHARED PROPRIETARY FUND**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the year ended June 30, 2023
(amounts in thousands)**

	Technology Management Revolving Fund (304 Fund)
OPERATING REVENUES	
Charges for sales and services	\$ 484,087
Total operating revenues	484,087
OPERATING EXPENSES	
Cost of sales and services	462,294
Depreciation and amortization	96,247
Total operating expenses	558,541
OPERATING LOSS	(74,454)
NONOPERATING REVENUES (EXPENSES)	
Interest income	3
Other nonoperating revenues	10,754
Interest expense	(16,302)
Other nonoperating expenses	(1,446)
Total nonoperating revenues (expenses)	(6,991)
TRANSFERS	
Transfers-in	100,000
Total transfers	100,000
CHANGE IN NET POSITION	18,555
NET POSITION, BEGINNING OF YEAR (RESTATED)	143,987
NET POSITION, END OF YEAR	\$ 162,542

See accompanying notes to financial statements.

**STATE OF ILLINOIS
DEPARTMENT OF INNOVATION AND TECHNOLOGY
FUND 304 - TECHNOLOGY MANAGEMENT REVOLVING FUND
INDIVIDUAL NONSHARED PROPRIETARY FUND**

**STATEMENT OF CASH FLOWS
For the year ended June 30, 2023
(amounts in thousands)**

	Technology Management Revolving Fund (304 Fund)
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from sales and services	\$ 13,318
Cash received from transactions with other funds	536,983
Cash payments to suppliers for goods and services	(402,983)
Cash payments to internal service providers	(4,782)
Cash payments to employees for services	(164,239)
Net cash used in operating activities	(21,703)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Principal paid on revenue bonds and other borrowings	(10,033)
Operating grants received	12,959
Transfers-in from other funds	100,000
Net cash provided by noncapital financing activities	102,926
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(33,786)
Principal paid on capital debt	(68,702)
Interest paid on capital debt	(865)
Other capital and related financing activities	20
Net cash used in capital and related financing activities	(103,333)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(22,110)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	37,000
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 14,890
Reconciliation of operating loss to net cash used in operating activities	
Operating income (loss)	\$ (74,454)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities	
Depreciation	96,247
Change in assets and liabilities	
Increase in accounts receivable	(74)
Increase in intergovernmental receivables	(152)
Decrease in due from other funds	46,840
Decrease in due from component units	2,966
Decrease in accounts payable and accrued liabilities	(95,330)
Increase in intergovernmental payables	338
Increase in due to other funds	918
Increase in due to component units	10
Decrease in unearned revenues	(10)
Increase in other liabilities	1,307
Decrease in deferred inflows of resources	(205)
Decrease in lease receivables	(104)
Net cash used in operating activities	\$ (21,703)
Noncash investing, capital, and financing activities	
Cost of capital asset acquisitions financed by capital leases	\$ 1,426
Loss on disposal of capital assets	(1,446)
Cost of capital asset acquisitions financed by SBITAs	133,328

See accompanying notes to financial statements.

**STATE OF ILLINOIS
DEPARTMENT OF INNOVATION AND TECHNOLOGY
TECHNOLOGY MANAGEMENT REVOLVING FUND (FUND 304)**

**NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2023**

1. Description of Fund

The State of Illinois, Department of Innovation and Technology (Department) administers the nonshared proprietary fund – Technology Management Revolving Fund. A nonshared fund is a fund in which a single State agency is responsible for administering substantially all financial transactions of the fund.

The Technology Management Revolving Fund held by the State Treasurer consists of costs associated with data processing, information services, local and long-distance voice, data communications, radio, directory information, operator assistance, and equipment and equipment repair services to other State of Illinois agencies as well as other units of government. Costs are financed through this internal service fund, which bills customers directly for services provided.

2. Summary of Significant Accounting Policies

The financial statements of the individual nonshared proprietary fund (the Fund) administered by the Department have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB). To facilitate the understanding of data included in the financial statements, summarized below are the more significant accounting policies.

Reporting Entity: As defined by GAAP, the financial reporting entity consists of a primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as:

- (1) Appointment of a voting majority of the component unit's board and either (a) the primary government's ability to impose its will, or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or
- (2) Fiscal dependency on the primary government and the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government.

Based upon the required criteria, the individual nonshared proprietary fund does not have component units, nor is it a component unit of any other entity. However, because the individual nonshared proprietary fund is not legally separate from the State of Illinois (State), it is included in the financial statements of the State as a proprietary fund. The State of Illinois' Annual Comprehensive Financial Report may be obtained by writing to the State Comptroller's Office, Financial Reporting Department, 325 West Adams Street, Springfield, Illinois 62704-1871, or accessing its website at www.illinoiscomptroller.gov.

**STATE OF ILLINOIS
DEPARTMENT OF INNOVATION AND TECHNOLOGY
TECHNOLOGY MANAGEMENT REVOLVING FUND (FUND 304)**

**NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2023**

2. Summary of Significant Accounting Policies (Continued)

The financial statements present only the Technology Management Revolving Fund (304) administered by the Illinois Department of Innovation and Technology and do not purport to, and do not, present fairly the financial position of the Illinois Department of Innovation and Technology as of June 30, 2023, and the changes in its financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Basis of Presentation: In government, the basic accounting and reporting entity is a fund. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and/or other resources together with all related liabilities, obligations, reserves, and equities which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. A statement of net position, statement of revenues, expenses, and changes in net position and statement of cash flows have been presented for the individual nonshared proprietary fund administered by the Department.

Operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

Basis of Accounting: The individual nonshared proprietary fund is reported using the economic resources measurement focus and the accrual basis of accounting.

Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place. Nonexchange transactions, in which the Department gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants and entitlements. Revenue from grants, entitlements, and similar items is recognized in the fiscal year in which all eligibility requirements imposed by the provider have been met.

Cash and Cash Equivalents: Cash and cash equivalents consist of deposits held in the State Treasury, cash on hand and cash in-transit.

**STATE OF ILLINOIS
DEPARTMENT OF INNOVATION AND TECHNOLOGY
TECHNOLOGY MANAGEMENT REVOLVING FUND (FUND 304)**

**NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2023**

2. Summary of Significant Accounting Policies (Continued)

Interfund Transactions: The individual nonshared proprietary fund has the following types of interfund transactions with other funds of the State:

Loans - amounts provided with a requirement for repayment. Interfund loans are reported as interfund receivables (i.e., due from other funds) in lender funds and interfund payables (i.e., due to other funds) in borrower funds.

Services Provided and Used - sales and purchases of goods and services between funds for a price approximating their external exchange value. Interfund services provided and used are reported as revenues in seller funds and expenditures or expenses in purchaser funds. Unpaid amounts are reported as interfund receivables and payables in the fund statement of net position.

Reimbursements - repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them. Reimbursements are reported as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund.

Transfers - flows of assets (such as cash or goods) without equivalent flows of assets in return and without a requirement for repayment. Transfers are reported after nonoperating revenues and expenses.

Capital Assets: Capital assets, which include property, plant and equipment, and intangible assets, are reported at cost. Contributed assets are reported at estimated fair value at the time received. Right-to-use lease assets and subscription-based information technology arrangements (SBITAs) are recorded at cost based on the present value of expected payments over the lease or SBITA term plus any payments made to the lessor at or before the commencement of the lease or SBITA term and certain direct costs that are ancillary charges necessary to place the asset into service. Capital assets, right-to-use lease assets, and SBITAs are depreciated and amortized using the straight-line method over the following estimated useful lives or over the lease or SBITA term. Intangible assets (internally generated computer software) are assets that do not have a physical existence, are non-financial in nature, are not in a monetary form, and have a useful life of over one year.

**STATE OF ILLINOIS
DEPARTMENT OF INNOVATION AND TECHNOLOGY
TECHNOLOGY MANAGEMENT REVOLVING FUND (FUND 304)**

**NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2023**

2. Summary of Significant Accounting Policies (Continued)

Capitalization thresholds and the estimated useful lives are as follows:

Capital Asset Category	Capitalization Threshold	Estimated Useful Life
Land	\$ 100,000	n/a
Land improvements	25,000	n/a
Site improvements	25,000	3-50 years
Buildings	100,000	10-60 years
Building improvements	25,000	10-45 years
Equipment	5,000	3-25 years
Intangible (internally generated computer software)	1,000,000	20 years
Right-to-use-lease assets	25,000	Lease Term
SBITAs	25,000	SBITA Term

Deferred Outflows/Inflows of Resources: In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Fund has one item that qualifies for reporting in this category, amounts related lessor lease activity related to GASB 87 (note 7).

Compensated Absences: The liability for compensated absences reported in the individual nonshared proprietary fund consists of unpaid, accumulated vacation and sick leave balances for Department employees. The liability has been calculated using the vesting method, in which leave amounts for employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. The liability has been calculated based on the employees' current salary level and includes salary-related costs (e.g., Social Security and Medicare tax).

**STATE OF ILLINOIS
DEPARTMENT OF INNOVATION AND TECHNOLOGY
TECHNOLOGY MANAGEMENT REVOLVING FUND (FUND 304)**

**NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2023**

2. Summary of Significant Accounting Policies (Continued)

Legislation that became effective January 1, 1998, capped the paid sick leave for all State Employees' Retirement System members at December 31, 1997. Employees continue to accrue 12 sick days per year but will not receive monetary compensation for any additional time earned after December 31, 1997. Sick days earned between 1984 and December 31, 1997, (with a 50% cash value) would only be used after all days with no cash value are depleted. Any sick days earned and unused after December 31, 1997, will be converted to service time for purposes of calculating employee pension benefits.

Pension Plan: The vested full-time employees paid from the Fund may participate in the State Employees' Retirement System (SERS), which is a pension trust fund in the State of Illinois reporting entity. The SERS is a single employer defined benefit public employee retirement system (PERS) in which State employees participate, except those covered by the State Universities, Teachers', General Assembly, and Judges' Retirement Systems. The financial position and results of operations of the SERS for fiscal year 2023 are included in the State of Illinois' Annual Comprehensive Financial Report for the year ended June 30, 2023. The SERS issues a separate Annual Comprehensive Financial Report that may be obtained by writing to the SERS, 2101 South Veterans Parkway, Springfield, Illinois, 62794 or online at <http://www.auditor.illinois.gov/Audit-Reports/STATE-EMPLOYEES-RETIREMENT-SYSTEM.asp>.

A summary of SERS benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the SERS' Annual Comprehensive Financial Report. Also included is a discussion of employer and employee obligations to contribute and the authority under which those obligations are established.

The Fund pays employer retirement contributions based upon an actuarially determined percentage of their payrolls. For fiscal year 2023, the employer contribution rate was 53.258%.

In accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27*, the State has reported a pension liability and related deferred inflows and outflows, as a single-employer plan, in the State of Illinois Annual Comprehensive Financial Report. The State has not allocated a pension liability or related deferred inflows and outflows to the Fund.

**STATE OF ILLINOIS
DEPARTMENT OF INNOVATION AND TECHNOLOGY
TECHNOLOGY MANAGEMENT REVOLVING FUND (FUND 304)**

**NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2023**

2. Summary of Significant Accounting Policies (Continued)

Other Post-Employment Benefits: The State provides health, dental, vision, and life insurance benefits for retirees and their dependents in a program administered by the Department of Central Management Services. Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State sponsored pension plans. Health, dental, and vision benefits include basic benefits for annuitants and dependents under the State's self-insurance plan and insurance contracts currently in force. Annuitants may be required to contribute towards health, dental, and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants who retired prior to January 1, 1998, and who are vested in the State Employee's Retirement System do not contribute towards health, dental, and vision benefits. For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced five percent for each year of credited service with the State, allowing those annuitants with twenty or more years of credited service to not have to contribute towards health, dental, and vision benefits. Annuitants also receive life insurance coverage equal to the annual salary of the last day of employment until age 60, at which time the benefit becomes \$5,000.

A summary of post-employment benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the financial statements of the Department of Central Management Services. A copy of the financial statements of the Department may be obtained by writing to the Department of Central Management Services, 401 South Spring Street, Springfield, Illinois, 62706 or online at <http://www.auditor.illinois.gov/Audit-Reports/CENTRAL-MANAGEMENT-SERVICES-DEPARTMENT.asp>.

In accordance with GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*, the State has reported an Other Postemployment Benefit (OPEB) liability and related deferred inflows and outflows, as a single-employer plan, in the State of Illinois Annual Comprehensive Financial Report. The State has not allocated an OPEB liability or related deferred inflows and outflows to the Fund.

Net Position: Equity is displayed in two components as follows:

Net Investment in Capital Assets - this consists of capital assets, net of accumulated depreciation and related debt.

**STATE OF ILLINOIS
DEPARTMENT OF INNOVATION AND TECHNOLOGY
TECHNOLOGY MANAGEMENT REVOLVING FUND (FUND 304)**

**NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2023**

2. Summary of Significant Accounting Policies (Continued)

Unrestricted - this is the amount that does not meet the definition of “net investment in capital assets” or “restricted” which consists of amounts that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation. Although the Fund reports unrestricted net position, it is to be used by the Fund for the payment of obligations incurred by the Fund in carrying out its statutory powers and duties and is to remain in the Fund.

Adoption of New Accounting Pronouncements: Effective for the year ending June 30, 2023, the Department has adopted the following GASB statements:

Statement No. 91, *Conduit Debt Obligations*, which is intended to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The implementation of this statement had no financial impact on the Fund’s net position or results of operations.

Statement No. 94, *Public-Private and Public-Public Partnerships and Available Payment Arrangements*, which is intended to improve financial reporting by addressing issues related to public-private and public-public partnerships (PPPs). This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). The implementation of this statement had no financial impact on the Department’s net position or results of operations.

Statement No. 96, *Subscription-Based Information Technology Arrangements*, which is intended to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users(governments). The implementation of this statement and its financial impact on the Department’s net position and results of operations is disclosed in Note 10.

The portion of Statement No. 99, *Omnibus 2022*, which is intended to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees related to leases, public-private and public-public partnerships, and subscription-based information technology arrangements. The implementation of this statement had no financial impact on the Department’s net position or results of operations.

**STATE OF ILLINOIS
DEPARTMENT OF INNOVATION AND TECHNOLOGY
TECHNOLOGY MANAGEMENT REVOLVING FUND (FUND 304)**

**NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2023**

2. Summary of Significant Accounting Policies (Continued)

Future Adoption of New Accounting Pronouncements: Effective for the year ending June 30, 2024, the Department will adopt the following GASB statements:

The portion of Statement No. 99, *Omnibus 2022*, related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement No. 53.

Statement No. 100, *Accounting Changes and Error Corrections*, which is intended to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

Effective for the year ending June 30, 2025, the Department will adopt the following GASB statements:

Statement No. 101, *Compensated Absences*, which is intended to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures.

The Department has not yet determined the impact of adopting these statements on its financial statements.

Use of Estimates: The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. Cash and Cash Equivalents

The State Treasurer is the custodian of the State's cash and cash equivalents for funds maintained in the State Treasury.

Deposits in the custody of the State Treasurer (or on hand or in transit) at June 30, 2023, were \$14,890 thousand. Deposits in the custody of the State Treasurer are pooled and invested with other State funds in accordance with the Deposit of State Moneys Act of the Illinois Compiled Statutes (15 ILCS 520/11).

**STATE OF ILLINOIS
DEPARTMENT OF INNOVATION AND TECHNOLOGY
TECHNOLOGY MANAGEMENT REVOLVING FUND (FUND 304)**

**NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2023**

3. Cash and Cash Equivalents (Continued)

Funds held by the State Treasurer have not been categorized as credit risk because the Fund does not own individual securities. Details on the nature of these investments are available within the State of Illinois' Annual Comprehensive Financial Report.

4. Other Receivables

Other receivables (amounts in \$000s) at June 30, 2023 are as follows:

Due from federal	\$ 151
Due from local	885
Less: Allowance for uncollectible due from other governments	(18)
Intergovernmental receivables, net	<u>\$ 1,018</u>
Other receivables	\$ 546
Less: Allowance for uncollectible other receivables	(44)
Other receivables, net	<u>\$ 502</u>

5. Balances Due From and Due To

Balances Due From and Due To Other Funds and Component Units: The Department provides statewide information technology and telecom services which are charged to other state agencies and component units. Likewise, the Department is charged for facility services, health insurance, central processing services, and grant accountability services it receives from other agencies. The following balances at June 30, 2023, represent amounts due from and due to other agency, State of Illinois funds and Component Units (amounts in \$000s):

	Due from	Due to
Other funds	\$ 163,279	\$ 15,440
Component units	520	14
Intergovernmental receivables	<u>\$ 163,799</u>	<u>\$ 15,454</u>

**STATE OF ILLINOIS
DEPARTMENT OF INNOVATION AND TECHNOLOGY
TECHNOLOGY MANAGEMENT REVOLVING FUND (FUND 304)**

**NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2023**

6. Capital Assets

Capital asset activities for the year ended June 30, 2023, were as follows (amounts in \$000s):

	Balance July 1, 2022 As restated	Additions	Deletions	Balance June 30, 2023
Capital assets not being depreciated internally generally software in progress	\$ 13,944	\$ 4,433	\$ -	\$ 18,377
Total capital assets not being depreciated	13,944	4,433	-	18,377
Capital Assets being depreciated				
Buildings and building improvements	1,089	-	-	1,089
Capital leases-buildings	444	1,426	214	1,656
Equipment	156,961	22,047	15,969	163,039
Capital leases-equipment	165	-	-	165
Infrastructure	59,952	-	-	59,952
Internally generated software	100,678	-	-	100,678
SBITAs	110,397	22,931	-	133,328
Capital leases - other	777	-	176	601
Fiber optics rights	3,881	-	-	3,881
Total capital assets being depreciated	434,344	46,404	16,359	464,389
Less: Accumulated depreciation for				
Buildings and building improvements	882	26	-	908
Capital leases - buildings	92	810	53	849
Equipment	107,214	28,221	14,522	120,913
Capital leases - equipment	47	71	-	118
Infrastructure	25,646	2,995	-	28,641
Internally generated software	24,187	10,069	-	34,256
SBITAs	-	53,648	-	53,648
Capital leases - other	200	171	176	195
Fiber optic rights	3,218	236	-	3,454
Total accumulated depreciation	161,486	96,247	14,751	242,982
Total capital assets being depreciated, net	272,858	(49,843)	1,608	221,407
Capital assets, net	\$ 286,802	\$ (45,410)	\$ 1,608	\$ 239,784

Depreciation expense for the year ended June 30, 2023 was \$96,247.

**STATE OF ILLINOIS
DEPARTMENT OF INNOVATION AND TECHNOLOGY
TECHNOLOGY MANAGEMENT REVOLVING FUND (FUND 304)**

**NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2023**

7. Leases

The Department has entered various leases for building facilities, equipment, and other right-to-use assets with remaining lease terms ranging from less than one year to eight years. Although lease terms vary, certain leases are renewable subject to appropriation by the General Assembly. If renewal is reasonably assured, leases requiring appropriation by the General Assembly are considered noncancelable leases for financial reporting purposes. The renewal and termination options are not included in the right-to-use asset or lease liability balance until they are reasonably certain of exercise.

At June 30, 2023, right-to-use assets under leases (amounts in \$000s) are as follows:

	Amount
Buildings and building improvements	\$ 1,656
Equipment	165
Other	601
Intergovernmental receivables, net	2,422
Less: Accumulated amortization	1,162
Net lease book value	\$ 1,260

Future minimum commitments (amounts in \$000s) for non-cancelable leases as of June 30, 2023, are as follows:

Year Ending June 30	Principal	Interest
2024	\$ 696	\$ 18
2025	66	3
2026	30	2
2027	11	1
2028	11	1
2029 - 2033	26	1
Total minimum lease payments	\$ 840	\$ 26

8. Subscription-Based Information Technology Arrangements (SBITAs)

The Department has entered into various SBITAs with remaining contract terms ranging from one to seven years. Although subscription terms vary, certain agreements are renewable subject to appropriation by the General Assembly. If renewal is reasonable assured, agreements requiring appropriation by the General Assembly are considered noncancelable agreements for financial reporting purposes. The renewal and termination options are not included in the subscription asset or subscription liability balance until they are reasonably certain of exercise.

**STATE OF ILLINOIS
DEPARTMENT OF INNOVATION AND TECHNOLOGY
TECHNOLOGY MANAGEMENT REVOLVING FUND (FUND 304)**

**NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2023**

8. Subscription-Based Information Technology Arrangements (SBITAs) (Continued)

At June 30, 2023, the Department had no commitments under subscriptions prior to the commencement of the subscription term.

At June 30, 2023 subscription assets under SBITAs are as follows (amounts in \$000s):

	Amount
Subscription assets	\$ 133,328
Less: Accumulated amortization	53,648
Net SBITA book value	\$ 79,680

Future minimum commitments for non-cancelable SBITAs as of June 30, 2023, are as follows (amounts in \$000s):

Year Ending June 30	Principal	Interest
2024	\$ 53,300	\$ 2,852
2025	8,396	558
2026	3,827	171
Total minimum SBITA payments	\$ 65,523	\$ 3,581

9. Long-Term Obligations

Changes in Long-Term Obligations: Changes in long-term obligations for the year ended June 30, 2023, were as follows (amounts in \$000s):

	Balance July 1, 2022 As Restated	Additions	Deletions	Balance June 30, 2023	Amounts Due Within One Year
Capital leases payable	\$ 471	\$ 1,426	\$ 1,057	\$ 840	696
Notes payable – direct Borrowing	10,033	-	10,033	-	-
Compensated absences	10,582	12,107	10,800	11,889	729
SBITAs	110,397	22,931	67,805	65,523	53,300
Total	\$ 131,483	\$ 36,464	\$ 89,695	78,252	\$ 54,725

Notes Payable – Direct Borrowing was a voice over internet protocol installment purchase agreement that ended with final payment in fiscal year 2023.

**STATE OF ILLINOIS
DEPARTMENT OF INNOVATION AND TECHNOLOGY
TECHNOLOGY MANAGEMENT REVOLVING FUND (FUND 304)**

**NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2023**

10. Restatement

Implementation of GASB Statement No. 96, Subscription-Based Information Technology Arrangements

Certain notes to the financial statements have been restated as of June 30, 2022 as a result of the implementation of GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, which establishes that a subscription-based information technology arrangement (SBITA) results in a right to use a subscription asset - an intangible asset - and a corresponding subscription liability. Implementation of Statement No. 96 had no financial impact on the Department's beginning net position. Restatement of beginning SBITA's assets and obligations as of June 30, 2022 were as follows (amounts in \$000s):

	<u>Note 6 Capital Assets</u>	<u>Note 9 Long-Term Obligations</u>
June 30, 2022, as previously reported	\$ 176,405	\$ 21,086
Implementation of GASB 96 Subscription-based information technology arrangements	110,397	
Implementation of GASB 96 Subscription-based information technology arrangements, obligations		110,397
June 30, 2022, as restated	<u>\$ 286,802</u>	<u>\$ 131,483</u>

11. Contingencies

The Department is involved in a number of legal proceedings and claims covering a wide range of matters. The ultimate results of these lawsuits and other proceedings against the Department cannot be predicted with certainty; however, the Department does not expect such matters to have a material effect on the financial position of Technology Management Revolving Fund.

12. Subsequent Event

The Department is not aware of any facts, decisions, or conditions that might be expected to have a significant impact on the financial position or results of operations during this and future fiscal years.



INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable Frank J. Mautino
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Technology Management Revolving Fund (Fund 304) of the State of Illinois, Department of Innovation and Information Technology (Department), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the financial statements, and we have issued our report thereon dated April 18, 2024.

Report on Internal Control Over Financial Reporting

Management of the Department is responsible for establishing and maintaining effective internal control over financial reporting of the Technology Management Revolving Fund (internal control).

In planning and performing our audit of the financial statements, we considered the Department's internal control as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant

deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying Schedule of Findings as items 2023-001 through 2023-004 that we consider to be material weaknesses.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's Technology Management Revolving Fund (Fund 304) financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings as items 2023-002 and 2023-003.

Department's Responses to the Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Department's responses to the findings identified in our audit and described in the accompanying Schedule of Findings. The Department's responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Restricted Use of this Report

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, the Comptroller, and the Department's management and is not intended to be and should not be used by anyone other than these specified parties.

SIGNED ORIGINAL ON FILE

Chicago, Illinois
April 18, 2024



**STATE OF ILLINOIS
DEPARTMENT OF INNOVATION AND TECHNOLOGY
TECHNOLOGY MANAGEMENT REVOLVING FUND (FUND 304)
SCHEDULE OF FINDINGS – *GOVERNMENT AUDITING STANDARDS FINDING*
For the Year Ended June 30, 2023**

2023-001 **FINDING** Weaknesses in Accounting and Financial Reporting

The Illinois Department of Innovation and Technology (Department) did not ensure all transactions impacting the Technology Management Revolving Fund (Fund 304) were appropriately recorded in its internal accounting records and presented fairly in its financial statements.

During testing, we noted the following:

- The Department failed to reverse the prior year prompt pay interest accruals recorded in the Accrued Liabilities account totaling \$66,062 thousand. During Fiscal Year 2023, the accrual of prompt payment interest was recorded in Accounts Payable. This resulted in the overstatement of total Accounts Payable and Accrued Liabilities by \$66,062 thousand. An adjusting entry was required.
- The Department made an error in recording an adjusting entry to capitalize computer hardware totaling \$2,592 thousand, which was recorded as Equipment-EDP Expense during the prior year. The corresponding credits were for Accumulated Depreciation amounting to \$1,512 thousand and Equipment-EDP Expense amounting to \$1,080 thousand. The credit to Equipment-EDP Expense instead of Net Investment in Capital Assets resulted in the overstatement of the current year Operating Expenses, thereby understating the Operating Income by \$1,080 thousand. An adjusting entry was required.
- The Department made adjusting entries totaling \$1,989 thousand to transfer the Low Value Asset account to the Low Value Asset - Expense account. The expenses pertain to prior year Low Value Assets transactions, therefore, should have been adjusted to the equity account. An adjusting entry was required.
- The Department improperly adjusted the current year Charges for Sales and Services totaling \$5,683 thousand and Cost of Sales and Services totaling \$7,634 thousand instead of closing the net amount totaling \$1,951 thousand to the Unrestricted Net Assets due to said amounts pertained to adjustments to Fiscal Year 2023 beginning balances of several accounts. An adjusting entry was required.

The Department made the required adjusting entries to their financial statements to correct these errors.

GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, requires government's proprietary fund financial statements be prepared using the economic resources measurement focus

STATE OF ILLINOIS
DEPARTMENT OF INNOVATION AND TECHNOLOGY
TECHNOLOGY MANAGEMENT REVOLVING FUND (FUND 304)
SCHEDULE OF FINDINGS – *GOVERNMENT AUDITING STANDARDS FINDING*
For the Year Ended June 30, 2023

2023-001 **FINDING** Weaknesses in Accounting and Financial Reporting (Continued)

and the accrual basis of accounting. The accrual basis of accounting requires the recognition of expenses, assets, and liabilities in the accounting period they are incurred. Further, GASB Statement No. 34 requires the use of proper terminology and appropriate classification consistently throughout the budgeting, accounting, and reporting processes.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Department to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance assets, resources, and funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial reports and to maintain accountability over the State's resources.

Department officials stated the issues noted were due to staff turnover and user error.

Failure to establish and maintain adequate internal fiscal and administrative controls over Fund 304's accounting records and financial reporting could have, if not detected and corrected through the audit process, resulted in a material misstatement of Fund 304's financial statements. (Finding Code No. 2023-001)

RECOMMENDATION

We recommend the Department strengthen its internal controls over the financial reporting process to ensure all transactions impacting Fund 304 are recorded in its internal accounting records and presented fairly in its financial statements in accordance with the generally accepted accounting principles applicable to Fund 304.

DEPARTMENT RESPONSE

The Department accepts the finding and recommendation. The Department plans to review balances in each of the general ledger accounts prior to the year-end close of FY24. The Department has also strengthened the journal entry review control to ensure the resultant financial statements are in accordance with the generally accepted accounting principles.

**STATE OF ILLINOIS
DEPARTMENT OF INNOVATION AND TECHNOLOGY
TECHNOLOGY MANAGEMENT REVOLVING FUND (FUND 304)
SCHEDULE OF FINDINGS – *GOVERNMENT AUDITING STANDARDS FINDING*
For the Year Ended June 30, 2023**

2023-002 **FINDING** Inadequate Controls Over the Implementation of New Standard

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

GASB Statement No. 96 - *Subscription-Based Information Technology Arrangements* (GASB Statement No. 96) is intended to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users and was first effective for Fiscal Year 2023.

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.

Due to this condition, we were initially unable to conclude whether the Department's population records were sufficiently precise and detailed under the Professional Standards promulgated by the American Institute of Certified Public Accountants (AUC § 500.08) to test the Department's compliance with GASB Statement No. 96.

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:

- 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.

STATE OF ILLINOIS
DEPARTMENT OF INNOVATION AND TECHNOLOGY
TECHNOLOGY MANAGEMENT REVOLVING FUND (FUND 304)
SCHEDULE OF FINDINGS – GOVERNMENT AUDITING STANDARDS FINDING
For the Year Ended June 30, 2023

2023-002 **FINDING** Inadequate Controls Over the Implementation of New Standard
(Continued)

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.

- Capital Assets, Being Depreciated understated by \$32.915 million.
- Depreciation Expense understated by \$9.057 million.
- Interest Expense, Non-Operating understated by \$789 thousand.
- Other Obligations, Long-Term understated by \$6.835 million.
- Other Obligations, Current understated by \$12.625 million.
- Accumulated Depreciation understated by \$9.057 million.
- Accounts Payable and Accrued Liabilities understated by \$531 thousand.
- Cost of Sales and Services overstated by \$ 13.714 million.

The Department made the adjustments noted above to their financial statements to correct these errors.

GASB Statement No. 96 defines a SBITA as a contract that conveys control of the right to use a SBITA vendor's information technology (IT) software, alone, or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period in exchange or exchange-like transaction. GASB Statement No. 96 requires governments with SBITAs to recognize a right-to-use subscription asset- an intangible asset- and a corresponding subscription liability.

The Statewide Accounting Management System (SAMS) (Procedure 27.20.60S) requires all Agencies to report to the Comptroller's Office those arrangements that met the definition of SBITA by completing an SCO-560S form. Additionally, the Comptroller's Office only requires each agency to prepare this form if the total subscription payments for the software and related IT asset(s) are greater than \$25,000.

The State Records Act (5 ILCS 160/8) requires the Department make and preserve records containing adequate and proper documentation of its essential transactions to protect the legal and financial rights of the State and of persons directly affected by the Department's activities.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Department establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance funds applicable to operations are properly recorded and accounted for to permit the preparation of reliable financial and statistical reports.

**STATE OF ILLINOIS
DEPARTMENT OF INNOVATION AND TECHNOLOGY
TECHNOLOGY MANAGEMENT REVOLVING FUND (FUND 304)
SCHEDULE OF FINDINGS – *GOVERNMENT AUDITING STANDARDS FINDING*
For the Year Ended June 30, 2023**

2023-002 **FINDING** Inadequate Controls Over the Implementation of New Standard
(Continued)

Department officials stated the issues noted were due to user error, staff turnover, and learning curve as Fiscal Year 2023 is the first implementation year for SBITA.

Failure to establish and maintain adequate internal fiscal and administrative controls over the determination, accurate recording, and proper reporting of SBITAs increases the risk of material misstatement in Fund 304's financial statements and reduces the reliability of Statewide financial reporting. (Finding Code No. 2023-002)

RECOMMENDATION

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

DEPARTMENT RESPONSE

The Department accepts the finding and recommendation. The Department has already strengthened relevant controls via thorough examination and review of each of the Subscription-Based IT Arrangements (SBITAs) to ensure they are recorded and reported in accordance with the GASB Statement No. 96.

**STATE OF ILLINOIS
DEPARTMENT OF INNOVATION AND TECHNOLOGY
TECHNOLOGY MANAGEMENT REVOLVING FUND (FUND 304)
SCHEDULE OF FINDINGS – *GOVERNMENT AUDITING STANDARDS FINDING*
For the Year Ended June 30, 2023**

2023-003 **FINDING** Inaccurate Property Records and Capital Assets Reporting

The Illinois Department of Innovation and Technology (Department) failed to maintain adequate property records and ensure capital assets balance was accurately reported in its financial statements.

During testing, we noted:

- Three of 60 (5%) items physically inspected, totaling \$8 million and with net book value of \$525 thousand, were not found. The assets were already disposed but still recorded in the property listing and financial statements as of June 30, 2023. This resulted in the overstatement of Net Capital Assets by \$525 thousand.
- The Department did not record equipment received during Fiscal Year 2023 totaling \$2.147 million. The assets were recorded after Fiscal Year 2023 due to the lag in the Department's posting of goods receipt date. This resulted in the understatement of Capital Assets by \$2.147 million.

The Department made the adjustments noted above to their financial statements to correct these errors.

GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, requires government's proprietary fund financial statements be prepared using the economic resources measurement focus and the accrual basis of accounting. The accrual basis of accounting requires the recognition of assets in the accounting period they are incurred. GASB Statement No. 34 also requires all capital assets be recorded in the financial statements.

The State Property Control Act (Act) (30 ILCS 605/4) requires every responsible officer to be accountable to the administration for the supervision, control, and inventory of all property under its jurisdiction.

Statewide Accounting Management System (SAMS) (Procedure 03.30.20) states that capital assets should be reported at actual or estimated historical cost at the time of acquisition.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires State agencies to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance that funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use, and misappropriation; and revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of

**STATE OF ILLINOIS
DEPARTMENT OF INNOVATION AND TECHNOLOGY
TECHNOLOGY MANAGEMENT REVOLVING FUND (FUND 304)
SCHEDULE OF FINDINGS – *GOVERNMENT AUDITING STANDARDS FINDING*
For the Year Ended June 30, 2023**

2023-003 **FINDING** Inaccurate Property Records and Capital Assets Reporting (Continued)

accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

Department officials stated the issue of the equipment disposed but not deleted in the property records was due to staff turnover and user error. In addition, Department officials stated the failure to record the equipment when received was due to the deficiency in the shopping cart process, which is currently being reviewed by the Department to explore possibilities for the process enhancement.

Failure to maintain adequate controls over property and related records has resulted in the Department's property records and subsequent financial statements reporting to be inaccurate. (Finding Code No. 2023-003)

RECOMMENDATION

We recommend the Department strengthen its internal controls over property to ensure complete, accurate, and timely recording of property in its internal records and financial statements.

DEPARTMENT RESPONSE

The Department accepts the finding and recommendation. The Department will review the end-to-end process over property controls to ensure the Department is recording and reporting financial statements in compliance with the generally accepted accounting principles.

**STATE OF ILLINOIS
DEPARTMENT OF INNOVATION AND TECHNOLOGY
TECHNOLOGY MANAGEMENT REVOLVING FUND (FUND 304)
SCHEDULE OF FINDINGS – *GOVERNMENT AUDITING STANDARDS FINDING*
For the Year Ended June 30, 2023**

2023-004 **FINDING** Inadequate Review of Billing Rates and Accounts Receivable

The Department of Innovation and Technology (Department) did not adequately review the billing rates utilized to bill agencies for Information Technology (IT) and Telecommunication services, and its accounts receivable.

During testing, we noted the following:

- 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%.
- 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.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Department to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide that obligations and costs are in compliance with applicable law and revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources.

In addition, complete and accurate financial statements are necessary to enable the Department to inform its economic, social, and political decision making and other users in assessing the financial condition and results of operations of Fund 304, as noted in Concepts Statement No. 1 of the Governmental Accounting Standards Board (paragraph 32), *Objectives of Financial Reporting*.

Department management indicated the methodology had not been sufficiently documented due to lack of staff and the issue on the differences in rates billed were due to oversight. In addition, Department management indicated the unreconciled differences in the accounts receivable confirmations were due to disputes by customer State agencies about the Department's invoices.

**STATE OF ILLINOIS
DEPARTMENT OF INNOVATION AND TECHNOLOGY
TECHNOLOGY MANAGEMENT REVOLVING FUND (FUND 304)
SCHEDULE OF FINDINGS – *GOVERNMENT AUDITING STANDARDS FINDING*
For the Year Ended June 30, 2023**

2023-004 **FINDING** Inadequate Review of Billing Rates and Accounts Receivable (Continued)

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.

Failure to review the various rates, establish a methodology for determining rates, and accurately bill the agencies with the approved rates, the Department may be under or over charging agencies for the usage of their services. In addition, failure to maintain adequate controls over accounts receivable may result in unreliable financial and statistical reports. (Finding Code No. 2023-004)

RECOMMENDATION

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

DEPARTMENT RESPONSE

The Department accepts the finding and recommendation. The Department will review the current methodology of administrative markup and billing to ensure accounts receivable and revenues are fairly stated.