

**STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS –
CORRECTIONAL INDUSTRIES**

**FINANCIAL AUDIT
For the Year Ended June 30, 2008**

And

**COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2008**

**Performed as Special Assistant Auditors
for the Auditor General, State of Illinois**

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
FINANCIAL AUDIT
For the Year Ended June 30, 2008
And
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2008

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AGENCY OFFICIALS

DEPARTMENT OF CORRECTIONS:

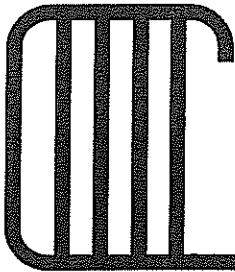
Director	Roger E. Walker, Jr.
Deputy Director, Division of Finance and Administration	Tony Small
Assistant Deputy Director, Fiscal Accounting Compliance	Mary Ann Bohlen

DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES:

Acting Chief Executive Officer (from 9/1/08 to present)	Donna Lindemulder
Chief Executive Officer (from 7/1/06 to 8/31/08)	James Underwood
Assistant Chief Executive Officer	Salvatore Raymond

Agency office is located at:

1301 Concordia Court
Springfield, IL 62794-9277



Illinois
Department of
Corrections

Pat Quinn
Governor

Roger E. Walker Jr.
Director

1301 Concordia Court • P.O. Box 19277
Springfield IL 62794-9277

Telephone: (217) 558-2200
TDD: (800) 526-0844

MANAGEMENT ASSERTION LETTER

March 25, 2009

E.C. Ortiz & Co., LLP
Certified Public Accountants
333 S. Des Plaines, Suite 2-N
Chicago, Illinois 60661

Ladies and Gentlemen:

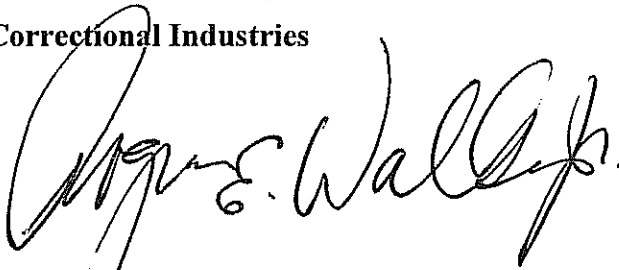
We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grant agreements that could have a material effect on the operations of the State of Illinois, Department of Corrections – Correctional Industries. We are responsible for and we have established and maintained an effective system of, internal controls over compliance requirements. We have performed an evaluation of the State of Illinois, Department of Corrections – Correctional Industries' compliance with the following assertions during the two-year period ended June 30, 2008. Based on this evaluation, we assert that during the years ended June 30, 2008 and June 30, 2007, the State of Illinois, Department of Corrections – Correctional Industries has materially complied with the assertions below.

- A. The State of Illinois, Department of Corrections – Correctional Industries has obligated, expended, received and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The State of Illinois, Department of Corrections – Correctional Industries has obligated, expended, received and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.
- C. The State of Illinois, Department of Corrections – Correctional Industries has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.

- D. The State revenues and receipts collected by the State of Illinois, Department of Corrections – Correctional Industries are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.
- E. Money or negotiable securities or similar assets handled by the State of Illinois, Department of Corrections – Correctional Industries on behalf of the State or held in trust by the State of Illinois, Department of Corrections – Correctional Industries have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate and in accordance with law.

Very truly yours,

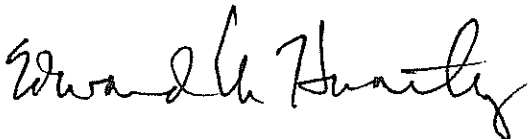
**State of Illinois - Department of Corrections
Correctional Industries**



Roger E. Walker Jr.
Director



Tony Small
Deputy Director, Division of Finance and Administration



Ed Huntley
Chief Legal Counsel

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
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COMPLIANCE REPORT

SUMMARY

The compliance testing performed during this examination was conducted in accordance with *Government Auditing Standards* and in accordance with the Illinois State Auditing Act.

AUDITORS' REPORTS

The Independent Auditors' Report on State Compliance, on Internal Control Over Compliance, and on Supplementary Information for State Compliance Purposes does not contain scope limitations or disclaimers, but contained report qualifications for compliance and internal control.

SUMMARY OF FINDINGS

<u>Number of</u>	<u>Current Report</u>	<u>Prior Report</u>
Findings	12	7
Repeated findings	5	2
Prior recommendations implemented or not repeated	2	2

Details of findings are presented in a separately tabbed report section.

SCHEDULE OF FINDINGS

<u>Item No.</u>	<u>Page</u>	<u>Description</u>	<u>Finding Type</u>
FINDINGS (<i>GOVERNMENT AUDITING STANDARDS</i>)			
08-1	15	Inadequate control over financial reporting	Material Weakness

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<u>Item No.</u>	<u>Page</u>	<u>Description</u>	<u>Finding Type</u>
FINDINGS (STATE COMPLIANCE)			
08-2	18	Inadequate control over property and equipment	Material weakness and material noncompliance
08-3	21	Quarterly accounts receivable reporting errors	Material weakness and material noncompliance
08-4	24	Incorrect timekeeping	Noncompliance
08-5	26	Temporary assignments	Noncompliance
08-6	29	Employee training not adequately documented	Noncompliance
08-7	31	Management practices – management information system	Noncompliance
08-8	33	Monthly reconciliation of receipts not properly performed	Noncompliance
08-9	35	Transfer of assets not monitored	Noncompliance
08-10	37	All of the relevant costs not being included in the computation of manufacturing costs	Noncompliance
08-11	39	No inventory obsolescence policy	Noncompliance
08-12	41	Catch-up billings issued without administrative rules	Noncompliance
PRIOR FINDINGS NOT REPEATED			
A	43	Untimely signing/execution of written contract agreements	
B	43	Updated liability insurance certificates could not be provided	

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COMPLIANCE REPORT

EXIT CONFERENCE

The findings and recommendations appearing in this report were discussed with Agency personnel at an exit conference on March 19, 2009. Attending were:

Department of Corrections

Tony Small – Deputy Director, Division of Finance and Administration
Mary Ann Bohlen – Assistant Deputy Director, Fiscal Accounting Compliance
Joseph Deady – Manager of General Accounting

Department of Corrections – Correctional Industries

Donna Lindemulder – Acting Chief Executive Officer
Sal Raymond – Assistant Chief Executive Officer
Caroline Petefish – Regional Manager

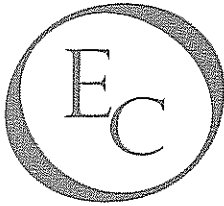
Office of the Auditor General

Paul Usherwood – Manager

E. C. Ortiz & Co., LLP

Edilberto Ortiz - Partner
Marites Sy – Partner
Sheila Mae Bakabak - Senior

Responses to the recommendations were provided by Mary Ann Bohlen in a letter dated March 25, 2009.



E.C. ORTIZ & CO., LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE, ON INTERNAL CONTROL OVER COMPLIANCE, AND ON SUPPLEMENTARY INFORMATION FOR STATE COMPLIANCE PURPOSES

Honorable William G. Holland
Auditor General
State of Illinois

Compliance

As Special Assistant Auditors for the Auditor General, we have examined the State of Illinois, Department of Corrections – Correctional Industries' compliance with the requirements listed below, as more fully described in the Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies (Audit Guide) as adopted by the Auditor General, during the years ended June 30, 2008 and 2007. The management of the State of Illinois, Department of Corrections – Correctional Industries is responsible for compliance with these requirements. Our responsibility is to express an opinion on the State of Illinois, Department of Corrections – Correctional Industries' compliance based on our examination.

- A. The State of Illinois, Department of Corrections – Correctional Industries has obligated, expended, received, and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The State of Illinois, Department of Corrections – Correctional Industries has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.
- C. The State of Illinois, Department of Corrections – Correctional Industries has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. The State revenues and receipts collected by the State of Illinois, Department of Corrections – Correctional Industries are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.

- E. Money or negotiable securities or similar assets handled by the State of Illinois, Department of Corrections – Correctional Industries on behalf of the State or held in trust by the State of Illinois, Department of Corrections – Correctional Industries have been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants; the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States; the Illinois State Auditing Act (Act); and the Audit Guide as adopted by the Auditor General pursuant to the Act; and, accordingly, included examining, on a test basis, evidence about the State of Illinois, Department of Corrections – Correctional Industries compliance with those requirements listed in the first paragraph of this report and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the State of Illinois, Department of Corrections – Correctional Industries compliance with specified requirements.

As described in findings 08-2 and 08-3 in the accompanying Schedule of Findings, the State of Illinois, Department of Corrections – Correctional Industries did not comply with requirements regarding laws and regulations, including the State uniform accounting system, in its financial and fiscal operations. Compliance with such requirements is necessary, in our opinion, for the State of Illinois, Department of Corrections – Correctional Industries to comply with the requirements listed in the first paragraph of the report.

In our opinion, except for the noncompliance described in the preceding paragraph, the State of Illinois, Department of Corrections – Correctional Industries complied, in all material respects, with the requirements listed in the first paragraph of this report during the two years ended June 30, 2008. However, the results of our procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with criteria established by the Audit Guide issued by the Illinois Office of the Auditor General and which are described in the accompanying Schedule of Findings as findings 08-1 and 08-4 through 08-12.

Internal Control

The management of the State of Illinois, Department of Corrections – Correctional Industries is responsible for establishing and maintaining effective internal control over compliance with the requirements listed in the first paragraph of this report. In planning and performing our examination, we considered the State of Illinois, Department of Corrections – Correctional Industries' internal control over compliance with the requirements listed in the first paragraph of this report in order to determine our examination procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Audit Guide issued by the Illinois Office of the Auditor General, but not for the purpose of expressing an opinion on the effectiveness of the

State of Illinois, Department of Corrections – Correctional Industries’ internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State of Illinois Department of Corrections – Correctional Industries’ internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weakness as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and other deficiencies that we consider to be material weakness.

A control deficiency in an entity’s internal control over compliance 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 noncompliance with the requirements listed in the first paragraph of this report on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity’s ability to comply with the requirements listed in the first paragraph of this report such that there is more than a remote likelihood that noncompliance with a requirement that is more than inconsequential will not be prevented or detected by the entity’s internal control. We consider the deficiencies in internal control over compliance as described in the accompanying Schedule of Findings as findings 08-4 through 08-12 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a requirement listed in the first paragraph of this report will not be prevented or detected by the entity’s internal control. Of the significant deficiencies in internal control over compliance described in the accompanying Schedule of Findings, we consider findings 08-2 and 08-3 to be material weaknesses.

As required by the Audit Guide, immaterial findings excluded from this report have been reported in a separate letter to your office.

The State of Illinois, Department of Corrections – Correctional Industries’ response to the finding identified in our examination is described in the accompanying Schedule of Findings. We did not examine the State of Illinois, Department of Corrections – Correctional Industries’ response and accordingly, we express no opinion on it.

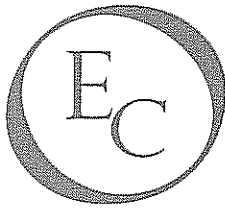
Supplementary Information for State Compliance Purposes

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the business-type activities of the State of Illinois, Department of Corrections – Correctional Industries as of and for the year ended June 30, 2008, which collectively comprise the State of Illinois, Department of Corrections – Correctional Industries’ basic financial statements, and have issued our report thereon dated March 25, 2009. The

accompanying supplementary information as listed in the table of contents as Supplementary Information for State Compliance Purposes, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the State of Illinois, Department of Corrections – Correctional Industries. The 2008 Supplementary Information for State Compliance Purposes, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements for the year ended June 30, 2008 taken as a whole. We have also previously audited, in accordance with auditing standards generally accepted in the United States, the State of Illinois, Department of Corrections – Correctional Industries' basic financial statements for the years ended June 30, 2007 and June 30, 2006. In our reports dated April 30, 2008 and November 3, 2006 on the basic financial statements, we expressed unqualified opinions on the respective financial statements of the business-type activities. In our opinion, the 2007 and 2006 Supplementary Information for State Compliance Purposes, except for the portion marked "unaudited" is fairly stated in all material respects in relation to the basic financial statements for the years ended June 30, 2007 and June 30, 2006, taken as a whole.

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

F.C. Anty & Co., LLP
March 25, 2009



E.C. ORTIZ & CO., LLP
CERTIFIED PUBLIC ACCOUNTANTS

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 William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the working capital revolving fund of the State of Illinois, Department of Corrections – Correctional Industries, as of and for the year ended June 30, 2008, which collectively comprise the State of Illinois, Department of Corrections – Correctional Industries’ basic financial statements and have issued our report thereon dated March 25, 2009. We conducted our audit in accordance with 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State of Illinois, Department of Corrections – Correctional Industries’ internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements and not for the purpose of expressing an opinion on the effectiveness of the State of Illinois, Department of Corrections – Correctional Industries’ internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State of Illinois, Department of Corrections – Correctional Industries’ internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally

accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying Schedule of Findings as finding 08-1 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described in finding 08-1 as a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Illinois, Department of Corrections – Correctional Industries' financial statements are free of 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 determination of financial statement amounts. 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 no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. We also conducted a State compliance examination of the State of Illinois, Department of Corrections – Correctional Industries as required by the Illinois State Auditing Act. The results of that examination are reported in the accompanying Schedule of Findings as findings 08-2 through 08-12.

The State of Illinois, Department of Corrections – Correctional Industries' response to the finding identified in our audit is described in the accompanying Schedule of Findings. We did not audit the State of Illinois, Department of Corrections – Correctional Industries' response and, accordingly, we express no opinion on it.

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

E.C. Ortiz & Co., LLP
March 25, 2009

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
For the Year Ended June 30, 2008
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For the Two Years Ended June 30, 2008

SCHEDULE OF FINDINGS

Current Findings – Government Auditing Standards

08-1. Finding (Inadequate control over financial reporting)

The Illinois Department of Corrections (Agency) did not ensure financial records used to prepare the year-end financial statements and the Office of the Comptroller (Comptroller) Generally Accepted Accounting Principles (GAAP) package were accurate for fund 301 Working Capital Revolving Fund.

During our testing, we noted the following:

- The amount reported as accounts payable and accrued expenses as of June 30, 2008 in the financial statements and Comptroller's GAAP package was the total amount of invoice vouchers paid during the lapse period. Our testing revealed that lapse period invoice vouchers included payments for goods ordered before year end but received after 6/30/08. These types of payments should not have been accrued as of 6/30/08 because the liabilities would not be incurred until the goods were received, which was subsequent to 6/30/08. As a result, accounts payable and accrued expense account were overstated by \$861,626.
- There were no monthly reconciliations performed between the cash balance per fund 301 accounting records and the cash balance per the Comptroller's records. The only reconciliation performed was at year end for use in the preparation of the financial statements and Comptroller's GAAP package.
- The accrual of compensated absences was not accurately reported in the financial statements or the Comptroller's GAAP package. The total compensated absences balances reported in the financial statements and Comptroller's GAAP package was \$1,384,000. In testing of the supporting documentation it was found the amount reported did not include compensable holiday hours earned by employees totaling \$85,910 and the related cost of benefits for the holiday hours of \$6,572.
- Audit testing identified exceptions in the computation of depreciation expense. A reclassification entry was made to correctly present the transaction resulting from changes in the purchase dates of assets and numbers of months the assets were put into services being incorrectly classified as a loss on disposal of capital assets totaling \$129,498.

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SCHEDULE OF FINDINGS

Current Findings – Government Auditing Standards

- Capital asset acquisitions during fiscal year 2008 totaling \$46,980 were not included in the schedule of capital assets (schedule). In addition, capital assets totaling \$20,830 were incorrectly deleted from the schedule. The related accumulated depreciation for these omissions was \$13,431. An adjustment was made to record these capital assets and related accumulated depreciation.

- Numerous differences were identified between the amounts submitted in their cash flow statement to the Comptroller’s Office through the GAAP package submission and cash flow information as determined per the financial statement audit. Some of the differences were the result of audit adjustments, but there were several differences due to improper classification in the initial cash flow presentation.

The Agency is required to prepare annual financial statements of its financial activity to comply with reporting requirements set forth by the Comptroller. It is the responsibility of the Agency to maintain their accounting records such that they are free of material errors and omissions.

In addition, the Fiscal Control and Internal Auditing Act, (30 ILCS 10/3001), requires all State agencies to establish and maintain a system of internal fiscal control to provide assurance that revenues, expenditures and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of reliable financial reports.

Management indicated the current exceptions were due to miscommunication and misunderstanding of the status of lapse payments, limited staffing, and oversight. This finding has been reported in the previous two audits of which management indicated the exceptions were due to staff shortages.

Because of the significance of the exceptions noted, we consider this to be a significant deficiency in the Agency’s internal control over fund 301 and a material weakness. As significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the ability to comply with generally accepted accounting principles in its financial and fiscal operations. A material weakness is a deficiency or a combination of significant deficiencies that result in more than a remote likelihood that material noncompliance will not be prevented or detected by the Agency’s internal control.

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SCHEDULE OF FINDINGS

Current Findings – Government Auditing Standards

Inadequate control over maintaining accurate financial records prevents the Agency from preparing financial statements in accordance with accounting principles generally accepted in the United States of America and results in inaccurate, incomplete and untimely preparation of financial statements. Employees in the normal course of performing their assigned functions were not able to prevent or detect the overstatement, understatement or errors in the financial and fiscal operations in a timely manner. (Finding Code No. 08-1, 07-1, 06-1).

Recommendation

We recommend the Agency devote sufficient resources to its financial accounting function such that the fund 301 financial information is properly recorded and accounted for to permit the preparation of reliable financial statements and Comptroller GAAP packages. We also recommend accounting personnel be provided sufficient technical resources and training to ensure generally accepted accounting principles are followed in the preparation of year-end financial information.

Agency Response

Recommendation accepted. The Agency will make every effort to ensure financial reporting is accurate and timely. Sufficient resources are planned to be devoted to the project.

STATE OF ILLINOIS
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SCHEDULE OF FINDINGS

Current Findings – State Compliance

08-2. Finding (Inadequate control over property and equipment)

The Illinois Department of Corrections (Agency) did not have internal controls in place to ensure fund 301 property additions and deletions were properly recorded and quarterly property reports due to the Office of the Comptroller (Comptroller) are accurate and adequately supported.

During our testing of fund 301 property and equipment we noted the following:

- The Agency did not maintain a detailed listing of property additions and deletions to support the quarterly additions and deletions reported in the “Agency Reports of State Property” (C-15s) submitted to the Comptroller for fiscal years 2007 and 2008 for fund 301. Without detailed support we cannot perform testing to determine whether additions or deletions to State Property as reported in the quarterly C-15 reports were accurate. Total property additions per the quarterly C-15 reports were \$2,119,182 and \$553,619 for fiscal year 2007 and 2008, respectively. Total property deletions per the quarterly C-15 reports were \$693,572 and \$1,209,346 for fiscal year 2007 and 2008, respectively.
- The total State property on the fund 301 C-15 reports for June 30, 2007 and June 30, 2008 did not agree to ICI supporting documentation. The C-15 reports overstated State property by \$103,389 and \$ 91,258 respectively for fiscal years 2007 and 2008 compared to the supporting documentation. The Agency was not able to reconcile the differences between the supporting documentation and the C-15 reports.
- During our State property deletion testing, all 7 of the State property deletions tested in fiscal year 2007 totaling \$65,428 were not timely removed from the property control records. The State property was transferred to the Department of Central Management Services (DCMS), but were not deleted from the property control records until 9 to 10 months after the assets had been physically removed from the Agency.

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SCHEDULE OF FINDINGS

Current Findings – State Compliance

- During testing we identified \$101,798 and \$1,579 of expenditures for fiscal years 2008 and 2007 respectively, charged to the telecommunications and equipment appropriations that should have been recorded in the property control system, but were not. As such, this State property was not reported to DCMS during fund 301's annual inventory certification, nor was the State property reported to the Comptroller's Office during the quarterly C-15 reporting.

The State Comptroller Act (15 ILCS 405/15) requires State agencies to report to the Comptroller all State property acquired or disposed of by an agency in such detail and at such times as the Comptroller requires by rule. Statewide Accounting Management System (SAMS) Procedure 29.10.10 requires agencies to maintain detailed property records and update property records as necessary to reflect the current balance of State property. The procedure goes on to state the C-15 is for the reporting by State agencies of State property information classified by major category. The report reconciles beginning balance of State property by category, per agency records, to the ending balance of State property by category, per agency records. In addition, as noted in the DCMS Property Management Rules (44 Illinois Administrative Code 5010.400) State agencies are required to adjust property records within 30 days of acquisition, change or deletion of equipment items.

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, which shall provide assurance that funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use, and misappropriation.

According to management, the above problems were due to staffing limitations. Staff assigned to maintain the property control records and compile information for C-15 reporting had left and were not replaced during the audit period.

Because of the significance of the exceptions noted, specifically the weaknesses in the State property reporting, we are considering this to be a significant deficiency in the Agency's internal control over State compliance and a material weakness. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to comply with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations. A material weakness is a significant deficiency or combination of significant deficiencies that result in more than a remote likelihood

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that material noncompliance will not be prevented or detected by the Agency's internal controls.

Inadequate internal control over property and equipment can result in property damage or loss not being timely detected. By not providing accurate State property information to the Comptroller, the Agency inhibits the Comptroller from carrying out the required responsibility of reporting statewide property information. (Finding Code No. 08-2)

Recommendation

We recommend the Agency provide adequate resources to ensure State property is accurately recorded in the property records and required reports are timely and accurately submitted to the Comptroller's Office.

Agency Response

Recommendation accepted. The Agency will make every effort to ensure accurate and timely fixed asset records.

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08-3. Finding (Quarterly accounts receivable reporting errors)

The Illinois Department of Corrections (Agency) did not file accurate quarterly accounts receivable reports with the Office of the Comptroller (Comptroller) for fund 301.

During our testing, we identified the following exceptions:

- The Agency was unable to provide the 06/30/07 Accounts Receivable Activity Report (C-97) for our testing.
- For the quarters ended 9/30/07, 12/31/07, and 3/31/08, information such as net receivables and number of accounts in the C-97 reported to the Comptroller’s Office did not agree to the supporting information from accounts receivable aging report generated by the general ledger system.

	Per C-97	Per Accounts Receivable Aging Report	Difference
9/30/07			
Total net receivables (in 000’s)	\$6,742	\$6,951	\$209
Number of accounts	-	346	346
12/31/07			
Total net receivables (in 000’s)	\$4,944	\$4,850	\$94
Number of accounts	369	366	3
3/31/08			
Total net receivables (in 000’s)	\$5,023	\$4,962	\$61
Number of accounts	341	347	(6)

- For the quarter ended 9/30/07, total receivables were erroneously reported as current in the Quarterly Accounts Receivable – Aging of Total Receivables (C-98).

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- For the quarters ended 12/31/07 and 3/31/08, information such as receivables not past due, and past due receivables in the C-98 reported to the Comptroller did not agree with the supporting information from the accounts receivable aging report generated by the general ledger system.

	Per C-98 (in 000's)	Per Accounts Receivable Aging Report (in 000's)	Difference (in 000's)
12/31/07			
Receivables not past due	\$2,784	\$2,694	\$90
Past due – 31-90 days	1,555	1,548	7
Past due – 91-180 days	605	608	(3)
3/31/08			
Receivables not past due	2,954	2,893	61
Past due – 31-90 days	1,429	1,422	7
Past due – 91-180 days	640	647	(7)

The Statewide Accounting Management System (SAMS) procedure 26.30.10, requires State agencies to report receivable information to the Comptroller on a quarterly basis. SAMS Procedures 26.30.20 and 26.30.30 provide guidance on proper completion of C-97 and C-98 reports.

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, where 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.

According to management, errors noted above on quarterly reporting of accounts receivable were due to multiple iterations of general ledger reports used for the testing and the reporting.

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Because of the significance of the exceptions noted, specifically the weaknesses in the preparation of reliable financial and statistical reports, we are considering this to be a significant deficiency in the Agency's internal control over State compliance and a material weakness. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to comply with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations. A material weakness is a significant deficiency or combination of significant deficiencies that result in more than a remote likelihood that material noncompliance will not be prevented or detected by the Agency's internal control.

Failure to report accurate information results in inaccurate statewide accounts receivable data being report by the Comptroller. (Finding Code No. 08-3)

Recommendation

We recommend the Agency management implement a process to have a person independent of the preparation of the quarterly accounts receivable reports compare the reports to supporting documentation prior to submission to the Comptroller to ensure accurate information is reported.

Agency Response

Recommendation implemented. The Agency has implemented procedures to ensure accurate accounts receivable reporting.

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08-4. Finding (Incorrect timekeeping)

The Illinois Department of Corrections – Correctional Industries (ICI) did not maintain accurate employee timekeeping records.

During our testing, we noted errors in the reporting and accounting for sick, personal and vacation leave time. Specifically, we noted the following:

- The timekeeper posted an incorrect number of leave hours taken for 9 of 30 (30%) employees tested. Two of 9 employees had a total of 15 hours incorrectly deducted from their leave hours and 7 of 9 employees had a total of 19.5 hours not deducted from their leave hours.
- One employee's time sheet was erroneously deducted with 15 hours of vacation leave which should have been deducted from another employee's timesheet.
- Two employees miscalculated the proper number of overtime hours worked; the error was not caught by the timekeeper and was subsequently posted to the employees time sheets.
- The sick leave balance brought forward to an employee's FY07 timesheet was erroneously computed.
- Two employees took time off which was not deducted from their leave time balances. One of the employees took a vacation day which was not deducted from their leave time balance. The other employee had 4 days of sick leave and 3 days of vacation leave that were not deducted from their leave balances. In addition, we found the same employees' timesheets indicated 22.5 hours of leave at various dates during fiscal year 2007 and 2008, but supporting documentation indicated the employee was not on leave during the time periods indicated.

The Illinois Department of Corrections, Administrative Directive 02.65.182 states the Chief Timekeeper shall maintain an Employee Time Sheet for each employee. All daily timekeeping activity submitted on timekeeping forms such as the Daily Attendance Records, Roll Call/Sign-in Sheets, Notifications of Absence, and Reports on Overtime, Compensatory Time or Other Adjustments to Pay shall be recorded on the Employee Time Sheet in ink or by typewriter unless otherwise directed.

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According to ICI management, these errors were due to staffing limitations and also limitations that are inherent in maintaining manual timekeeping records. This finding has been reported in the previous two audits of which management indicated the exceptions were due to staff shortages and accounting functions being centralized within the Department of Corrections.

Failure to maintain accurate time sheets increases the risk of ICI paying for services not rendered by employees and may result in inaccurate employee time off and time available balance. (Finding Code No. 08-4)

Recommendation

We recommend the Department and ICI stress the importance of maintaining accurate time sheets to those employees responsible for maintaining them. We also recommend the Department and ICI automate its timekeeping system to provide greater efficiency and prevent these errors from occurring.

Agency Response

Recommendation accepted. Correctional Industries will make every effort to ensure accurate timekeeping records.

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08-5. Finding (Temporary assignments)

The Illinois Department of Corrections – Correctional Industries (ICI) continues to place employees on temporary assignment for periods beyond the time limit specified by State administrative rules as well as the union agreement.

During our testing, we noted 9 employees working in temporarily assigned positions during fiscal years 2008 and 2007. Four of 9 employees had been working in temporarily assigned positions for several years ranging from 2 to 6 years. Another 4 of the 9 employees had stopped working on temporary assigned positions during fiscal year 2008 after working 4 months to 6 years on temporary assignment. The other employee had just recently been assigned to the temporary position in May 2008. All of the employees temporarily assigned were union members.

We reported similar exceptions at ICI in their previous compliance reports. An analysis summarizing the exceptions identified in the current and past two reports is noted in the following table:

	Two Year Ending June 30,		
	2008	2006	2004
Number of employees during audit period assigned to temporary assignments	9	15	14
Period of time employees have been on temporary assignment (in months).	2 to 72	3 to 48	Not available
Number of employees still on temporary assignment at the end of the audit period.	5	7	Not available

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The Illinois Administrative Code (80 Ill. Adm. Code 302.150), defines temporary assignments as, “For persons in positions to perform temporary or seasonal work. No position shall be filled by temporary assignment for more than 6 months out of any 12 month period.” In addition, the agreement between the State of Illinois and the American Federation of State, County and Municipal Employees AFL-CIO (AFSCME) also sets specific time limits on temporary assignments, depending on

the reason for the temporary assignment. Where there is a temporary change in the workload, or while the employer is posting a position to be filled, or other reasonable work related circumstances, the employee is allowed to be temporarily assigned for up to 60 working days in a twelve -month period. An employee may be temporarily assigned for up to 6 months while the regular employee is on any illness, injury, union or jury leave of absence. According to the agreement, if the assignment extends beyond the set timeframe, then the extension should be mutually agreed upon. None of the temporarily assigned employees noted above signed a mutual agreement to extend the temporary assignments.

According to ICI management, lengthy temporary assignments of employees were due to staffing limitations. This finding was first reported in 1998. In the previous reports management also indicated the exceptions were do to staff limitations.

The lengthy assignments violate the union agreement, the State’s administrative rules and circumvent required steps in the hiring process. Placing personnel in positions that they were not originally hired for could have an impact on internal and operational controls and may indicate ineffective long-term planning. (Finding Code No. 08-5, 06-3, 04-4, 02-5, 00-9, 98-7)

Recommendation

We recommend ICI reevaluate the propriety of its continued use of temporary assignments for long-term employment positions. For those employees on temporary assignment, ICI should comply with the State’s administrative rules and where applicable the AFSCME agreement requirements. We also recommend ICI complete all the required documentation for employees that are temporarily assigned.

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Agency Response

Recommendation accepted. ICI has developed plans that would help address these issues, including reorganizations and hiring of staff.

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08-6. Finding (Employee training not adequately documented)

The Illinois Department of Corrections – Correctional Industries (ICI) did not obtain or retain documentation to support training events employees attended.

ICI has a Training Coordinator who keeps training records of all employees. The Training Coordinator maintains a spreadsheet summarizing the number of training hours for each employee by fiscal year. We reviewed the summary of training hours of 15 employees from the spreadsheet and noted per the summary all employees meet the required training hours for both FY07 and FY08. However, our review of the employee training records noted most of the training events indicated on the summary were not supported by certificates, attendance sheets or any other form of verification for the training. Without supporting documentation we cannot determine whether the credited hours for employee training were actually completed.

The Illinois Department of Corrections Administrative Directive 03.03.102, states correctional officers are required to undergo training of 40 hours and 16 hours for clerical and support staff. Further, certificates or other verification of training received shall be provided to the Training Coordinator. Credit is only given for completed courses that are properly documented. Proper documentation includes: (1) Credit memorandum or certificate issued by the Office of Staff Development and Training; (2) Certificate issued by an outside instructor or vendor approved by the Office of Staff Development and Training; (3) Training verification formats used within facilities and signed by an authorized training officer.

According to ICI personnel, it is ICI practice to accept any document submitted by the employees attesting they have attended the training. In some instances verbal or email notifications from employees were used to document training attended.

By not having employees submit the required documents to verify the training attended, there is no assurance employees received the required minimum training hours. Employees who did not meet the training hours may not be receiving important information and background preparation for their specific job duties. (Finding Code No. 08-6)

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Recommendation

We recommend the ICI Training Coordinator follow the Illinois Department of Corrections Administrative Directive and only record employee training upon the submission of proper documentation such as certificates, attendance sheets or other official forms of verification for training attended. We also recommend the verification documentation be kept in each employee's training record.

Agency Response

Recommendation accepted. Correctional Industries will take all diligent care to ensure that training instructors provide written documentation that employees have received training.

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08-7. Finding (Management practices – management information system)

The Illinois Department of Corrections – Correctional Industries (ICI) has taken no further progress in its plan to completely install an automated management information system (system).

ICI initiated a project in 1998 to install the system for the purpose of connecting the ICI Central Office to several (19) remote operation locations to enable management to gather timely data. The project was expected to have been fully implemented in fiscal year 2000. Since fiscal year 2000, ICI has only been using 3 modules and these modules were only used in the Central Office. The system’s purpose of connecting different sites to the Central Office for real time information was not implemented and there was no progress in its implementation during the current engagement period.

ICI paid the vendor \$340,000 of a \$420,000 contract that was to include software plus training and installation at the time of implementation. Since the installation of the system in 2000, ICI has continued to use and pay the vendor for technical support of the 3 modules utilized. During the fiscal years 2007 and 2008, ICI paid the vendor \$54,067 and \$4,612, respectively for technical support.

A summary of the amounts expended by ICI since inception on the system related to its implementation and operation are presented in the following table.

Description	Fiscal Year	Expenses Incurred
Payment made under original contract	2000	\$340,000
Consultant to assess project & develop RFP & original vendor technical support	2001	\$124,000
Original vendor technical support & installation of fiber-optic cable	2002	\$496,000
Original vendor technical support	2003	\$ 25,093
Original vendor technical support	2004	\$ 38,830
Original vendor technical support	2005	\$ 97,714
Original vendor technical support	2006	\$118,998
Original vendor technical support	2007	\$ 54,067
Original vendor technical support	2008	\$ 4,612
TOTAL		\$1,299,314

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Amounts for fiscal year 2000 through 2006 are from previously issued ICI compliance reports, amounts for fiscal year 2007 and 2008 are based on information provided by ICI.

Generally accepted information technology guidance endorses the development and implementation of a process to ensure projects meet management's objectives, are cost effective, and comply with contract requirements.

According to ICI management, the need to further utilize the system for its intended purpose was not re-examined during the current engagement period because other priorities took precedence. ICI had previously indicated they were not able to initiate planning for the other modules because of fiscal constraints, retirement of key staff along with delays regarding the installation of fiber optic cable to connect the remote locations.

The lack of success to completely install the automated management information system for ICI has caused unnecessary use of resources, both personnel and financial, as the attempts to install the system has not been followed-through to completion. (Finding Code No. 08-7, 06-2, 04-3, 02-3, 00-1)

Recommendation

We recommend ICI management critically re-examine the need for the Management Information System and determine if the current limited implementation is cost-effective and meets its needs. In addition, we also recommend ICI management conduct a thorough assessment to determine if the full implementation of all modules at all sites will provide a cost-beneficial solution.

Agency Response

Recommendation accepted. The Agency will evaluate the need and practicality of the MACOLA system.

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08-8. Finding (Monthly reconciliation of receipts not properly performed)

The Illinois Department of Corrections (Agency) did not adequately perform a monthly reconciliation of receipt records to receipt records maintained by the Office of the Comptroller (Comptroller) for fund 301.

During our testing, we noted the Agency did not always record in their receipt records certain automatic transfers from a purchasing agency's account to fund 301 for sales made to the fund. Agency did not ensure all of these receipt transactions were properly recorded in its receipts records because they did not perform a monthly reconciliation of this specific revenue source against the Comptroller's records. In fiscal year 2007, \$17,768,185 of these automatic transfers were not recorded in the receipts records. In fiscal year 2008, the Agency started recording these automatic payments in its receipt records and at the end of the fiscal year the total unreconciled balance was \$143,812. The Agency did not communicate any of the reconciliation variances to the Comptroller as required.

The Statewide Accounting Management System (SAMS) procedure 25.40.20, states a reconciliation between the receipt account balances maintained by the agency with the receipts account records maintained by the Comptroller is required to be performed on a monthly basis and the Comptroller be notified of any unreconcilable differences so necessary corrective action can be taken to locate the differences and correct the accounting records.

According to management, the Department of Corrections had made steps to record automatic payments in the receipts records to properly reconcile with the Comptroller's receipt records. This will be fully addressed in fiscal year 2009.

Failure to properly perform monthly receipts reconciliation can result in long outstanding discrepancies and errors that will remain undetected and uncorrected. (Finding Code No. 08-8)

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Recommendation

We recommend the Agency properly perform the required monthly reconciliation of receipts. All receipts including automatic payments must be recorded in receipts records and the total receipts must be reconciled with the Comptroller's receipt records and any discrepancies promptly reported.

Agency Response

Recommendation implemented. The Agency has developed procedures to ensure reconciliations are completed for the automatic transfers.

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08-9. Finding (Transfer of assets not monitored)

The Illinois Department of Corrections (Agency) did not maintain records of assets transferred to the Department of Central Management (DCMS) and other State Agencies to ensure that subsequent sale of these assets, if any, are monitored and proceeds deposited into the Working Capital Revolving Fund.

The Unified Code of Corrections (730 ILCS 5/3-12-13) states “whenever a responsible officer of the Correctional Industries Division of the Department seeks to dispose of property pursuant to the ‘State Property Control Act’, proceeds received by the administrator under that act from the sale of property under the control of the Division of Correctional Industries of the Department shall be deposited into the Working Capital Revolving Fund of the Correction Industries Division if such property was originally purchased with funds therefrom.”

During our testing, we noted the Agency did not maintain records of assets transferred to DCMS and other State agencies including the Department of Corrections. The Agency Report of State Property (C-15) submitted to the Office of the Comptroller reported total deleted assets of \$693,572 and \$1,209,346 for fiscal years 2007 and 2008, respectively. Because there were no detailed records of deletions and transfers, we cannot determine if there were deletions that would have ultimately been sold, the proceeds of which should have been deposited into the Working Capital Revolving Fund.

According to the Department of Corrections management, detailed records were not maintained due to staffing limitations.

Failure to maintain detailed records of assets transferred and deleted inhibits the Agency’s ability to identify assets that may have been sold, the proceeds of which should be deposited into the Working Capital Revolving Fund in accordance with the statute. (Finding Code No. 08-9, 06-4)

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Recommendation

We recommend the Agency maintain detailed records of asset deletions and transfers to ensure proceeds from any sale of these assets are collected and deposited into ICI Working Capital Revolving Fund.

Agency Response

Recommendation implemented. The Agency has implemented procedures to ensure tracking of surplus assets.

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- 08-10. Finding (All of the relevant costs not being included in the computation of manufacturing costs)

The Illinois Department of Corrections (Agency) does not include any occupancy costs for the production facilities they use at the Correctional Centers (Centers) in their computation of the manufacturing cost of its products for fund 301.

ICI has 19 facilities for manufacturing its products at various Centers. The Centers have not historically charged ICI for occupancy of these production facilities. As such, ICI does not include any amount for these costs in their computation of product cost. Occupancy costs should include at a minimum maintenance, utilities and any computed rent or depreciation for the facility being utilized. In addition, ICI policies and procedures do not address what should be included in the computation of the costs of its products.

The Unified Corrections Code (730 ILCS 5/3-12-9) states the Department of Corrections (Department) shall establish procedures and issue regulations governing the sale and lease of goods. ICI policy 09.3, Pricing ICI products, notes a pricing committee will develop a price for each product based on information provided on a quote sheet which reflects the manufacturing costs and current selling price of each ICI product. The policy also notes the production cost will be estimated using the most recent overhead factors as computed by ICI's Fiscal Office. In addition, good business practice suggests the use of full-absorption costing for external reporting. Under full-absorption costing, all normal manufacturing costs are considered product costs and included in inventory. Manufacturing costs relate to direct materials, direct labor, variable manufacturing overhead, and fixed manufacturing overhead.

In the previous compliance report ICI management indicated with the assistance of the Fiscal Services Unit of the Department of Corrections they will review the occupancy costs to determine the estimated cost to produce certain products. During our testing, we noted there were no changes made in the costing procedures, specifically, occupancy costs were not considered in the computation of manufacturing costs. According to ICI management, their plan to integrate occupancy costs in the computation of the manufacturing costs of ICI products was put on hold as other projects took precedence.

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By not including any occupancy costs associated with the production facilities at the Centers the true cost of the production of the items is not being considered in determining the price of the products. The Department of Corrections or ultimately the State is subsidizing these costs of the ICI operation. (Finding Code No. 08-10, 06-7)

Recommendation

We recommend ICI work with the Department of Corrections Central Office to identify and include occupancy costs relating to Center manufacturing facilities to provide a good estimate of the total cost of a product. In addition, ICI should include guidelines in its policies and procedures for the basis of valuation/estimate of these costs and their inclusion in the computation of product costs as a basis of setting a selling price.

Agency Response

Recommendation accepted. The Agency will work to determine the value of the excluded costs and perform cost benefit analysis of the inclusion of the cost in the price of the items.

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08-11. Finding (No inventory obsolescence policy)

The Department of Corrections – Correctional Industries (ICI) does not have a formal written policy in place to address inventory obsolescence.

During our testing of the ICI inventories, we identified slow moving finished goods inventories consisting of institutional clothing materials such as jumpsuits, pullovers, slacks, hospital gowns, and pants valued at \$334,376. Upon identifying the obsolete finished goods inventory we noted there is no formal policy and procedure for the periodic review of inventories for obsolescence, scrap or surplus. We also noted there were raw materials valued at \$35,539 with no usage for several years but they continued to be maintained at various locations. Based on our discussions with Site Superintendents, the obsolete raw material inventories were used in manufacturing operations that are no longer being performed.

According to ICI management, some of the slow moving inventories were produced for the Department of Corrections (DOC) and other Illinois State agencies. DOC discontinued the use of some of the institutional garments produced for them but ICI management is confident the inventories can be sold to customers other than DOC. Site Superintendents and personnel are instructed on an annual basis to identify obsolete inventories and report these items to ICI Central Office for write off. Through our testing we noted this was not followed on a consistent basis.

Good internal controls require an inventory management policy to be in place to ensure proper accounting of inventories which would include addressing obsolete, surplus or scrap inventory. In addition, the Fiscal Control and Internal Auditing Act, (30 ILCS 10/3001), requires all State agencies to establish and maintain a system of internal fiscal control to provide assurance that funds, property, and other assets are safeguarded against waste, loss, unauthorized used and misappropriation.

With the nature of ICI operation and the significance of inventories to ICI operations, it is important to adopt and implement a formal inventory policy including addressing obsolete, surplus or scrap inventory. Without a formal policy, ICI employees have no established guideline to follow in determining how to handle obsolete, surplus, or scrap inventories. (Finding Code No. 08-11)

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Current Findings – State Compliance

Recommendation

We recommend ICI management adopt and implement a formal written inventory policy. The policy should define criteria for identifying obsolete, surplus or scrap inventories and address how often inventories are reviewed. Inventory reserves must be established in accordance with the written policy and Generally Accepted Accounting Principles and reviewed on regular basis for reasonableness.

Agency Response

Recommendation accepted. Correctional Industries will formulate a policy addressing obsolescent inventory.

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
FINANCIAL AUDIT
For the Year Ended June 30, 2008
And
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2008

SCHEDULE OF FINDINGS

Current Findings – State Compliance

08-12. Finding (Catch-up billings issued without administrative rules)

The Illinois Department of Corrections – Correctional Industries (ICI) has not issued administrative rules outlining how they can bill user agencies in advance, issue credits or refunds or issue bills to user agencies for amounts owed from the prior fiscal year (catch-up billings). In addition, ICI does not have any written administrative directives to guide them in these areas.

ICI issued catch-up billings to State Agencies for outstanding liabilities from the prior fiscal year. During our testing, we identified ICI issued 6 catch-up billings totaling \$1,698 in FY 2008 to State agencies for amounts owed from FY 2007. In addition, ICI issued 11 catch-up billings totaling \$129,553 in FY 2009 to State agencies for amounts owed from FY 2008.

ICI issued catch-up billings based on the State Finance Act (30 ILCS 105/25) which notes an Agency which administers a fund classified by the Comptroller as an internal service fund may issue rules for billing user agencies in advance, issue credits or refunds and issue bills to user agencies for amounts owed from the prior fiscal year. ICI activity is transacted through the Working Capital Revolving Fund which is classified as an internal service fund.

ICI management indicated they believed the statute alone was sufficient for the issuance of the catch-up billings and subsequent payment by the user agencies.

The lack of formalized administrative rules and a written administrative directive outlining the process for issuance and subsequent payment of catch-up billings leaves the process open for misunderstanding and confusion particularly of what can be catch-up billed by ICI as well as what is expected by user agencies. Without formalized administrative rules, user agencies could utilize ICI's catch-up billings as a means of circumventing the budgetary process by postponing payment of expenditures to the next fiscal year.

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
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For the Year Ended June 30, 2008
And
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2008

SCHEDULE OF FINDINGS

Current Findings – State Compliance

Recommendation

We recommend ICI develop and submit administrative rules to the Joint Committee on Administrative Rules (JCAR) regarding billing user agencies in advance, issuing credits or refunds and issuing bills to user agencies for amounts owed from the prior fiscal year as allowed by the State Finance Act. We also recommend ICI develop a written administrative directive to guide them when addressing issues with these transactions.

Agency Response

Recommendation accepted. The Agency will determine and pursue the best course of action regarding catch-up billings.

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
FINANCIAL AUDIT
For the Year Ended June 30, 2008
And
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2008

SCHEDULE OF FINDINGS

Prior Finding Not Repeated

A. Finding (Untimely signing/execution of written contract agreements)

During the previous engagement, the Illinois Department of Corrections – Correctional Industries (ICI) did not timely sign/execute written contract agreements with vendors. (Finding Code No. 06-5)

Status: Implemented

During the current engagement, our testing did not disclose untimely signing/execution of written contractual agreements with vendors.

B. Finding (Updated liability insurance certificates could not be provided)

During the previous engagement, ICI could not provide updated liability insurance certificates for employees who were personally assigned a State vehicle. (Finding Code No. 06-6)

Status: Implemented

During the current engagement testing, we noted ICI had obtained the required certifications from employees and maintained them in its records for those employees assigned a State vehicle.

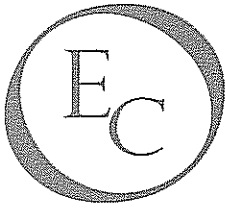
**STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
FINANCIAL AUDIT
For the Year Ended June 30, 2008
And
COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2008**

FINANCIAL STATEMENT REPORT

SUMMARY

The audit of the accompanying financial statements of the State of Illinois, Department of Corrections – Correctional Industries was performed by E.C. Ortiz & Co., LLP.

Based on their audit, the auditors expressed an unqualified opinion on the State of Illinois, Department of Corrections – Correctional Industries' basic financial statements.



E.C. ORTIZ & CO., LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the Working Capital Revolving Fund of the State of Illinois, Department of Corrections - Correctional Industries, as of and for the year ended June 30, 2008 as listed in the table of contents. These financial statements are the responsibility of the State of Illinois, Department of Corrections - Correctional Industries' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 2, the financial statements present only the Working Capital Revolving Fund of the State of Illinois, Department of Corrections - Correctional Industries and do not purport to, and do not, present fairly the financial position of the State of Illinois Department of Corrections as of June 30, 2008, and its changes in financial position including cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Working Capital Revolving Fund of the State of Illinois, Department of Corrections - Correctional Industries, as of June 30, 2008, and the changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 25, 2009 on our consideration of the State of Illinois, Department of Corrections – Correctional Industries’ internal control over financial reporting of the Working Capital Revolving Fund and on our tests of the State of Illinois, Department of Corrections – Correctional Industries’ compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The State of Illinois – Department of Corrections – Correctional Industries has not presented a management’s discussion and analysis and budgetary comparison information for the Working Capital Revolving Fund that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

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 State of Illinois, Department of Corrections – Correctional Industries management, and is not intended to be and should not be used by anyone other than these specified parties.

E. C. Artiz & Co., LLP
March 25, 2009

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
WORKING CAPITAL REVOLVING FUND
STATEMENT OF NET ASSETS
June 30, 2008
(expressed in thousands)

ASSETS	
CURRENT ASSETS	
Cash	\$ 3,233
Due from other funds	4,628
Due from component units	29
Other receivables	443
Inventories	10,515
Prepaid expenses	6
Total current assets	18,854
CAPITAL ASSETS – net	3,514
TOTAL ASSETS	\$ 22,368
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts payable and accrued expenses	\$ 2,863
Due to other funds	359
Due to component units	10
Leases payable	16
Compensated absences	111
Total current liabilities	3,359
NONCURRENT LIABILITIES	
Leases payable	13
Compensated absences	1,356
Total noncurrent liabilities	1,369
TOTAL LIABILITIES	4,728
NET ASSETS	
Invested in capital assets, net of related debt	3,485
Unrestricted	14,155
TOTAL NET ASSETS	17,640
TOTAL LIABILITIES AND NET ASSETS	\$ 22,368

See accompanying notes to financial statements.

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
WORKING CAPITAL REVOLVING FUND
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
For the Year Ended June 30, 2008
(expressed in thousands)

<hr/>	
Operating revenues:	
Charges for sales and services	\$ 40,800
Other revenues – net	<u>2,153</u>
Total operating revenues	<u>42,953</u>
Operating expenses:	
Cost of sales and services	24,880
Selling, general and administrative expenses	15,543
Depreciation	<u>1,305</u>
Total operating expenses	<u>41,728</u>
Operating income	1,225
Nonoperating expenses:	
Interest expense	<u>2</u>
Net Income	1,223
NET ASSETS, BEGINNING OF YEAR	<u>16,417</u>
NET ASSETS, END OF YEAR	<u>\$ 17,640</u>

See accompanying notes to financial statements.

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
WORKING CAPITAL REVOLVING FUND
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2008
(expressed in thousands)

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from sales and services	\$ 42,173
Payments to suppliers for goods and services	(25,425)
Cash payments to employees for services	(14,576)
Cash receipts from other operating activities	348
Net cash provided by operating activities	2,520
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of capital assets	(187)
Payments on capital leases (including interest)	(25)
Net cash used in capital and related financing activities	(212)
NET INCREASE IN CASH	2,308
CASH, BEGINNING OF YEAR	925
CASH, END OF YEAR	\$ 3,233
 RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ 1,225
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	\$ 1,305
Changes in assets and liabilities:	
Due from other funds	(284)
Due from component units	(15)
Other receivables	(133)
Inventories	80
Prepaid expenses	10
Accounts payable and accrued expenses	149
Due to other funds	252
Due to component units	10
Compensated absences	(79)
Total adjustments	1,295
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 2,520
 NONCASH CAPITAL AND RELATED FINANCING ACTIVITY	
Cost of fixed asset acquisitions financed by capital leases	\$ (52)

See accompanying notes to financial statements.

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
WORKING CAPITAL REVOLVING FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

1. DESCRIPTION OF FUND

Illinois Correctional Industries (ICI) is a division of the State of Illinois, Department of Corrections (Department) and administers the nonshared proprietary fund – Working Capital Revolving Fund - described below. A nonshared fund is a fund in which a single State agency is responsible for administering substantially all financial transactions of the fund.

The fund is accounted for as an internal service fund. Internal service funds account for activities that provide goods and services to other funds, departments, or agencies of the State and its component units, or to other governments, on a cost-reimbursement basis where the State is the predominant participant in the activity.

Working Capital Revolving Fund (Fund) (0301) – Revenues and expenses are derived from goods or services produced by factories, farms, and service programs and charged to State agencies and other non-state entities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of 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.

A. 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.

Based upon the required criteria, this Fund does not have any component units, nor is it a component unit of another entity. However, because the Fund is not legally

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
WORKING CAPITAL REVOLVING FUND
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JUNE 30, 2008

separate from the State of Illinois (State), it is included in the financial statements of the State as a proprietary fund. The State's Comprehensive Annual Financial Report (CAFR) may be obtained by writing the State Comptroller's Office, Financial Reporting Department, 325 West Adams Street, Springfield, Illinois, 62704-1871.

The financial statements present only the Working Capital Revolving Fund administered by the State of Illinois, Department of Corrections and do not purport to, and do not, present fairly the financial position of the State of Illinois, Department of Corrections as of June 30, 2008, and 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.

B. 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 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 assets, statement of revenues, expenses and changes in net assets, and statement of cash flows has been presented for this 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.

C. Basis of Accounting

The 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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the individual nonshared proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The State also has the option of following subsequent private-sector guidance for their business-

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
WORKING CAPITAL REVOLVING FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

type activities and enterprise funds, subject to this same limitation. The State has elected not to follow subsequent private-sector guidance for this Fund administered by the Department.

D. Cash

Cash consists principally of deposits held in the State Treasury.

E. Inventories

Inventories consisting of raw materials, work in process, finished goods, and operating supplies, are valued at cost, principally on a first in, first out (FIFO) method.

F. Interfund Transactions

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

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 at year-end are reported as interfund receivables and payables in the fund balance sheets or fund statements of net assets.

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.

Operating transfers – flows of assets (such as cash or goods) without equivalent flows of assets in return and without requirement for repayment. In proprietary funds, transfers are reported after nonoperating revenues and expenses.

G. Capital Assets

Capital assets are stated at cost. Depreciation (including amortization of capital leases) is computed using the straight-line method at rates calculated to amortize assets over their estimated useful life.

**STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
WORKING CAPITAL REVOLVING FUND
NOTES TO FINANCIAL STATEMENTS
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Capitalization thresholds and the estimated useful lives are as follows:

Asset Category	Capitalization Threshold	Estimated Useful Life
Buildings	\$ 100,000	50
Building Improvements	25,000	20
Equipment	5,000	3-10

H. Compensated Absences

The liability for compensated absences reported in the Fund consists of unpaid, accumulated vacation, sick leave, and holiday balances for ICI employees. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are 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 taxes).

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 twelve 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 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.

I. Net Assets

The individual nonshared proprietary fund displays equity in two components as follows:

Invested in Capital Assets, Net of Related Debt – Consists of capital assets, net of accumulated depreciation, less the outstanding balances of any borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Unrestricted – Consists of net assets that do not meet the definition of “invested in capital assets, net of related debt”.

STATE OF ILLINOIS
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J. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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 these estimates.

K. Future Adoption of GASB Statement

Effective for the year ending June 30, 2009, ICI will adopt GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligation*, which establishes standards for accounting and financial reporting for pollution remediation obligations which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups.

ICI has not yet determined the impact on their financial statements as a result of adopting this statement.

3. CASH

Deposits

The State Treasurer is the custodian of the State's cash for funds maintained in the State Treasury. Deposits in the custody of the State Treasurer as of June 30, 2008 totaled \$3,233 (amounts expressed in thousands).

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

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
WORKING CAPITAL REVOLVING FUND
NOTES TO FINANCIAL STATEMENTS
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4. INTERFUND BALANCES AND ACTIVITIES

A. Balances Due to/from Other Funds

The following balances (amounts expressed in thousands) as of June 30, 2008 represent amounts due from other departments and State of Illinois funds which represents sales of goods and services:

State Agency	Amount
Department of Corrections	\$ 3,173
Department of Healthcare and Family Services	670
Department of Human Services	351
Department of Juvenile Justice	143
Department of Veterans Affairs	82
Department of Transportation	64
Department of Natural Resources	39
Illinois State Police	23
Illinois Emergency Management Agency	18
Illinois Commerce Commission	14
Department of Aging	10
Department of Central Management Services	9
Department of Children and Family Services	7
Department of Public Health	6
General Assembly	4
Department of Commerce and Economic Opportunity	4
Secretary of State	3
Illinois Arts Council	3
State Fire Marshall	2
Illinois Workers Compensation Commission	1
Attorney General	1
Office of the Treasurer	1
Total	\$ 4,628

Component Units

Eastern Illinois University	\$ 27
Southern Illinois University	2
	\$ 29

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The following balances (amounts expressed in thousands) as of June 30, 2008 represent amounts due to other departments and State of Illinois funds:

State Agency	Amount
Central Management Services	\$ 186
Department of Corrections	158
Court of Claims	15
Total	<u>\$ 359</u>

Component Units	
University of Illinois	\$ 8
Illinois State Toll Highway Authority	2
	<u>\$ 10</u>

5. INVENTORIES

Inventories (amounts expressed in thousands) as of June 30, 2008, consist of the following:

Finished goods	\$ 5,153
Raw materials	4,498
Operating supplies	734
Work in process	101
Stores Inventory	29
	<u>\$ 10,515</u>

**STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
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6. CAPITAL ASSETS

Capital assets activities (amounts expressed in thousands) for the year ended June 30, 2008 were as follows:

	<u>Balance</u> <u>July 1,</u> <u>2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Others</u>	<u>Balance</u> <u>June 30,</u> <u>2008</u>
Cost:					
Equipment	\$ 16,586	\$ 187	\$ (375)	\$ -	\$ 16,398
Building and Building Improvements	5,867	-	(88)	195	5,974
Construction in Progress	195	-	-	(195)	-
Capital Lease - Equipment	15	52	(15)	-	52
	<u>22,663</u>	<u>239</u>	<u>(478)</u>	<u>-</u>	<u>22,424</u>
Accumulated Depreciation:					
Equipment	13,667	1,031	(375)	-	14,323
Building and Building Improvements	4,401	249	(88)	-	4,562
Capital Lease - Equipment	15	25	(15)	-	25
	<u>18,083</u>	<u>1,305</u>	<u>(478)</u>	<u>-</u>	<u>18,910</u>
	<u>\$ 4,580</u>	<u>\$ (1,066)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,514</u>

7. LONG-TERM OBLIGATIONS

Changes in long-term obligations (amounts expressed in thousands) for the year ended June 30, 2008 were as follows:

	<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2008</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
Other Long-term obligations:					
Compensated absences	\$ 1,546	\$ 187	\$ 266	\$ 1,467	\$ 111
Leases payable	-	52	23	29	16
Totals	<u>\$ 1,546</u>	<u>\$ 239</u>	<u>\$ 289</u>	<u>\$ 1,496</u>	<u>\$ 127</u>

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
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NOTES TO FINANCIAL STATEMENTS
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8. PENSION PLAN

Substantially all of the ICI's full-time employees who are not eligible for participation in another State-sponsored retirement plan 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 employee participate, except for those covered by State Universities, Teachers', General Assembly, and Judges' Retirement Systems. The financial position and results of operations of the SERS for fiscal year 2008 are included in State of Illinois' Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2008. The SERS also issues a separate "CAFR" that may be obtained by writing to the SERS, 2101 South Veterans Parkway, Springfield, Illinois, 62794-9255 or by calling (217) 785-7202. The State of Illinois CAFR may be obtained in writing to the State Comptroller's Office, Financial Reporting Department, 325 West Adams St., Springfield, Illinois 62704-1871 or by calling (217) 782-2053.

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 CAFR. Also included is a discussion of employer and employee obligations to contribute and the authority under which those obligations are established.

The Department pays employer retirement contributions in the Fund based upon an actuarially determined percentage of their payrolls. For fiscal year 2008, the employer contribution rate was 16.561%. ICI contributions to SERS were \$1,668,712 for the year ended June 30, 2008.

9. 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 Healthcare and Family Services along with 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

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
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JUNE 30, 2008

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.

The total cost of the State's portion of health, dental, vision, and life insurance benefits of all members, including post-employment health, dental, vision, and life insurance benefits, is recognized as an expenditure by the State in the Illinois Comprehensive Annual Financial Report. The State finances the costs on a pay-as-you-go basis. The total costs incurred for health, dental, vision, and life insurance benefits are not separated by department or component unit for annuitants and their dependents nor active employees and their dependents.

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 Healthcare and Family Services. A copy of the financial statements of the Department of Healthcare and Family Services may be obtained by writing to the Department of Healthcare and Family Services, 201 South Grand Ave., Springfield, Illinois, 62763-3838.

10. COMMITMENTS AND CONTINGENCIES

A. Operating Leases

Correctional Industries is the lessee of a warehouse in Pana, Illinois. The rental payments totaled \$433 (amount expressed in thousands) for the year ended June 30, 2008.

Future minimum payments (amounts expressed in thousands) as required by the operating lease agreements as of June 30, 2008 are summarized as follows:

Year ending June 30,		
2009	\$	445
2010		456
Total	\$	<u>901</u>

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
WORKING CAPITAL REVOLVING FUND
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JUNE 30, 2008

B. Capital Lease Obligations

ICI leases equipment with historical cost and accumulated depreciation (amounts expressed in thousands of \$52 and \$25, respectively, under a capital lease arrangement. The lease is renewable subject to appropriation by the General Assembly. If renewal is reasonably assured, leases requiring appropriation by the General Assembly are considered noncancellable leases for financial reporting purposes. Future minimum lease payments (amounts expressed in thousands) as of June 30, 2008 were as follows:

Year ending June 30,		
2009	\$	16
2010		13
Total minimum lease payments		<u>29</u>
Less: amounts representing interest		(2)
Present value of minimum lease payments	\$	<u><u>27</u></u>

C. Litigation

ICI is routinely involved in a number of legal proceedings and claims arising out of the normal conduct of its operations. In the opinion of management and its counsel, its liability, if any in or arising from these matters is not expected to have any material adverse effect on the financial position or results of operations of ICI.

11. RISK MANAGEMENT

The ICI is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; auto liability; workers compensation; and natural disaster. The State retains the risk of loss (i.e. self insured) for these risks.

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
SUPPLEMENTARY INFORMATION FOR STATE COMPLIANCE PURPOSES

SUMMARY

Supplementary Information for State Compliance Purposes presented in this section of the report includes the following:

- Fiscal Schedules and Analysis:

- Schedule of Appropriations, Expenditures and Lapsed Balances
- Comparative Schedule of Net Appropriations, Expenditures and Lapsed Balances
- Schedule of Changes in State Property (Unaudited)
- Comparative Schedule of Cash Receipts
- Reconciliation Schedule of Cash Receipts to Deposits Remitted to the State Comptroller
- Analysis of Significant Variations in Expenditures
- Analysis of Significant Variations in Receipts
- Analysis of Significant Lapse Period Spending
- Analysis of Significant Account Balances
 - Accounts Receivables
 - Inventories

- Analysis of Operations

- Agency Functions and Planning Program
- Average Number of Employees
- Emergency Purchases
- Working Capital Revolving Fund Activity
- Annual Cost Statistics (Unaudited)
- Service Efforts and Accomplishments (Unaudited)
 - Sales by Customer (Unaudited)
 - Inmate Assignments (Unaudited)
 - Recidivism Statistics (Unaudited)
- Summary of Operations by Industry (Unaudited)

The auditors' report on the Supplementary Information for State Compliance Purposes presented in the Compliance Report Section states that it has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in the auditors' opinion, except for that portion marked "unaudited", on which they express no opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS - CORRECTIONAL INDUSTRIES
SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES
APPROPRIATIONS FOR FISCAL YEAR 2008

FOURTEEN MONTHS ENDED AUGUST 31, 2008

	Appropriations (Net After Transfers)	Expenditures Through 06/30/08	Lapse Period Expenditures 07/01/08 - 8/31/08	Total Expenditures	Balances Lapsed
<u>APPROPRIATED FUND</u>					
<u>Working Capital Revolving Fund - 301</u>					
Personal services	\$ 10,679,600	\$ 9,644,549	\$ 451,443	\$ 10,095,992	\$ 583,608
Student, member and inmate compensation	1,770,000	1,561,232	171,988	1,733,220	36,780
State contributions to State Employee's Retirement	1,773,800	1,593,803	74,909	1,668,712	105,088
State contributions to Social Security	817,000	721,636	34,142	755,778	61,222
Group insurance	2,323,600	2,148,478	89,151	2,237,629	85,971
Contractual services	2,174,600	1,811,769	320,170	2,131,939	42,661
Travel	92,000	55,642	30,336	85,978	6,022
Commodities	20,345,700	17,476,844	2,518,847	19,995,691	350,009
Printing	11,000	3,729	-	3,729	7,271
State property	353,400	147,460	56,324	203,784	149,616
Telecommunications services	72,200	43,715	10,210	53,925	18,275
Operation of automotive equipment	1,212,800	911,909	300,509	1,212,418	382
Repairs, maintenance and other capital improvements	147,000	-	-	-	147,000
Refunds	10,500	2,959	-	2,959	7,541
Total Fiscal Year 2008	\$ 41,783,200	\$ 36,123,725	\$ 4,058,029	\$ 40,181,754	\$ 1,601,446

Note: Appropriations, expenditures, and lapsed balances were obtained from records of the State Comptroller and reconciled to the Agency records.

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS - CORRECTIONAL INDUSTRIES
SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES
APPROPRIATIONS FOR FISCAL YEAR 2007

FOURTEEN MONTHS ENDED AUGUST 31, 2007

	Appropriations (Net After Transfers)	Expenditures Through 06/30/07	Lapse Period Expenditures 07/01/07 - 8/31/07	Total Expenditures	Balances Lapsed
<u>APPROPRIATED FUND</u>					
<u>Working Capital Revolving Fund - 301</u>					
Personal services	\$ 9,695,391	\$ 9,234,809	\$ 459,392	\$ 9,694,201	\$ 1,190
Student, member and inmate compensation	1,815,000	1,651,731	162,931	1,814,662	338
State contributions to State Employee's Retirement	1,117,989	1,064,986	52,998	1,117,984	5
State contributions to Social Security	729,000	691,907	34,561	726,468	2,532
Group insurance	2,208,000	2,100,869	93,579	2,194,448	13,552
Contractual services	2,286,200	1,855,996	235,134	2,091,130	195,070
Travel	110,200	83,281	16,167	99,448	10,752
Commodities	20,700,420	17,230,729	2,113,685	19,344,414	1,356,006
Printing	11,000	6,616	125	6,741	4,259
State property	170,200	34,728	92,622	127,350	42,850
Telecommunications services	80,000	53,314	8,127	61,441	18,559
Operation of automotive equipment	1,077,300	774,596	302,558	1,077,154	146
Repairs, maintenance and other capital improvements	147,000	125,325	-	125,325	21,675
Refunds	15,000	1,022	-	1,022	13,978
	<u>\$ 40,162,700</u>	<u>\$ 34,909,909</u>	<u>\$ 3,571,879</u>	<u>\$ 38,481,788</u>	<u>\$ 1,680,912</u>
Total Fiscal Year 2007					

Note: Appropriations, expenditures, and lapsed balances were obtained from records of the State Comptroller and reconciled to the Agency records.

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS - CORRECTIONAL INDUSTRIES
COMPARATIVE SCHEDULE OF NET APPROPRIATIONS,
EXPENDITURES AND LAPSED BALANCES

	For the Fiscal Year Ended June 30		
	2008	2007	2006
	PA 95-0348	PA 94-798	PA 94-0015
APPROPRIATED FUNDS			
<u>Working Capital Revolving Fund - 301</u>			
Appropriations (Net After Transfers)	\$ 41,783,200	\$ 40,162,700	\$ 50,640,600
Expenditures:			
Personal services	10,095,992	9,694,201	9,213,236
Employee retirement contribution paid by State	-	-	98,492
Student, member and inmate compensation	1,733,220	1,814,662	1,770,719
State contributions to State Employee's Retirement System	1,668,712	1,117,984	718,359
State contributions to Social Security	755,778	726,468	688,503
Group insurance	2,237,629	2,194,448	2,283,265
Contractual services	2,131,939	2,091,130	1,940,976
Travel	85,978	99,448	82,856
Commodities	19,995,691	19,344,414	17,728,416
Printing	3,729	6,741	6,615
State property	203,784	127,350	255,162
Telecommunications services	53,925	61,441	62,774
Operation of automotive equipment	1,212,418	1,077,154	1,006,104
Repairs, maintenance and other capital improvements	-	125,325	70,000
Refunds	2,959	1,022	7,525
Total expenditures	<u>40,181,754</u>	<u>38,481,788</u>	<u>35,933,002</u>
Lapsed Balances	<u>\$ 1,601,446</u>	<u>\$ 1,680,912</u>	<u>\$ 14,707,598</u>

Note: Appropriations, expenditures, and lapsed balances were obtained from records of the State Comptroller and reconciled to the Agency records.

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS - CORRECTIONAL INDUSTRIES
SCHEDULE OF CHANGES IN STATE PROPERTY
For the Year Ended June 30, 2008
(Unaudited)

	Total	Equipment	Building and Building Improvements	Construction in Progress	Capital Lease Equipment
Balance, June 30, 2007	\$ 28,127,091	\$ 21,210,895	\$ 6,705,682	\$ 195,325	\$ 15,189
Additions	553,619	250,278	251,133	-	52,208
Deletions	(1,209,346)	(846,954)	(151,878)	(195,325)	(15,189)
Net Transfers	-	-	-	-	-
Balance, June 30, 2008	\$ 27,471,364	\$ 20,614,219	\$ 6,804,937	\$ -	\$ 52,208

Note: This summary Schedule was prepared using the State property records required by the Illinois Administrative Code. The capitalization policy in the Code is different than the capitalization policy established by ICI in conjunction with the Office of the Comptrollers guidelines for financial reporting in accordance with generally accepted accounting principles.

The above Schedule is presented as unaudited because of the significance of the exceptions noted in finding 08-2.

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS - CORRECTIONAL INDUSTRIES
SCHEDULE OF CHANGES IN STATE PROPERTY
For the Year Ended June 30, 2007
(Unaudited)

	Total	Equipment	Building and Building Improvements	Construction in Progress	Capital Lease Equipment
Balance, June 30, 2006	\$ 26,630,539	\$ 19,812,873	\$ 6,753,853	\$ 48,624	\$ 15,189
Additions	2,119,182	1,758,419	77,075	283,688	-
Deletions	(693,572)	(431,339)	(125,246)	(136,987)	-
Net Transfers and Adjustments	70,942	70,942	-	-	-
Balance, June 30, 2007	\$ 28,127,091	\$ 21,210,895	\$ 6,705,682	\$ 195,325	\$ 15,189

Note: This summary Schedule was prepared using the State property records required by the Illinois Administrative Code. The capitalization policy in the Code is different than the capitalization policy established by ICI in conjunction with the Office of the Comptrollers guidelines for financial reporting in accordance with generally accepted accounting principles.

The above Schedule is presented as unaudited because of the significance of the exceptions noted in finding 08-2.

**STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
COMPARATIVE SCHEDULE OF CASH RECEIPTS**

	For the Fiscal Year Ended June 30,		
	2008	2007	2006
WORKING CAPITAL REVOLVING FUND - 301			
Receipts from sales of products	\$42,019,060	\$38,081,888	\$37,379,952
Rent from farm leases	208,194	363,236	347,587
Prior year refunds	198	3,268	521
Cash receipts per ICI	<u>\$42,227,452</u>	<u>\$39,448,392</u>	<u>\$37,728,060</u>

**RECONCILIATION SCHEDULE OF CASH RECEIPTS TO DEPOSITS
REMITTED TO THE STATE COMPTROLLER**

Cash receipts per ICI	\$42,227,452	\$39,448,392	\$37,728,060
Add deposit in transit, beginning of year	413,963	153,460	138,131
Less deposit in transit, end of year	<u>(286,159)</u>	<u>(413,963)</u>	<u>(153,460)</u>
Receipts per Comptroller's records	<u>\$42,355,256</u>	<u>\$39,187,889</u>	<u>\$37,712,731</u>

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES
As of June 30, 2008 and 2007

The Comparative Schedule of Net Appropriations, Expenditures and Lapsed Balances documents the expenditure activities for fiscal years 2008, 2007 and 2006.

Significant variations in expenditures from appropriations are considered to be those varying between years by twenty percent (20%) or more. Following are the ICI's explanations for these significant variations.

Employee retirement contribution paid by State

Employee retirement contributions paid by State decreased by \$98,492 or 100% in fiscal year 2007 because the State discontinued paying the employee retirement contribution effective January 2006 and onwards.

State contribution to State employee retirement

State contributions to State employee retirement increased by \$399,625 or 56% in fiscal year 2007 due to the increase in the contribution rate from 7.8% in fiscal year 2006 to 11.525% in fiscal year 2007. It further increased by \$550,728 or 49% in fiscal year 2008 due to a further increase of the contribution rate to 16.561% in fiscal year 2008.

Travel

Travel expenditures increased by \$16,592 or 20% due to higher travel reimbursements by employees during fiscal year 2007 as a result of detailing staff to different locations to temporarily fill staff vacancies.

Printing

Printing expenditures decreased by \$3,012 or 45% in fiscal year 2008 due to fewer orders for printed forms because forms ordered in fiscal year 2007 were also utilized in fiscal year 2008.

State property

State property expenditures decreased by \$127,812 or 50% in fiscal year 2007 due to budgetary constraints.

During fiscal year 2008, the increase in expenditures of \$76,434 or 60% was due to the purchase of generators, refrigerated trailers and a bulk tank.

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENDITURES
As of June 30, 2008 and 2007

Repairs, maintenance and other capital improvements

Permanent improvements increased by \$53,325 or 79% in fiscal year 2007 due to expenditures incurred for the renovation of Illinois River Bakery Shop.

During fiscal year 2008, the decrease of \$125,325 or 100% was due to the completion of the capital improvement incurred for the bakery shop in fiscal year 2007. There were no other capital improvements made in fiscal year 2008.

Refunds

Refunds decreased by \$6,503 or 86% in fiscal year 2007 due to minimal returns made by customers during fiscal year 2007.

During fiscal year 2008, refunds increased by \$1,937 or 190% due to refunds made for overpayment of Menard farm lease totaling \$1,200.

**STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
ANALYSIS OF SIGNIFICANT VARIATIONS IN RECEIPTS
Fiscal Years 2008 and 2007**

There were no significant fluctuations in receipts between fiscal years 2008, 2007 and 2006.

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
ANALYSIS OF SIGNIFICANT LAPSE PERIOD SPENDING
Fiscal Years 2008 and 2007

The Agency's lapse period spending of \$4,058,029 for fiscal year 2008 and \$3,571,879 for fiscal year 2007, as shown in the Schedule of Appropriations, Expenditures and Lapsed Balances, represented 10% and 9% of the total expenditures, respectively. Following are the Agency's explanations for lapse period spending which exceeded twenty percent (20%) of the total expenditure line item.

Fiscal Year 2008

Travel

ICI hosted the National Correctional Industries Association Conference in Chicago in June 2008 attended by various Correctional Industries' employees. Most travel reimbursements of employees were paid during the lapse period.

State property

Various equipment items were ordered before the end of June 30, 2008 but were received and paid during the lapse period.

Operation of automotive equipment

Several expenditures relating to operation of automotive equipment were paid during the lapse period because the appropriation transfer from another line item so funds are available to pay these expenditures occurred towards the end of the year.

Fiscal Year 2007

State property

Various equipment items were ordered before the end of June 30, 2007 but were received and paid during the lapse period.

Operation of automotive equipment

Several expenditures relating to operation of automotive equipment were paid during the lapse period because the appropriation transfer from another line item so funds are available to pay these expenditures occurred towards the end of the year.

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS - CORRECTIONAL INDUSTRIES
ANALYSIS OF SIGNIFICANT ACCOUNT BALANCES
As of June 30, 2008 and 2007

Accounts Receivable

Accounts receivable represents amounts due from sale of goods and services to State agencies, local governments and others. As of June 30, 2008 and 2007, ICI had accounts receivable of \$5,100,530 and \$4,667,752, respectively. The following represents an analysis of accounts receivable by customer and an aging of accounts receivable at June 30, 2008 and June 30, 2007. Amounts due from other funds are included in this receivable amounts.

	2008	2007
Department of Corrections	\$ 3,182,014	\$ 3,009,137
Department of Healthcare and Family Services	733,985	702,807
Department of Commerce and Economic Opportunity	4,000	57,644
Capital Development Board	-	19,903
Department of Human Services	473,935	290,521
Department of Central Management Services	9,285	13,717
Secretary of State	5,280	40,552
Department of Juvenile Justice	143,416	198,873
Department of Natural Resources	39,353	36,904
Department of Transportation	64,005	36,842
Department of Public Health	5,846	17,099
Department of Children and Family Services	7,054	13,932
Illinois State Police	23,364	24,002
Office of the Treasurer	1,187	4,382
Department of Veterans' Affairs	82,172	8,600
Other State Agencies	52,470	28,384
Local Government Units	19,498	13,953
State Colleges and Universities	29,284	6,214
Leases	318,770	112,670
Not for Profit Organizations	105,172	196,631
	5,300,090	4,832,767
Less warrants in transit*	199,560	165,015
	\$ 5,100,530	\$ 4,667,752
Current	\$ 2,726,130	\$ 2,685,586
31 - 90 days old	1,386,373	1,584,674
91 - 180 days old	739,941	482,941
Over 180 days old	447,646	79,566
	5,300,090	4,832,767
Less warrants in transit*	199,560	165,015
	\$ 5,100,530	\$ 4,667,752

*Warrants received by ICI in July that were issued in June by other State agencies.

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
ANALYSIS OF SIGNIFICANT ACCOUNT BALANCES - CONTINUED
June 30, 2008 and 2007

Inventories

Inventories represent the amount of goods on hand that are to be used in the process of manufacturing finished goods, finished goods that are ready to be sold, or operating supplies that are used in producing goods or services. The inventories of raw materials, work in process, finished goods, operating supplies, and stores inventory are stated at the lower of cost or market. The following represent inventories by component as of June 30, 2008 and June 30, 2007.

	2008	2007
Finished goods	\$ 5,153,341	\$ 5,114,584
Work in process	100,694	68,864
Raw materials	4,497,851	4,549,908
Livestock	-	59,850
Operating supplies	733,982	667,673
Unharvested crops	-	106,175
Stores inventory	29,076	26,849
	\$ 10,514,944	\$ 10,593,903

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
ANALYSIS OF OPERATIONS
For the Two Years Ended June 30, 2008

AGENCY FUNCTIONS AND PLANNING PROGRAM

AGENCY FUNCTIONS

The Department of Corrections - Illinois Correctional Industries (ICI) operates as a productive enterprise employing prisoners from institutions under the jurisdiction of the Illinois Department of Corrections (Department). ICI programs are supported by revenues derived from the sale of its products and services. Tax-supported institutions and non-profit organizations comprise the majority of the market.

The Illinois Procurement Code (30 ILCS 500/45-30) requires state agencies give ICI preference when procuring items manufactured by ICI. County, municipal units and other public institutions qualify as ICI customers. Not-for-profit corporations chartered in Illinois may also purchase ICI produced goods and services.

The Director of the Illinois Department of Corrections is Roger E. Walker Jr. The Acting Chief Executive Officer of the Illinois Correctional Industries is Donna Lindemulder who reports directly to the Director.

The mission of the Department of Corrections is to protect the public from criminal offenders through a system of incarceration and supervision which segregates offenders from society, assures offenders of their constitutional rights and maintains programs to enhance the success of offenders' reentry to society. ICI supports this mission with its vision to operate respected Correctional Industry programs accountable to the citizens of Illinois and beneficial to incarcerated individuals and their customers.

PLANNING PROGRAM

ICI developed the following strategies to achieve its vision:

- 1) Direct future growth in areas where ICI display maximum strength and ability;
- 2) Employ people and facilities that enhance these areas;
- 3) Improve continuously on these areas through education and knowledge;
- 4) Avoid participation in areas where ICI cannot make worthy and unique contributions;
- 5) Make total quality the ICI way of doing business; and
- 6) Make a fair profit on current operations to meet its obligations, sustain growth and reach ICI goals.

**STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
ANALYSIS OF OPERATIONS
For the Two Years Ended June 30, 2008**

AGENCY FUNCTIONS AND PLANNING PROGRAM

The management team of ICI composed of the Chief Executive Officer, Assistant Chief Executive Officer, and Regional Managers meet regularly to discuss the planning process and progress of ICI operation towards the achievement of its vision.

**STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
ANALYSIS OF OPERATIONS
For the Two Years Ended June 30, 2008**

AVERAGE NUMBER OF EMPLOYEES

The following is an analysis of the average number of civilian (non-inmate) employees for the last three fiscal years:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
ICI Central Office	24	28	29
Illinois River	15	15	16
Centralia	4	4	4
Danville	3	3	3
Decatur	3	3	3
Dixon	6	6	7
Dwight	6	6	6
East Moline	8	8	8
Hill	10	9	10
Graham	5	5	5
Jacksonville	1	1	1
Jacksonville Modular Furniture	8	8	7
Lincoln Asbestos	6	6	6
Lincoln Sewing	1	1	1
Lincoln Central District	7	7	-
Logan Furniture	1	2	2
Logan Trucking	-	-	7
Menard	4	4	5
Menard Farm	5	5	5
Western Illinois	7	7	6
Pana	5	5	6
Shawnee	5	5	5
Sheridan	4	5	5
Stateville	3	3	4
Vandalia	10	12	13
	<u>151</u>	<u>158</u>	<u>164</u>
Total average employees	<u>151</u>	<u>158</u>	<u>164</u>

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
ANALYSIS OF OPERATIONS
For the Two Years Ended June 30, 2008

EMERGENCY PURCHASES

ICI reported the following emergency purchases to the Office of the Auditor General during Fiscal Years 2008 and 2007:

<u>Description of Emergency Purchases – FY 2008</u>	<u>Actual Cost</u>
Purchase of chair bases	\$ 81,465
Emergency repair of Tetra Pak machine	\$ 46,320
Purchase of Sugar Cookie Base Mix	\$ 48,000
 <u>Description of Emergency Purchases – FY 2007</u>	
Purchase of Corn Syrup	\$ 47,025
Purchase of seed corn and soybean seed	\$ 30,972

**STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
ANALYSIS OF OPERATIONS**

WORKING CAPITAL REVOLVING FUND ACTIVITY

The following is a summary of overall activity in the Working Capital Revolving Fund for the previous three fiscal years.

	For the Fiscal Year Ended June 30		
	2008	2007	2006
Gross profit	\$ 16,767,749	\$ 12,472,743	\$ 4,914,196
Selling, general and administrative expenses	<u>15,542,574</u>	<u>12,738,923</u>	<u>5,794,440</u>
Operating income (loss)	1,225,175	(266,180)	(880,244)
Other income (expenses)-net	<u>(2,278)</u>	<u>(33,852)</u>	<u>361,933</u>
Income (loss) before transfer	1,222,897	(300,032)	(518,311)
Transfer to other funds	<u>-</u>	<u>(580,000)</u>	<u>(3,904,868)</u>
Net loss after transfer	1,222,897	(880,032)	(4,423,179)
Net assets, beginning of year	16,417,384	18,566,421	22,989,600
Restatement of net assets	<u>-</u>	<u>(1,269,005)</u>	<u>-</u>
Net assets, end of year	<u>\$ 17,640,281</u>	<u>\$ 16,417,384</u>	<u>\$ 18,566,421</u>

**STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
ANALYSIS OF OPERATIONS
For the Two Years Ended June 30, 2008**

ANNUAL COST STATISTICS

COMMODITIES EXPENDITURES

The following is an analysis of commodities expenditures for fiscal years 2008, 2007 and 2006:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Mechanical supplies	\$ 255,679	\$ 201,118	\$ 261,409
Household, laundry and cleaning Supplies	185,450	169,018	161,001
Industrial and shop materials	5,782,414	6,115,440	5,839,816
Gas, oil and antifreeze	40,615	35,141	24,880
Forage, farm and garden supplies	124,460	255,916	232,748
Food supplies	12,404,496	11,154,485	9,907,464
Wearing apparel	16,795	21,483	30,043
All other	1,185,782	1,391,813	1,271,055
 Total	 <u>\$19,995,691</u>	 <u>\$19,344,414</u>	 <u>\$17,728,416</u>

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS - CORRECTIONAL INDUSTRIES
ANALYSIS OF OPERATIONS
For the Two Years Ended June 30, 2008

ANNUAL COST STATISTICS

ADMINISTRATIVE COSTS (UNAUDITED)

The following schedule of administrative costs (unaudited), prepared by the Agency, consists of Central Administration expenses, as well as administrative expenses allocated at each shop.

	<u>For the Fiscal Year Ended June 30,</u>	
	<u>2008</u>	<u>2007</u>
Central Administration:		
Marketing	\$ 1,996,477	\$ 1,335,675
Fiscal	1,479,272	1,259,328
Chief Administrative Office Section	2,500,026	3,075,580
Planning	527,765	501,375
Industrial operations	131,181	63,932
	<u>6,634,721</u>	<u>6,235,890</u>
Shops:		
Illinois River	615,773	446,253
Centralia	432,316	315,606
Danville	335,855	307,014
Decatur	419,876	309,713
Dixon	580,738	399,387
Dwight	381,892	282,750
East Moline	377,708	297,428
Hill	456,751	343,073
Graham	400,524	352,999
Jacksonville	233,166	149,698
Lincoln	358,743	288,035
Logan	231,408	170,854
Menard	61,899	85,438
Menard Farm	541,922	389,145
Western	453,129	330,371
Pana Warehouse	1,803,004	1,170,337
Shawnee	360,615	258,673
Sheridan	236,346	124,532
Stateville	203,465	159,785
Vandalia	422,723	321,942
	<u>8,907,853</u>	<u>6,503,033</u>
 Total administrative expenses	 \$ 15,542,574	 \$ 12,738,923
 Total operating expenses including overhead costs	 <u>\$ 41,727,348</u>	 <u>\$ 38,698,958</u>
 Percent administrative expenses to total operating expenses	 <u>37.25%</u>	 <u>32.92%</u>

**STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
ANALYSIS OF OPERATIONS
For the Two Years Ended June 30, 2008**

SERVICE EFFORTS AND ACCOMPLISHMENTS (UNAUDITED)

SALES BY CUSTOMER (UNAUDITED)

The following is an analysis of net sales by customer type:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Illinois Department of Corrections	\$ 30,266,816	\$ 27,275,922	\$ 26,583,472
Illinois Department of Human Services	1,534,883	1,373,176	1,004,920
Illinois Department of Transportation	181,566	156,270	109,710
Other State Agencies	10,556,276	8,800,610	8,445,585
Local Governments	155,686	177,014	153,827
Colleges and Universities	592,705	740,603	759,802
Not-for-Profit Organizations	474,347	943,385	909,392
Other Customers	1,040,190	1,136,999	903,124
	<u>44,802,469</u>	<u>40,603,979</u>	<u>38,869,832</u>
Less intershop sales	<u>(1,850,012)</u>	<u>(2,171,100)</u>	<u>(1,749,883)</u>
Total sales	<u>\$ 42,952,457</u>	<u>\$ 38,432,879</u>	<u>\$ 37,119,949</u>

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
ANALYSIS OF OPERATIONS
For the Two Years Ended June 30, 2008

SERVICE EFFORTS AND ACCOMPLISHMENTS (UNAUDITED)

INMATE ASSIGNMENTS (UNAUDITED)

In fiscal year 2008, Illinois Correctional Industries filled 85% of industry assignments throughout the year while in fiscal year 2007, ICI filled 93% of industry assignments. Average Available assignments increased but Average Working decreased from fiscal year 2007 due to lack of inmates to fill up vacancies.

The first column, Average Available, reflects the established number of positions for a shop working at full capacity. When a shop is not working at full capacity, it is generally due to lack of sales, inmates being confined to their cells (uninterested in assignments, illness or lockdown), or vacancies due to routine turnover.

Industry	Fiscal Year 2008		Fiscal Year 2007	
	Average Available	Average Working	Average Available	Average Working
Centralia Administration	4	3	4	3
Centralia Mattress	17	12	17	10
Centralia Sewing	12	11	13	12
Danville Administration	1	1	5	5
Danville Boxes	13	13	10	10
Danville Sportswear	21	21	26	25
Decatur Administration	3	3	3	3
Decatur Garment	33	29	19	26
Decatur Furniture	8	7	8	9
Decatur Dog Grooming	4	4	8	8
Dixon Optical	90	90	84	84
Dwight Administration	3	3	3	3
Dwight Garment	55	54	57	57
Dwight Helping Paws	11	11	9	9
East Moline Administration	6	6	4	1
East Moline Laundry	30	30	49	49
East Moline Metal Furniture	9	5	1	1
Graham Administration	4	3	5	4
Graham Furniture	32	24	27	20
Graham State Garage	8	7	6	5
Hill Administration	2	2	6	6
Hill Meat Processing	43	40	41	40
Hill Milk Processing	26	24	30	30

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
ANALYSIS OF OPERATIONS
For the Two Years Ended June 30, 2008

SERVICE EFFORTS AND ACCOMPLISHMENTS (UNAUDITED)

INMATE ASSIGNMENTS (UNAUDITED)

Industry	Fiscal Year 2008		Fiscal Year 2007	
	Average Available	Average Working	Average Available	Average Working
Illinois River Administration	16	16	16	15
Illinois River Bakery	225	195	210	190
Jacksonville Call Center/Modular	10	10	9	9
Lincoln Administration	2	2	2	2
Lincoln Asbestos Abatement	18	18	10	10
Lincoln Sewing	18	18	32	21
Logan Administration	6	6	6	6
Logan Furniture/Refinishing	13	13	14	14
Menard Broom & Wax	15	11	13	9
Menard Knit	44	43	50	49
Menard Farm Administration	5	5	9	9
Menard Farm Meat Processing	17	9	15	11
Menard Farm Waste Removal/Recycling	12	12	10	8
Pana Central Distribution	6	6	6	5
Shawnee Administration	5	5	5	5
Shawnee Metal Furniture	15	15	18	18
Sheridan Garment Cutting	24	26	24	22
Stateville Furniture	13	13	15	14
Stateville Soap	10	10	9	8
Vandalia Administration	7	6	6	6
Vandalia Crops/Dairy	89	36	47	47
Vandalia Meat Processing	42	19	23	23
Vandalia Milk Processing	36	25	19	19
Western Illinois Administration	3	3	3	3
Western Illinois Food Processing	105	91	105	94
	<u>1,191</u>	<u>1,016</u>	<u>1,111</u>	<u>1,037</u>

**STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
ANALYSIS OF OPERATIONS
For the Two Years Ended June 30, 2008**

SERVICE EFFORTS AND ACCOMPLISHMENTS (UNAUDITED)

RECIDIVISM STATISTICS – UNAUDITED

The recidivism rate for inmates released from adult institutions who had past employment in an Illinois Correctional Industry program is 44.7%. The Department of Corrections reported a general three-year recidivism rate of 46.1%.

Additionally, in fiscal year 2005, Illinois Correctional Industries tracked all inmates released from its programs. From July 1, 2005 through June 30, 2006, 220 inmates were released directly from ICI programs.

Due to the database issues that have not been resolved since the violator-at-the-door-policies were implemented in 2005, recidivism numbers are not available for fiscal year 2007 and 2008.

**STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
ANALYSIS OF OPERATIONS**

SUMMARY OF OPERATIONS BY INDUSTRY (UNAUDITED)

Fiscal Year 2008

Industry	Revenue	Cost of Sales and Services	Selling, General and Administrative Expenses	Depreciation	Income (Loss)	Average # of Inmate Workers
Illinois River Bakery	\$ 5,411,555	\$ 3,103,370	\$ 1,263,415	\$ 279,059	\$ 765,711	195
Lincoln Asbestos Abatement	2,685	1,777	398,833	9,729	(407,654)	18
Decatur Furniture	907,388	517,825	142,981	-	246,582	7
Decatur Sewing	191,611	131,530	146,777	1,689	(88,385)	29
Decatur Grooming	910	5,828	(2,929)	-	(1,989)	4
Pana Warehouse	5,994	10,482	(12,661)	13,516	(5,343)	6
Jacksonville Modular Furniture Installation	89,606	6,703	513,872	7,263	(438,232)	3
Jacksonville Telemarketing	-	8,779	(5,323)	-	(3,456)	7
Lincoln Ind. Garment	318,522	186,212	197,506	2,486	(67,682)	18
Centralia Mattress	597,473	369,724	180,761	4,172	42,816	12
Centralia Sewing	447,450	244,246	300,016	5,736	(102,548)	11
Graham Furniture	940,673	394,885	445,791	122,193	(22,196)	24
Graham State Garage	19,097	-	4,631	-	14,466	7
Dwight Garment	1,362,833	517,659	691,403	13,136	140,635	54
Dwight Helping Paws	4,740	-	2,980	298	1,462	11
Menard Broom & Wax	515,364	343,089	158,227	17,700	(3,652)	11
Menard Knit	1,629,767	877,854	516,703	64,838	170,372	43
Menard Farm Meat Processing	1,176,891	782,807	250,583	27,919	115,582	9
Menard Farm Waste Removal	278,106	19,460	223,154	10,826	24,666	12
Logan Refinishing	181,706	53,840	124,512	-	3,354	13
Pana Trucking	1,894,999	-	3,292,935	25,166	(1,423,102)	-
Sheridan Garment Cutting	713,029	810,408	(19,731)	3,987	(81,635)	26

(Continued)

**STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
ANALYSIS OF OPERATIONS**

SUMMARY OF OPERATIONS BY INDUSTRY (UNAUDITED)

Fiscal Year 2008

Industry	Revenue	Cost of Sales and Services	Selling, General and Administrative Expenses	Depreciation	Income (Loss)	Average # of Inmate Workers
Stateville Furniture	\$ 846,379	\$ 634,847	\$ 229,845	\$ 106,859	\$ (125,172)	13
Stateville Soap	782,243	599,292	226,184	18,911	(62,144)	10
Stateville Garment	8,963	4,363	64	5,101	(565)	-
Vandalia Farm Milk Processing	3,903,379	2,369,013	1,464,159	74,013	(3,806)	25
Vandalia Farm Meat Processing	1,989,175	1,320,897	280,491	20,738	367,049	19
East Moline Laundry	390,536	51,391	581,130	120,053	(362,038)	30
East Moline Furniture	122,785	97,227	26,735	-	(1,177)	5
Danville Boxes	514,074	312,725	96,827	43,322	61,200	13
Danville Sportswear	413,575	313,957	175,149	1,762	(77,293)	21
Dixon Optical	6,677,662	1,790,169	921,676	73,756	3,892,061	90
Hill Meat Processing	3,047,908	2,365,964	600,122	30,022	51,800	40
Hill Milk Processing	3,757,635	2,691,628	725,951	60,115	279,941	24
Western Illinois Food Processing	4,998,671	3,781,248	1,009,574	63,176	144,673	91
Shawnee Metal Furniture	311,685	161,145	390,231	78,020	(317,711)	15
Total	44,455,069	24,880,344	15,542,574	1,305,561	2,726,590	916
Intershop sales	(1,850,013)	-	-	-	(1,850,013)	
Other revenues - net	348,598	-	-	-	348,598	
Interest expense	-	-	-	-	(2,278)	
Grand Total	\$ 42,953,654	\$ 24,880,344	\$ 15,542,574	\$ 1,305,561	\$ 1,222,897	

Note: During the fiscal year 2008, Illinois Correctional Industries has an average of 100 inmate workers in administrative positions at various locations, bringing the total number of inmate workers to 1,016.

**STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
ANALYSIS OF OPERATIONS**

SUMMARY OF OPERATIONS BY INDUSTRY (UNAUDITED)

Fiscal Year 2007

Industry	Revenue	Cost of Sales and Services	Selling, General and Administrative Expenses	Depreciation	Income (Loss)	Average # of Inmate Workers
Illinois River Bakery	\$ 4,899,550	\$ 2,719,659	\$ 1,548,706	\$ 285,831	\$ 345,354	190
Lincoln Asbestos Abatement	106,832	6,131	429,093	13,098	(341,490)	10
Decatur Furniture	329,059	396,351	111,136	-	(178,428)	9
Decatur Sewing	175,285	114,967	174,707	1,809	(116,198)	26
Decatur Grooming	1,306	8,385	4,264	-	(11,343)	8
Pana Warehouse	11,196	6,134	4,740	15,104	(14,782)	5
Jacksonville Modular Furniture Installation	77,486	5,444	505,517	12,190	(445,665)	3
Lincoln Ind. Garment	331,041	195,308	208,729	4,650	(77,646)	21
Centralia Furniture	5,919	6,819	-	-	(900)	-
Centralia Mattress	597,127	390,700	178,136	4,468	23,823	10
Centralia Sewing	608,026	315,379	310,312	12,347	(30,012)	12
Graham Furniture	926,881	446,661	451,743	101,492	(73,015)	20
Graham State Garage	25,675	-	22,646	-	3,029	5
Dwight Garment	1,157,613	651,579	656,730	17,321	(168,017)	57
Dwight Helping Paws	5,332	-	2,953	1,279	1,100	9
Menard Broom & Wax	553,475	381,109	174,229	9,773	(11,636)	9
Menard Knit	1,703,192	992,884	592,303	88,963	29,042	49
Menard Farm Meat Processing	1,231,894	865,211	255,084	29,901	81,698	11
Menard Farm Waste Removal	278,144	-	193,772	21,559	62,813	8
Logan Refinishing	215,262	164,657	158,330	-	(107,725)	14
Sheridan Garment Cutting	1,086,104	1,247,775	43,379	15,282	(220,332)	22

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**STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES
ANALYSIS OF OPERATIONS**

SUMMARY OF OPERATIONS BY INDUSTRY (UNAUDITED)

Fiscal Year 2007

<u>Industry</u>	<u>Revenue</u>	<u>Cost of Sales and Services</u>	<u>Selling, General and Administrative Expenses</u>	<u>Depreciation</u>	<u>Income (Loss)</u>	<u>Average # of Inmate Workers</u>
Stateville Furniture	\$ 704,339	\$ 461,318	\$ 195,804	\$ 38,537	\$ 8,680	14
Stateville Soap	776,948	447,280	255,469	-	74,199	8
Stateville Garment	18,856	10,327	-	-	8,529	-
Vandalia Farm Milk Processing	3,416,933	2,111,479	1,181,423	98,477	25,574	19
Vandalia Farm Meat Processing	2,108,469	1,401,719	338,991	27,953	339,806	23
East Moline Laundry	859,659	111,954	620,518	136,056	(8,869)	49
East Moline Furniture	225,464	184,797	46,355	0	(5,688)	1
Danville Boxes	602,113	353,637	127,845	46,641	73,990	10
Danville Sportswear	561,200	362,677	208,576	21,743	(31,796)	25
Dixon Optical	5,380,688	1,562,664	830,792	80,185	2,907,047	84
Dixon Sewing	440	239	-	-	201	-
Hill Meat Processing	2,907,796	2,319,769	662,860	34,187	(109,020)	40
Hill Milk Processing	2,805,104	2,068,415	686,765	48,856	1,068	30
Western Illinois Food Processing	5,140,271	4,105,685	1,136,857	69,088	(171,359)	94
Shawnee Metal Furniture	345,913	226,749	420,159	79,383	(380,378)	18
Total	40,180,612	24,643,862	12,738,923	1,316,173	1,481,654	913
Intershop sales	(2,171,100)	-	-	-	(2,171,100)	
Other revenues - net	423,367	-	-	-	423,367	
Grant payments	-	-	-	-	(33,852)	
Transfers to other funds	-	-	-	-	(580,000)	
Grand Total	\$ 38,432,879	\$ 24,643,862	\$ 12,738,923	\$ 1,316,173	\$ (879,931)	

Note: During the fiscal year 2007, Illinois Correctional Industries has an average of 118 inmate workers in administrative positions at various locations, bringing the total number of inmate workers to 1,037.