



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

ILLINOIS DEPARTMENT OF CORRECTIONS

Financial Audit
 for the Year Ended June 30, 2018

Release Date: April 25, 2019

FINDINGS THIS AUDIT: 7				AGING SCHEDULE OF REPEATED FINDINGS*			
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
Category 1:	0	3	3	2012	3		
Category 2:	2	2	4	2008	1, 2	4, 5	
Category 3:	0	0	0				
TOTAL	2	5	7				

FINDINGS LAST AUDIT (Government Auditing Standards Findings only): 5

INTRODUCTION

This digest covers the Financial Statement Audit for the Illinois Department of Corrections (Department) for the year ended June 30, 2018. The Department's Compliance Examination covering the two years ended June 30, 2018 will be issued at a later date.

SYNOPSIS

- **(18-01)** The Department's year-end financial reporting to the Illinois Office of the Comptroller contained inaccuracies due to improper accounting.
- **(18-02)** The Department did not maintain accurate and adequate property records and did not timely and accurately record all capital asset information in its financial records.

Category 1: Findings that are **material weaknesses** in internal control and/or a **qualification** on compliance with State laws and regulations (material noncompliance).

Category 2: Findings that are **significant deficiencies** in internal control and **noncompliance** with State laws and regulations.

Category 3: Findings that have **no internal control issues but are in noncompliance** with State laws and regulations.

{Financial data is summarized on next page.}

ILLINOIS DEPARTMENT OF CORRECTIONS
FINANCIAL AUDIT
For the Year Ended June 30, 2018

Statement of Activities (In Thousands)	FY 2018	FY 2016*
PROGRAM REVENUES		
Charges for Services.....	\$ 62,107	\$ 61,696
Operating Grants and Contributions.....	1,960	5,602
Total Program Revenues.....	<u>64,067</u>	<u>67,298</u>
EXPENSES		
Public Protection and Justice.....	(2,863,061)	(2,006,405)
Interest.....	(161)	(110)
Total Expenditures.....	<u>(2,863,222)</u>	<u>(2,006,515)</u>
GENERAL REVENUES AND TRANSFERS		
Appropriations from State resources.....	2,380,856	1,322,383
Lapsed appropriations.....	(110,310)	(59,740)
Receipts collected and transmitted to State Treasury.....	(20,500)	(25,685)
Interest, investment income, and other revenues.....	12,571	18,469
Other expenses and transfers-out.....	(1,464)	(733)
Capital transfers from other State agencies.....	85,467	8,501
Total General Revenues and Transfers.....	<u>2,346,620</u>	<u>1,263,195</u>
CHANGE IN NET POSITION.....	<u>\$ (452,535)</u>	<u>\$ (676,022)</u>
*Comparison is with FY2016 due to biennial audit engagement		
STATEMENT OF NET POSITION (In Thousands)	FY 2018	FY 2016*
ASSETS		
Unexpended appropriations.....	\$ 536,057	\$ 60,227
Cash, cash equivalents, and cash equity with State Treasurer.....	27,618	21,562
Receivables.....	2,654	3,064
Inventories and prepaid expenses.....	20,180	20,613
Capital assets.....	730,566	709,641
Total Assets.....	<u>\$ 1,317,075</u>	<u>\$ 815,107</u>
DEFERRED OUTFLOWS OF RESOURCES.....	<u>1,487,840</u>	<u>514,897</u>
LIABILITIES		
Accounts payable and accrued liabilities.....	\$ 610,801	\$ 456,825
Due to other funds and entities.....	86,957	59,613
Unearned revenue.....	320	263
Long term obligations.....	11,424,135	5,439,113
Total liabilities.....	<u>12,122,213</u>	<u>5,955,814</u>
DEFERRED INFLOWS OF RESOURCES.....	<u>809,727</u>	<u>179,634</u>
TOTAL NET POSITION.....	<u>\$ (10,127,025)</u>	<u>\$ (4,805,444)</u>
*Comparison is with FY2016 due to biennial audit engagement		
ACTING DIRECTOR		
During Audit Period and Currently: John Baldwin		

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

WEAKNESSES IN PREPARATION OF GAAP REPORTING FORMS SUBMITTED TO THE ILLINOIS OFFICE OF THE COMPTROLLER AND PREPARATION OF YEAR-END DEPARTMENT FINANCIAL STATEMENTS

The Department's year-end financial reporting in accordance with generally accepted accounting principles (GAAP) to the Illinois Office of the Comptroller contained inaccuracies due to improper accounting. These problems, if not detected and corrected, could materially misstate the Department's financial statements and negatively impact the financial statements prepared by the Illinois Office of the Comptroller (Comptroller). The auditors noted the following:

Adequate documentation for estimates was not maintained

- The Department did not have adequate documentation of its procedures for development of material liability estimates. Estimated liabilities as of fiscal year end amounted to \$223.2 million.
- The Department did not accrue liabilities totaling \$17.8 million in the originally submitted GAAP package.

Manual asset summaries used due to untimely and inaccurate updates of inventory system

- The Central Inventory System was not updated timely and accurately. Therefore, the Department used manually compiled capital asset summaries and depreciation calculations to prepare GAAP Reporting forms related to capital assets and in determining the amounts reported in the financial statements. As a result, the following inaccuracies were noted in the originally submitted GAAP Reporting forms and financial statements:

Significant errors noted in the reporting of assets transferred-in, depreciation and accumulated depreciation

- Capital assets transferred-in valued at \$27.1 million and related depreciation expense of \$0.9 million were not reported in the GAAP packages and financial statements.
- The net book value of assets received and capital transfers-in were overstated \$4.5 million due to not calculating the accumulated depreciation of these assets on the date of transfer.
- The Department's manually calculated depreciation schedules contained errors which understated depreciation expense \$12.5 million.

Asset impairments not fully evaluated and reported

- The Department did not fully evaluate whether asset impairments occurred, and did not record the loss on impairment totaling \$0.2 million for two buildings and did not disclose the carrying values of two closed facilities totaling \$60.2 million.
- The Department misclassified capital assets, compensated absences and receivables in the financial statements.

Department adjusted financial statements to correct errors

The Department subsequently adjusted the financial statements and footnotes to correct these reporting errors. (Finding 1, Pages 59-62) **This finding has been repeated since 2008.**

We recommended the Department maintain documentation of the calculation and basis of liability estimates. We also recommended the Department outline and implement procedures to ensure GAAP Reporting Packages and financial statements are prepared in an accurate manner. Lastly, we recommended proper cut-off procedures and internal reviews be included in those procedures as a method to identify and correct errors prior to the submission of financial information to the Illinois Office of the Comptroller and other external parties.

Department agreed with auditors

The Department accepted our recommendation and stated it will strengthen its controls and documentation related to liability estimates used in the financial statements. The Department also noted the audit cycle presented unique and unprecedented challenges. *(For the previous Department response, see Digest Footnote #1.)*

WEAKNESSES IN THE FINANCIAL ACCOUNTING FOR, AND INACCURATE AND INADEQUATE RECORDKEEPING OF PROPERTY

The Department did not maintain accurate and adequate property records and did not timely and accurately record all capital asset information in its financial records. Some of the errors noted by the auditors include:

\$26 million of land, buildings and improvements were not recorded in property records

- The Department started operations of the Joliet Treatment Center in October 2017 using the facility from the Department of Juvenile Justice (DJJ), but did not record in the property records the land, buildings and improvements or renovations for those facilities totaling \$26 million.

Additions and transfers of \$15.9 million were not timely recorded

- Property records were not timely updated for additions and capitalized transfers totaling \$15.9 million.
- The Department did not include capitalized transfers from the Capital Development Board (CDB) in electronic or manual property records. As a result, transfers totaling

Capital transfers of \$3.8 million were reported in the wrong fiscal years

\$3.8 million were not reported in the proper fiscal years and the related depreciation and accumulated depreciation were understated.

- The Department did not consistently apply its capitalization policy.
- Unreconciled differences between property additions and expenditures totaled \$11.8 million in Fiscal Year 2018.
- The completeness and accuracy of property totaling \$191.7 million at one Center could not be determined.
- 3,568 equipment items, totaling \$3,367,855 were missing or unlocated during Fiscal Year 2018. (Finding 2, pages 63-71) **This finding has been repeated since 2008.**

Completeness and accuracy could not be determined for one Center's property totaling \$191.7 million

We recommended the Department strengthen its procedures over property and equipment to ensure accurate and timely recordkeeping and accountability for all State assets. We also recommended the Department incorporate internal review procedures within its property reporting function that ensures the capital asset information is complete and properly recorded and accounted for to permit the preparation of reliable information and reports to the Illinois Office of the Comptroller.

Department agreed with auditors

The Department accepted our recommendation and stated it will work to improve its oversight over property record keeping and capital assets reporting. (*For the previous Department response, see Digest Footnote #2.*)

OTHER FINDINGS

The remaining findings pertain to control over computer systems, locally held funds, inventory, Adult Transitional Center financial transactions and controls over service providers. We will review the Department's progress towards the implementation of our recommendations in our next audit.

AUDITOR'S OPINIONS

The auditors stated the financial statements of the Department as of and for the year ended June 30, 2018 are fairly stated in all material respects.

This financial audit was conducted by Adelfia LLC.

SIGNED ORIGINAL ON FILE

JANE CLARK
Division Director

This report is transmitted in accordance with Section 3-14 of the Illinois State Auditing Act.

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

FJM:lkw

DIGEST FOOTNOTES

#1 - WEAKNESSES IN PREPARATION OF GAAP REPORTING FORMS SUBMITTED TO THE ILLINOIS OFFICE OF THE COMPTROLLER AND PREPARATION OF YEAR-END DEPARTMENT FINANCIAL STATEMENTS

2016: Recommendation accepted. IL Department of Corrections (IDOC) will continue devoting the resources necessary to complete the GAAP reporting as required by taking all possible steps to ensure the GAAP Reporting Package and financial statements are prepared in an accurate manner.

#2 - WEAKNESSES IN THE FINANCIAL ACCOUNTING FOR, AND INACCURATE AND INADEQUATE RECORDKEEPING OF PROPERTY

2016: Recommendation accepted. IL Department of Corrections (IDOC) will continue devoting the resources necessary, within the limitations of the current technology and budget constraints to ensure that capital asset information is properly recorded and maintained. IDOC is working to update the current Central Inventory Control System (CIS) to reflect accurate amounts. Fiscal will also work with Capital Development Board (CDB) to try to make sure all necessary information will be captured in the future.