



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

DEPARTMENT OF CENTRAL MANAGEMENT SERVICES

**Financial Audit
 For the Year Ended June 30, 2017**

Release Date: February 22, 2018

| FINDINGS THIS AUDIT: 1 | | | | AGING SCHEDULE OF REPEATED FINDINGS | | | |
|-------------------------------|------------|---------------|--------------|-------------------------------------|-------------------|-------------------|-------------------|
| | <u>New</u> | <u>Repeat</u> | <u>Total</u> | <u>Repeated Since</u> | <u>Category 1</u> | <u>Category 2</u> | <u>Category 3</u> |
| Category 1: | 0 | 1 | 1 | 2015 | 17-1 | | |
| Category 2: | 0 | 0 | 0 | | | | |
| Category 3: | <u>0</u> | <u>0</u> | <u>0</u> | | | | |
| TOTAL | 0 | 1 | 1 | | | | |
| FINDINGS LAST AUDIT: 2 | | | | | | | |

INTRODUCTION

This report covers our financial audit of the Department of Central Management Services for the year ended June 30, 2017. A State compliance examination covering the two years ended June 30, 2017 will be released at a later date.

SYNOPSIS

- **(17-1)** The Department's year-end financial reporting to the Office of the State Comptroller contained errors in the determination of certain year-end account balances.

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 information is summarized on next page.}

DEPARTMENT OF CENTRAL MANAGEMENT SERVICES
FINANCIAL AUDIT
For the Year Ended June 30, 2017

| STATEMENT OF ACTIVITIES (expressed in thousands) | Fiscal Year 2017 | Fiscal Year 2016 |
|---|-----------------------------------|-----------------------------------|
| PROGRAM REVENUES | | |
| Charges for Services..... | \$ 1,334,570 | \$ 1,332,207 |
| Federal..... | \$ 1,663 | |
| EXPENSES | | |
| Total Expenses..... | 6,069,233 | 5,515,417 |
| NET (EXPENSES) REVENUES..... | (4,733,000) | (4,183,210) |
| Total General Revenues and Transfers..... | 358,224 | 168,916 |
| CHANGE IN NET POSITION..... | (4,374,776) | (4,014,294) |
| Net Position, July 1, as restated..... | (17,246,612) | (13,022,029) |
| NET POSITION, JUNE 30..... | \$ (21,621,388) | \$ (17,036,323) |
| STATEMENT OF NET POSITION (expressed in thousands) | Fiscal Year 2017 | Fiscal Year 2016 |
| Cash, Equity and Cash Equivalents..... | \$ 263,080 | \$ 493,323 |
| Capital Assets, net..... | 196,724 | 318,013 |
| Other Assets..... | 801,306 | 1,142,178 |
| Deferred outflows of resources..... | 113,263 | 15,224 |
| Total Assets and Deferred Outflows of Resources..... | 1,374,373 | 1,968,738 |
| Accounts Payable and Accrued Liabilities..... | 5,574,017 | 3,920,314 |
| Long Term Obligations and Other Liabilities..... | 17,410,917 | 15,076,324 |
| Deferred inflows of resources..... | 10,827 | 8,423 |
| Total Liabilities and Deferred Inflows of Resources..... | 22,995,761 | 19,005,061 |
| Net Position, Net Investment in Capital Assets..... | 192,499 | 309,798 |
| Net Position, Restricted | 4,598 | 4,448 |
| Net Position, Unrestricted..... | (21,818,485) | (17,350,569) |
| Total Net Position..... | \$ (21,621,388) | \$ (17,036,323) |
| AGENCY DIRECTOR | | |
| During Examination Period: Michael Hoffman - Acting | | |
| Currently: Michael Hoffman - Acting | | |

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

**WEAKNESSES IN INTERNAL CONTROL OVER
FINANCIAL REPORTING**

The Department's year-end financial reporting in accordance with generally accepted accounting principles (GAAP) to the Illinois Office of the State Comptroller contained errors in the determination of certain year-end account balances.

During the audit of the June 30, 2017 financial statements we noted the following errors for which the Department revised their financial statements:

**Accrued liabilities understated by
\$11.849 million**

- The Department understated accrued liabilities in the Health Insurance Reserve Fund by \$11.849 million due to the exclusion of certain prescription drug benefit liabilities. This misstatement also resulted in an understatement of the amounts due to this fund from the General Revenue Fund and Road Fund.
- The Department understated accrued liabilities in the Local Government Health Insurance Reserve Fund, the Teacher Health Insurance Security Fund, and the Community College Health Insurance Security Fund by \$247 thousand, \$2.032 million, and \$199 thousand, respectively, due to the exclusion of certain prescription drug benefit liabilities.
- In the prior fiscal year, the Department understated their accrued liabilities and benefit payments in the Community College Health Insurance Security Fund by \$8.853 million due to a mathematical error when calculating the accrued liability. The Department restated its financial statements as of July 1, 2016 to correct for these errors.

**Accounts receivable overstated by
\$12.423 million**

- The Department overstated accounts receivable in the Health Insurance Reserve Fund by \$12.423 million due to including a deposit in transit in accounts receivable and cash. It should not have been included in accounts receivable. This misstatement also resulted in an understatement of the amounts due to this fund from the General Revenue Fund and Road Fund.
- The Department overstated accounts receivable in the Local Government Health Insurance Reserve Fund, the Teacher Health Insurance Security Fund, and the Community College Health Insurance Security Fund by \$296 thousand, \$1.898 million, and \$215 thousand, respectively, due to including a deposit in transit in accounts receivable and cash. It should not have been

included in accounts receivable. (Finding 1, pages 68-70). **This finding has been repeated since 2015.**

We recommended the Department implement procedures and cross-training measures throughout the Department to ensure required financial information is submitted to those responsible for financial reporting in a timely, accurate and complete manner. This should include allocating sufficient staff resources and the implementation of formal procedures to ensure adequate and reliable financial information is prepared and submitted to the Office of the State Comptroller. These procedures should address all elements of the Department's financial reporting process including, but not limited to, accruals for liabilities and receivables, supervisory review of supporting spreadsheets for data accumulation, and the preparation of management estimates.

Department agrees with auditors

The Department agreed with the finding and stated they will strive to implement cross-training measures and financial reporting procedures to ensure timeliness, accuracy, reliability and reasonableness of data utilized to perform financial reporting. Additionally, the Department stated they will continue to work diligently to fill key positions to ensure an independent, internal analytical review of calculations is documented and completed timely. *(For the previous Department response, see Digest Footnote #1)*

AUDITOR'S OPINION

The auditors stated the financial statements of the Department of Central Management Services as of and for the year ended June 30, 2017, are fairly stated in all material respects.

This financial audit was conducted by Sikich, LLP.

SIGNED ORIGINAL ON FILE

JANE CLARK
Division Director

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

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

FJM:skm

DIGEST FOOTNOTES

#1 – Weaknesses in internal control over financial reporting

2016: The Department agrees with the finding and recommendation. The Department experienced major transitions during the financial reporting time period including changes in personnel, the shared services de-consolidation, and the creation of the Illinois Department of Innovation and Technology as its own agency. Additionally, the Department continues to work through issues created by the budget impasse. The department will continue to work toward more comprehensive cross-training among staff and will continue to work to improve communications from Bureau staff to Financial Reporting staff. Lastly, the Department will continue to update its financial reporting procedures to help ensure accurate and reliable financial information is prepared and submitted to the Office of the Comptroller.