



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

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

DEPARTMENT OF CORRECTIONS-CORRECTIONAL INDUSTRIES

**FINANCIAL AUDIT
For the Year Ended June 30, 2010**

**COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2010**

Summary of Findings:

Total this audit:	6
Total last audit:	12
Repeated from last audit:	4

Release Date: May 5, 2011

INTRODUCTION

This digest covers the financial audit for the year ended June 30, 2010 and the compliance examination for the two years ended June 30, 2010. Correctional Industries was a division of the Illinois Department of Corrections and operates manufacturing and service industries within the adult correctional centers during the audit period.

SYNOPSIS

- The Department did not ensure financial records used to prepare the year-end financial statements and the Office of the Comptroller Generally Accepted Accounting Principles packages were accurate for Fund 301- Working Capital Revolving Fund.
- The Department's inventory procedures included weaknesses which contributed to misstated inventory balances.
- The Department did not have internal controls in place over property.

{Expenditures and Activity Measures are summarized on the reverse page.}

ILLINOIS DEPARTMENT OF CORRECTIONS-CORRECTIONAL INDUSTRIES
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2010

APPROPRIATION EXPENDITURE STATISTICS- Working Capital Revolving Fund (Fund 301)	2010	2009	2008
Total Expenditures.....	\$ 39,911,186	\$ 39,847,658	\$ 40,181,754
Personal Services.....	\$8,576,555	\$9,262,937	\$ 10,095,992
Inmate Compensation.....	\$1,819,848	\$1,715,890	\$ 1,733,220
Other Payroll Costs (FICA, Retirement).....	\$4,917,283	\$4,647,556	\$ 4,662,119
All Other Operating Expenditures.....	\$24,597,500	\$24,221,275	\$ 23,690,423
FINANCIAL OPERATIONS (expressed in thousands)	2010	2009	2008
Operating Revenue.....	\$ 44,453	\$ 43,267	\$ 42,953
Operating Expenses.....	43,707	41,151	41,728
Operating Income (Loss).....	\$ 746	\$ 2,116	\$ 1,225
Net Non-Operating (Expenses).....	549	591	(2)
Transfers to Other Funds.....	(6,446)	(500)	-
Net Income (Loss).....	\$ (5,151)	\$ 2,207	\$ 1,223
Net Assets, Beginning of Year.....	19,847	17,640	16,417
Net Assets, End of Year.....	\$ 14,696	\$ 19,847	\$ 17,640

SELECTED ACTIVITY MEASURES (unaudited)	2010	2009	2008
Average Number of Inmate Workers*.....	869	882	916
Number of Industry Operations at June 30,	38	36	36
Industry Operations reporting a profit.....	11	12	16
Industry Operations reporting a loss.....	27	24	20

*Note: Excluding inmate workers assigned to administrative positions

CORRECTIONAL INDUSTRIES CHIEF EXECUTIVE OFFICER
During Examination Period: James Underwood (7/1/08-8/31/08), Donna Lindemulder (9/1/08-1/19/10), vacant (1/20/10-5/15/10)
Currently: Timothy Gleason (5/16/10 thru current)

FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS

INADEQUATE CONTROL OVER FINANCIAL REPORTING

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

During our testing we noted:

Accounts payable overstated

- 18 of 97 vouchers (19%) were not recorded in the proper fiscal year for accounts payable as of June 30, 2010. Specifically, \$65,558 was not recorded as a liability and \$100,946 was recorded as a liability and also recorded as an expense in the next fiscal year, for a net overstatement of accounts payable of \$35,388.

Compensated absences overstated

- 12 of the 75 (16%) amounts tested relating to compensated absences had errors whereby the amounts recorded for vacation were overstated \$6,690, sick days were understated \$11,820, and holidays were overstated by \$6,657 for a net overstatement of \$1,527.

Inventory overstated

- Inventory was overstated by \$144,779 at June 30, 2009 based upon the re-stated value due to errors identified during the testing of inventory described in Finding No. 10-2.

Capital assets understated

- The ending balances of the capital assets were understated by \$17,707 at June 30, 2010. The Agency removed assets from capital assets in anticipation of them being sold at auction; however, these items were not taken to the auction.
- The Cost of Sales and Service on the SCO-527 accounting report was understated by \$855,000. This same amount is added to the General and Administrative line item of the SCO-527 accounting report, thereby resulting in a net difference to income of zero.

Department management stated the exceptions were due to miscommunication, limited staffing and oversight.

We recommend the Department devote sufficient resources to its financial accounting function to ensure 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 receive sufficient technical resources and training to ensure generally accepted accounting principles are followed in the preparation of year-end financial information. (Finding 10-1, pages 13-14) This finding was first reported in 2006.

Department officials concur with auditors

Department officials accepted our recommendation and stated they have and will be securing additional financial positions requiring technical expertise in accounting.

INADEQUATE CONTROL OVER INVENTORY

The Department's inventory procedures included weaknesses which contributed to misstated inventory balances. During our testing of inventory, we noted:

Final cost information was not presented for finished goods inventory

- Cost information was not present in the final finished goods inventory records for 11 of 1197 (1%) items. These items were responsible for \$9,813 of the overstatement of \$144,779 identified in Finding No. 10-1.
- Separate inventory records are maintained at 20 locations; the central warehouse and 19 Centers. Due to the lack of a uniform inventory system, eight locations maintain inventory records on index cards, six locations utilize Access or Excel and six locations utilize both.
- Duplication of efforts exists in preparing inventory records. The 20 locations prepare a summary of their complete inventory and send a printed copy to accounting staff quarterly. The accounting staff, manually re-enter the summary information into an electronic spreadsheet in order to compile total inventory records. Additionally, the details of the inventory records are maintained at the 20 locations; whereas, the Central Office only maintains summary information.

Duplication of efforts in preparing records

Department management stated the manual re-keying of the Center inventory data is viewed as a process to identify errors in the inventory reports submitted by the Centers; however, the fiscal year 2009 discrepancies failed to be identified. Additionally, the current inventory recordkeeping systems in place at the Centers would remain the same even if additional software programs, the current system used for the general ledger and accounting system were implemented.

We recommended the Department strengthen internal controls over reporting of inventory to ensure inventory is valued at the

lower of cost or market in accordance with the Office of the State Comptroller's Statewide Accounting Management System (SAMS) procedure 27.20.77. In addition, we recommend the Department implement a standardized and automated inventory control system for transfer of information between all locations and the Central Office. (Finding 10-2, pages 15-16)

Department officials agree with auditors

The Department accepted our recommendation and stated they are in the process of standardizing the inventory control system in order to reduce risk of errors attributable to manual re-entry of the information. Additional emphasis will also be placed on following already established procedures over proper reporting of inventories.

INADEQUATE CONTROLS OVER PROPERTY AND EQUIPMENT

The Department did not have internal controls in place over property. During our testing, we noted:

Some property items could not be located

- 3 of 74 (4%) items listed on the Department's property records, totaling \$6,584, could not be located during our physical observation testing. One item valued at \$2,197 had been transferred and the other two items valued at \$4,387 were not removed from the property records after being sold at an auction.

- 1 of 73 (1%) items observed was not listed on the property controls records. The item was valued at \$59,268.

Capital asset records not properly maintained

- 121 of 196 (62%) items selected from the capital asset disposition records and property control disposition records totaling \$360,935 were removed in anticipation of the items going to auction to be sold, but did not. These items were not sold; however, they were not re-entered onto the records which resulted in capital assets being understatement by \$295,170 and property being understated by \$65,765 at June 30, 2010.

- 1 of 8 (13%) quarterly Agency Reports of State Property (C-15) filed with the Comptroller was filed two days late.

Department management stated the three items not removed were clerical oversights which have been corrected. The one item missing from property control records was very recently purchased. Additionally, management stated the 121 items were initially intended to be sold at the auction and were assets from a cattle program that were no longer needed. Prior to the sale, management introduced intentions of starting

a horse care operation which could have utilized these assets. When the horse care program is decided, the correction for the asset reporting will be made. Management also stated the Agency Report of State Property (C-15) was late due to a computer related problem.

We recommended the Department comply with the statutory requirements of providing accurate and timely property information. We further recommend property dispositions should not be approved for removal from property records until the disposition or transfer has occurred. (Finding 10-3, pages 17-18)

Department officials agree with auditors

The Department accepted our recommendation and stated they would make every effort to ensure accurate and timely fixed asset records.

OTHER FINDINGS

With regards to the other findings noted in our report, Department management indicated they are being given attention. We will review the progress towards the implementation of our recommendations during our next engagement.

AUDITORS' OPINION

Our auditors stated the June 30, 2010 financial statements of the Illinois Department of Corrections-Correctional Industries Working Capital Revolving Fund are fairly presented.



WILLIAM G. HOLLAND
Auditor General

WGH:MKL:pp

AUDITORS ASSIGNED

West and Company, LLC were our special assistant auditors for this audit.