



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

DEPARTMENT OF CORRECTIONS

**Financial Audit
 For the Year Ended June 30, 2020**

Release Date: June 23, 2021

FINDINGS THIS AUDIT: 8	New	Repeat	Total	AGING SCHEDULE OF REPEATED FINDINGS			
				Repeated Since	Category 1	Category 2	Category 3
Category 1:	2	3	5	2018		7	
Category 2:	0	3	3	2012	3		
Category 3:	0	0	0	2008	1, 2	6, 8	
TOTAL	2	6*	8				
FINDINGS LAST AUDIT: 7*							

* Two prior findings were combined into one finding in 2020.

INTRODUCTION

This digest covers the Financial Statement Audit for the Illinois Department of Corrections (Department) for the year ended June 30, 2020. The Department's Compliance Examination covering the two years ended June 30, 2020 will be issued at a later date.

SYNOPSIS

- **(20-1)** The Department's year-end financial reporting contained inaccuracies due to improper accounting and inadequate review.
- **(20-4)** The Department did not ensure fiscal requirements were controlled and documented, and did not ensure proper financial reporting was performed for the Offender 360 project.
- **(20-5)** The Department did not timely report complete and accurate census data to the Department of Central Management Services and did not have a reconciliation process to provide assurance census data submitted to the pension and other postemployment benefits (OPEB) plans was complete and accurate.

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.

ILLINOIS DEPARTMENT OF CORRECTIONS
FINANCIAL AUDIT
For the Year Ended June 30, 2020

FINANCIAL INFORMATION - Governmental funds (in thousands)	FY 2020	FY 2018
REVENUES		
Federal government.....	\$ 246,293	\$ 2,019
Interest and other investment income.....	175	37
Other.....	4,830	11,799
Other charges for services.....	60,452	55,312
Total revenues.....	<u>311,750</u>	<u>69,167</u>
EXPENDITURES		
Public Protection and Justice.....	2,229,902	1,940,112
Debt service - principal.....	488	1,331
Debt service - interest.....	254	161
Capital outlays.....	4,972	1,330
Total expenditures.....	<u>2,235,616</u>	<u>1,942,934</u>
OTHER SOURCES (USES)		
Appropriations from State resources.....	2,323,111	2,380,856
Lapsed appropriations.....	(240,336)	(110,310)
Receipts collected and transmitted to State Treasury.....	(20,796)	(20,500)
Transfers-in.....	10,806	9,343
Transfers-out.....	(10,806)	(9,343)
Proceeds from capital lease financing.....	910	274
Total other sources (uses).....	<u>2,062,889</u>	<u>2,250,320</u>
Net change in fund balance.....	139,023	376,553
Fund balance (deficit) July 1.....	(43,778)	(519,644)
Increase (decrease) for changes in inventories.....	2,296	(345)
Fund balance (deficit) June 30.....	<u>\$ 97,541</u>	<u>\$ (143,436)</u>
SELECTED ACCOUNT BALANCES - Governmental funds (in thousands)		
	June 30, 2020	June 30, 2018
ASSETS		
Unexpended appropriations.....	\$ 77,680	\$ 536,057
Cash and cash equivalents.....	28,988	24,909
Receivables.....	250,703	15,923
Inventories.....	13,800	14,433
Total assets.....	<u>\$ 371,171</u>	<u>\$ 591,322</u>
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES		
Accounts payable and accrued liabilities.....	\$ 178,476	\$ 595,086
Due to other funds and entities.....	95,118	139,272
Unearned revenue.....	36	320
Unavailable revenue.....		80
Total liabilities and deferred inflows of resources.....	<u>273,630</u>	<u>734,758</u>
FUND BALANCE (DEFICIT)		
Fund balance (deficit).....	97,541	(143,436)
Total liabilities, deferred inflows of resources and fund balance (deficit).....	<u>\$ 371,171</u>	<u>\$ 591,322</u>
AGENCY ACTING DIRECTOR		
During Audit Period: Rob Jeffreys		
Currently: Rob Jeffreys		

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

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

The Department's year-end financial reporting in accordance with generally accepted accounting principles (GAAP) submitted to the Office of Comptroller (Comptroller) contained inaccuracies due to improper accounting and inadequate review. These problems, if not detected by the auditors and corrected by the Department, could have materially misstated the Department's financial statements, and negatively impacted the financial statements prepared by the Comptroller.

Some of the conditions noted include:

Liability recording errors resulted in a \$93.2 million overstatement

- We identified three errors in recording backpay liabilities and accounts payable as of June 30, 2019. These errors resulted in a \$93.2 million overstatement of the Fiscal Year 2020 beginning fund balance for governmental funds and beginning net position for governmental activities.

\$36 million in liabilities were not accrued until identified by the Comptroller

- The Department did not accrue liabilities totaling \$36 million, which were identified by the Comptroller.

\$5.6 million of payables were not accrued

- Accounts payable totaling \$5.6 million were not accrued as of June 30, 2020.
- Weaknesses in the financial accounting for, and inaccurate and inadequate recordkeeping of, capital assets resulted in financial audit adjustments and note disclosures. (Finding 1, pages 61-63) **This finding has been repeated since 2008.**

We recommended the Department outline, document, and implement procedures to ensure GAAP reporting, financial statements and schedules are prepared accurately. We also recommended the Department maintain documentation of the calculation and basis of liability estimates. In addition, we recommended the Department identify the appropriate reports and timing for complete and accurate recording of payables. Lastly, the auditors recommended proper yearend 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 Comptroller and other external parties.

Department accepted recommendation

The Department accepted the auditor's recommendation and stated it will strengthen its controls and documentation related to liability estimates used in the financial statements.

LACK OF FISCAL CONTROLS AND PROPER FINANCIAL REPORTING OVER OFFENDER 360 PROJECT

The Department did not ensure fiscal requirements were controlled and documented, and did not ensure proper financial reporting was performed for the Offender 360 project. Note: While this finding has been repeated since 2014, this is the first year it has been elevated to a financial reporting finding.

The auditors identified weaknesses regarding monitoring, tracking and financial reporting of software application development costs and noted management did not take all reasonable steps to implement appropriate and sufficient corrective action.

The Department's documentation supporting the cost of the project did not include the total cost of Department staff and some hardware and software purchases and initially had not been updated with all Fiscal Year 2019 and any Fiscal Year 2020 costs.

Project costs included costs of the Youth 360 system for the Department of Juvenile Justice, but the Department did not have adequate information to determine the amount that should have been excluded from the Offender 360 costs. In addition, we noted:

Department paid \$7,359,021 for services not yet rendered

- In response to the prior finding, the Department reviewed vendor payments and determined they had paid in full for services not yet rendered as of June 30, 2020 totaling \$7,359,021. The Department subsequently entered into a spend-down agreement to apply the credit balance to future services, but did not recognize this prepaid expense in the financial statements. The Department subsequently adjusted its financial statements to report the prepaid expense.
- The Department had not capitalized the development costs of Offender 360, and had not maintained sufficient records to determine the capitalizable development costs.
- The Department still had not developed adequate policies and procedures to identify projects that are capitalizable, determine what costs should be included in the capitalization, and track and maintain support for the costs to be capitalized.
- Since the prior audit, the Department had not taken adequate corrective action as of June 30, 2020 to

Department records insufficient to determine capitalizable costs

strengthen internal controls over development, fully complete a central repository of information, or track and monitor deliverables and performance for internally generated software, in order to accurately identify capitalizable assets.

\$103,775,797 had not been analyzed to identify capitalizable amounts

Total cumulative costs incurred of \$103,775,797 through Fiscal Year 2020 had not been analyzed to identify properly capitalizable amounts related to the application development phase or to determine costs incurred related to the Youth 360 system.

Qualified opinion on the financial statements

Due to the absence of adequate information to calculate capitalizable development costs, the amount by which this departure would affect the assets, net position, and expenses of the governmental activities cannot be determined. Accordingly, the auditor's opinion on the financial statements of governmental activities was qualified. This qualification will continue until the potential capitalizable costs would have been fully depreciated or until the Department is able to provide adequate substantiation to determine the actual capitalizable costs. (Finding 4, pages 70-73)

We recommended the Department implement controls to ensure expenditures are made in accordance with State statute, terms of the contract, and are properly documented and reported in financial statements. The Department should also assign responsible staff and implement internal controls to ensure the costs related to future internally developed software are adequately tracked by development stage and project and analyzed for accurate calculation of costs to be capitalized. Specifically, policies, procedures and records should be developed in a timely manner to identify, track, and report capitalizable software projects and new costs incurred. In addition, we recommended the Department establish a central repository of information related to the project, track and monitor deliverables and performance. Lastly, we recommended the Department adequately review vendor billings for accuracy of payments and any prepayments to ensure they are properly applied to completed deliverables.

Department accepted recommendation

The Department accepted the auditor's recommendation and stated it will work to strengthen internal controls over the development and support of its Information Technology environment. The Department further stated a central repository of application documentation has been established, deliverables and performance will be tracked and monitored, and an exhaustive review of all Information Technology expenditures will be completed with appropriate action being taken for billing irregularities.

The Department also stated they switched vendors for the maintenance of the application in March of 2021.

INADEQUATE INTERNAL CONTROLS OVER CENSUS DATA

The Department did not timely report complete and accurate census data to the Department of Central Management Services and did not have a reconciliation process to provide assurance census data submitted to the pension and other postemployment benefits (OPEB) plans was complete and accurate.

During testing, some of the more significant issues we noted included the following:

Census data reconciliation not performed

Six events were reported 35 to 152 days after occurrence and in a subsequent fiscal year

- The Department had not performed an initial complete reconciliation of its census data recorded by SERS and CMS to its internal records to establish a base year of complete and accurate census data.
- Six of 120 (5%) employees tested had an event occur impacting CMS' census data records that was not reported until a subsequent fiscal year. In addition, we noted it took between 35 and 152 days from the occurrence of the event and when this information was entered into CMS' records. We worked with CMS' actuary to project the impact of these errors on CMS' valuation and determined these exceptions did not materially impact the Department's financial statements.
- One of 120 (1%) employees tested had a discrepancy between the change data recorded within CMS' records and the Department's records. We noted the reported date within CMS' census data records was 202 days after the event purportedly occurred according to the Department's records. We considered the impact of this discrepancy and determined this amount did not materially impact the Department's financial statements. (Finding 5, pages 74-76)

We recommended the Department implement controls to ensure reportable events are timely and accurately transmitted to CMS. Further, we recommended the Department work with SERS and CMS to develop an annual reconciliation process of its active members' census data from its underlying records to a report from each plan of census data submitted to the plan's actuary.

Department accepted recommendation

The Department accepted the auditor's recommendation and stated the Department will use its scarce public resources to work with SERS to develop and implement a process to reconcile the census data for the pension plan to the Department's underlying records for active members.

OTHER FINDINGS

The remaining findings pertain to inadequate controls over capital assets, computer systems, locally held funds, service providers, and inventory. We will review the Agency's progress towards the implementation of our recommendations in our next financial audit.

AUDITOR'S OPINIONS

The auditors qualified their opinion on the governmental activities for Finding 2020-004. Except for this matter, the auditors stated the financial statements of the Department as of and for the year ended June 30, 2020 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

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