ADELFIA LLC
CERTIFIED PUBLIC ACCOUNTANTS
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STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS
DEPARTMENT-WIDE FINANCIAL AUDIT
For the Year Ended June 30, 2018

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

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

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

AGENCY OFFICIALS

Director	Mr. John R. Baldwin, Acting
Assistant Director	Ms. Gladyse Taylor
Executive Assistant to the Director	Mr. Marcus Hardy
Chief of Staff	Mr. Edwin Bowen
Chief Legal Counsel	Ms. Camile Lindsay
Chief Fiscal Officer	Mr. Jared Brunk

DEPARTMENT OF CORRECTIONS – CORRECTIONAL INDUSTRIES

Chief Executive Officer	Mr. Jeff Bloemker (Through 07/03/17) Vacant (07/04/17 through present)
Assistant Chief Executive Officer	Mr. Rich Mautino
Chief Financial Manager	Mr. Sitha Hun

Agency General Office is located at:

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

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

FINANCIAL STATEMENT REPORT

SUMMARY

The audit of the accompanying financial statements of the State of Illinois, Department of Corrections (Department) was performed by Adelfia LLC.

Based on their audit, the auditors expressed an unmodified opinion on the Department's basic financial statements.

SUMMARY OF FINDINGS

The auditors identified matters involving the Department's internal control over financial reporting that they considered to be material weaknesses and significant deficiencies. The material weaknesses are described in the accompanying Schedule of Findings on pages 59-73 of this report as item 2018-001 (Weaknesses in preparation of GAAP reporting forms submitted to the Illinois Office of the Comptroller and preparation of year-end Department financial statements), item 2018-002 (Weaknesses in the financial accounting for, and inaccurate and inadequate recordkeeping of property), and item 2018-003 (Lack of control over computer systems). The significant deficiencies are described in the accompanying Schedule of Findings on pages 74-96 of this report as item 2018-004 (Inadequate administration of locally held funds at the Correctional Centers), item 2018-005 (Inadequate controls over commodity and commissary inventory), item 2018-006 (Adult Transition Centers financial transactions not properly recorded and administered) and item 2018-007 (Lack of adequate controls over the review of internal control over service providers).

EXIT CONFERENCE

The findings and recommendations appearing in this report were discussed with Department personnel at an exit conference on March 20, 2019.

Attending were:

DEPARTMENT OF CORRECTIONS

John Baldwin, Acting Director
Gladyse Taylor, Assistant Director
Jared Brunk, Chief Fiscal Officer
Emily Glynn, Assistant Deputy Director, Fiscal Operations
Devin Murphy, Fiscal Accounting Compliance
Sunga Karl, Fiscal Accounting Compliance
Jonathan Swager, Internal Audit
Denise Caldwell, Internal Audit

FINANCIAL STATEMENT REPORT

SUMMARY

EXIT CONFERENCE
(CONTINUED)

OFFICE OF THE AUDITOR GENERAL

Lisa Warden, Audit Manager
Kathy Lovejoy, Audit Manager

ADELFIA LLC

Stella Marie Santos, Managing Partner
Jennifer Roan, Partner
Annabelle Abueg, Principal
Carl Ong, Supervisor
Joseph Tan, IT Senior

The responses to the recommendations were provided by Jared Brunk, Chief Fiscal Officer, in a correspondence dated April 10, 2019.

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INDEPENDENT AUDITOR'S REPORT

Honorable Frank J. Mautino
Auditor General
State of Illinois

Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the State of Illinois, Department of Corrections (the Department), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information for the Department, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2, the financial statements of the Department are intended to present the financial position and the changes in financial position, and, where applicable, cash flows of only that portion of the governmental activities, the major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2018, and the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 2 to the financial statements, in 2018, the Department adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This Statement replaces Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The Statement established standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures. The requirements of this statement resulted in the restatement of beginning net position, as discussed in Note 9 to the financial statements. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted management's discussion and analysis and budgetary comparison information for the General Fund and related pension and other postemployment benefit information for its Department-wide financial statements that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements. The combining General Fund schedules and nonmajor governmental funds and agency fund financial statements listed in the table of contents as supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining General Fund schedules and nonmajor governmental funds and agency fund financial statements listed in the table of contents as supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining General Fund schedules and nonmajor governmental funds and agency fund financial statements listed in the table of contents as supplementary information are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 10, 2019 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the Departments' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

Restricted Use of this Auditor's Report

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 Department management and is not intended to be and should not be used by anyone other than these specified parties.

SIGNED ORIGINAL ON FILE

Chicago, Illinois
April 10, 2019

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS
STATEMENT OF NET POSITION
JUNE 30, 2018
(Expressed in Thousands)

	Governmental Activities
ASSETS	
Unexpended appropriations	$ 536,057
Cash equity with State Treasurer	2,709
Cash and cash equivalents	24,909
Other receivables, net of $6 allowance	212
Due from other State funds	2,344
Due from Local government	5
Due from Federal government	83
Due from State of Illinois component units	10
Inventories	20,180
Capital assets not being depreciated	59,131
Capital assets being depreciated, net	671,435
Total assets	1,317,075
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources - State Employees' Retirement System	930,745
Deferred outflows of resources - Other Post Employment Benefits	557,049
Deferred outflows of resources - Teachers' Retirement System	46
Total deferred outflows of resources	1,487,840
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2,804,915
LIABILITIES	
Accounts payable and accrued liabilities	610,801
Due to other State funds	55,628
Due to Department fiduciary funds	4,021
Due to Local government	10,029
Due to Federal government	11,717
Due to other State fiduciary funds	68
Due to State of Illinois component units	5,494
Unearned revenue	320
Long term obligations:	
Due within one year	9,236
Due subsequent to one year	11,414,899
Total liabilities	12,122,213
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources - State Employees' Retirement System	363,491
Deferred inflows of resources - Other Post Employment Benefits	446,173
Deferred inflows of resources - Teachers' Retirement System	63
Total deferred inflows of resources	809,727
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	12,931,940
NET POSITION	
Net investment in capital assets	729,279
Unrestricted	(10,856,304)
Total net position	$ (10,127,025)

The accompanying notes to the financial statements are an integral part of this statement.

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018
(Expressed in Thousands)

		Program Revenues		
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Net (Expense) Revenue**
Governmental activities				
Public protection and justice	$ 2,863,061	$ 62,107	$ 1,960	$ (2,798,994)
Interest	161	-	-	(161)
Total governmental activities	2,863,222	62,107	1,960	(2,799,155)
General revenues and transfers				
Appropriations from State resources				2,380,856
Lapsed appropriations				(110,310)
Receipts collected and transmitted to State Treasury				(20,500)
Interest and investment income				37
Other revenues				12,534
Other expenses				(1,464)
Capital transfers from other State agencies				85,467
Total general revenues and transfers				2,346,620
Change in net position				(452,535)
Net position, July 1, 2017, as restated				(9,674,490)
Net position, June 30, 2018				$ (10,127,025)

The accompanying notes to the financial statements are an integral part of this statement.

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018
(Expressed in Thousands)

	General Fund	Nonmajor funds	Total Governmental Funds
ASSETS			
Unexpended appropriations	$ 533,498	$ 2,559	$ 536,057
Cash and cash equivalents	271	24,638	24,909
Other receivables, net of $0 allowance	-	70	70
Due from other Department funds	97	14,445	14,542
Due from other State funds	-	1,231	1,231
Due from Federal government	-	80	80
Inventories	12,059	2,374	14,433
Total assets	$ 545,925	$ 45,397	$ 591,322
LIABILITIES			
Accounts payable and accrued liabilities	$ 590,007	$ 5,079	$ 595,086
Due to other Department funds	41,360	14,080	55,440
Due to other State funds	53,058	916	53,974
Due to Department fiduciary funds	2,555	29	2,584
Due to other State fiduciary funds	-	68	68
Due to Local government	9,542	486	10,028
Due to Federal government	11,676	11	11,687
Due to State of Illinois component units	5,491	-	5,491
Unearned revenue	-	320	320
Total liabilities	713,689	20,989	734,678
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue	-	80	80
Total Deferred Inflows of Resources	-	80	80
FUND BALANCES (DEFICITS)			
Nonspendable for inventories	12,059	2,374	14,433
Restricted	-	1	1
Unrestricted:			
Committed	-	24,327	24,327
Unassigned	(179,823)	(2,374)	(182,197)
Total fund balances (deficits)	(167,764)	24,328	(143,436)
Total liabilities, deferred inflows of resources, and fund balances (deficits)	$ 545,925	$ 45,397	$ 591,322

The accompanying notes to the financial statements are an integral part of this statement.

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO STATEMENT OF NET POSITION
JUNE 30, 2018
(Expressed in Thousands)

Total fund balances-governmental funds		$ (143,436)
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		728,124
Deferred outflows of resources related to pensions are not reported in the governmental funds since they do not provide current financial resources. These deferred outflows of resources consist of the following:		
Deferred outflows of resources - State Employees' Retirement System	930,745	
Deferred outflows of resources - Other Post Employment Benefits	557,049	
Deferred outflows of resources - Teachers' Retirement System	46	
		1,487,840
Revenues in the Statement of Activities that do not provide current financial resources are deferred in the funds.		80
Internal service funds are used to charge costs of certain activities to individual funds. The assets and liabilities of the internal service funds are reported as governmental activities in the Statement of Net Position.		33,293
Deferred inflows of resources related to pensions are not reported in the governmental funds since they do not use current financial resources. These deferred inflows of resources consist of the following:		
Deferred inflows of resources - State Employees' Retirement System	(363,491)	
Deferred inflows of resources - Other Post Employment Benefits	(446,173)	
Deferred inflows of resources - Teachers' Retirement System	(63)	
		(809,727)
Some liabilities reported in the Statement of Net Position do not require the use of current financial resources and, therefore, are not reported as liabilities in governmental funds. These activities consist of:		
Capital lease obligations	(1,286)	
Compensated absences	(69,509)	
Net Pension Liability - State Employees' Retirement System	(6,653,326)	
Liability for Other Post Employment Benefits	(4,699,046)	
Net Pension Liability - Teachers' Retirement System	(32)	
		(11,423,199)
Net position of governmental activities		$ (10,127,025)

The accompanying notes to the financial statements are an integral part of this statement.

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2018
(Expressed in Thousands)

	General Fund	Nonmajor funds	Total Governmental Funds
REVENUES			
Federal government	$ -	$ 2,019	$ 2,019
Interest and other investment income	-	37	37
Other	46	11,753	11,799
Other charges for services	162	55,150	55,312
Total revenues	208	68,959	69,167
EXPENDITURES			
Public protection and justice	1,873,047	67,065	1,940,112
Debt service - principal	795	536	1,331
Debt service - interest	102	59	161
Capital outlays	1,256	74	1,330
Total expenditures	1,875,200	67,734	1,942,934
Excess (deficiency) of revenues over (under) expenditures	(1,874,992)	1,225	(1,873,767)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES			
Appropriations from State resources	2,333,856	47,000	2,380,856
Lapsed appropriations	(85,221)	(25,089)	(110,310)
Receipts collected and transmitted to State Treasury	(358)	(20,142)	(20,500)
Transfers-in	1	9,342	9,343
Transfers-out	(1)	(9,342)	(9,343)
Proceeds from capital lease financing	241	33	274
Net other sources (uses) of financial resources	2,248,518	1,802	2,250,320
Net change in fund balances	373,526	3,027	376,553
Fund balances (deficits), July 1, 2017	(541,100)	21,456	(519,644)
Decreases for changes in inventories	(190)	(155)	(345)
FUND BALANCES (DEFICITS), JUNE 30, 2018	$ (167,764)	$ 24,328	$ (143,436)

The accompanying notes to the financial statements are an integral part of this statement.

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018
(Expressed in Thousands)

Net change in fund balances	$ 376,553
Change in inventories	(345)
	376,208
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. This is the amount by which capital outlays in the current period exceeded depreciation.	(34,284)
Some capital assets were transferred in from other State agencies and, therefore, were received at no cost and not recorded in governmental funds.	85,467
Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.	1,331
Some capital additions were financed through other financing arrangements. In governmental funds these other financing arrangements are considered a source of financing, but in the Statement of Net Position, the lease obligation is reported as a liability.	(274)
Internal service funds are used to charge the costs of certain activities to individual funds. The net revenue of the internal service funds is reported as governmental activities in the Statement of Activities.	(2,144)
Gains and losses from capital assets no longer in use are not recorded in governmental funds but are reported as other revenues and expenses in the Statement of Activities. In the current year, these transactions include losses on capital assets scrapped, damaged, or stolen.	(2,594)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in governmental funds. This amount represents the decrease in unavailable revenues from the prior year.	(59)
Deferred inflows and outflows of resources related to pensions do not provide or use current financial resources and are not reported in governmental funds.	
Change in deferred inflows	(624,989)
Change in deferred outflows	130,546
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. Below are such activities.	
Decrease in State Employees' Retirement System pension liability	50,841
Decrease in Other Post Employment Benefit liability	(432,943)
Decrease in Teachers' Retirement System pension liability	11
Decrease in compensated absences obligation	348
Change in net position of governmental activities	$ (452,535)

The accompanying notes to the financial statements are an integral part of this statement.

DEPARTMENT OF CORRECTIONS
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2018
(Expressed in Thousands)

	Governmental Activities - Internal Service Fund
	Working Capital Revolving Fund
ASSETS	
Cash equity with State Treasurer	$ 2,709
Other receivables, net of $6 allowance	142
Due from other Department funds	40,935
Due from other State funds	1,113
Due from Local government	5
Due from Federal government	3
Due from State of Illinois component units	10
Inventories	5,747
Total current assets	50,664
Capital assets being depreciated, net	2,442
Total assets	53,106
LIABILITIES	
Accounts payable and accrued liabilities	15,715
Due to other Department funds	37
Due to other State funds	1,654
Due to Department fiduciary funds	1,437
Due to Local government	1
Due to Federal government	30
Due to State of Illinois component units	3
Current portion of long-term obligations	197
Total current liabilities	19,074
Noncurrent portion of long-term obligations	739
Total liabilities	19,813
NET POSITION	
Net investment in capital assets	2,441
Unrestricted	30,852
Total net position	$ 33,293

The accompanying notes to the financial statements are an integral part of this statement.

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2018
(Expressed in Thousands)

	Governmental Activities - Internal Service Fund
	Working Capital Revolving Fund
OPERATING REVENUES	
Charges for sales and services	$ 34,562
Total operating revenues	34,562
OPERATING EXPENSES	
Cost of sales and services	28,766
General and administrative	6,646
Depreciation	565
Total operating expenses	35,977
Operating loss	(1,415)
NONOPERATING REVENUES (EXPENSES)	
Other revenues	735
Interest expense	(1,464)
Net loss	(2,144)
NET POSITION, JULY 1, 2017	35,437
NET POSITION, JUNE 30, 2018	$ 33,293

The accompanying notes to the financial statements are an integral part of this statement.

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2018
(Expressed in Thousands)

	Governmental Activities - Internal Service Fund
	Working Capital Revolving Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from sales and services to third parties	$ 1,279
Cash received from sales and services to other State funds	28,876
Cash payments to suppliers for goods and services	(26,478)
Cash payments to employees for services	(7,467)
Cash receipts from other operating activities	691
Net cash used by operating activities	(3,099)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Interest paid on revenue bonds and other borrowings	(606)
Net cash used by noncapital financing activities	(606)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(531)
Principal paid on capital debt	(4)
Proceeds from the sale of equipment	42
Net cash used by capital and related financing activities	(493)
Net decrease in cash equity with State Treasurer	(4,198)
CASH EQUITY WITH STATE TREASURER, JULY 1, 2017	6,907
CASH EQUITY WITH STATE TREASURER, JUNE 30, 2018	$ 2,709

The accompanying notes to the financial statements are an integral part of this statement.

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2018
(Expressed in Thousands)

	Governmental Activities - Internal Service Fund
	Working Capital Revolving Fund
Reconciliation of operating income to net cash used by operating activities:	
OPERATING INCOME	$ (1,415)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	565
Cash receipts from other nonoperating income	691
Changes in assets and liabilities:	
Decrease in other receivables	39
Decrease in intergovernmental receivables	6
Increase in due from other funds	(4,716)
Increase in due from State of Illinois component units	(6)
Decrease in inventory	627
Decrease in prepaid expenses	1
Increase in accounts payable and accrued liabilities	1,221
Increase in intergovernmental payables	29
Decrease in due to other funds	(136)
Decrease in due to State of Illinois component units	(4)
Decrease in other liabilities	(1)
Total adjustments	(1,684)
NET CASH USED BY OPERATING ACTIVITIES	$ (3,099)

The accompanying notes to the financial statements are an integral part of this statement.

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2018
(Expressed in Thousands)

	Agency Fund DOC Resident's Trust
ASSETS	
Cash and cash equivalents	$ 6,671
Other receivables	1
Due from other Department funds	4,021
Due from other State funds	1
Total assets	$ 10,694
LIABILITIES	
Other liabilities	$ 10,694
Total liabilities	$ 10,694

The accompanying notes to the financial statements are an integral part of this statement.

(1) Organization

The Department of Corrections (the Department) is a part of the executive branch of government of the State of Illinois (State) and operates under the authority of, and review by, the Illinois General Assembly. The Department operates under a budget approved by the General Assembly in which resources primarily from the General Fund, the Department of Corrections Reimbursement Fund, and the Working Capital Revolving Fund are appropriated for the use of the Department. Activities of the Department are subject to the authority of the Office of the Governor, the State's chief executive officer, and other departments of the executive and legislative branches of government (such as the Department of Central Management Services, the Governor's Office of Management and Budget, the State Treasurer's Office, and the State Comptroller's Office) as defined by the Illinois General Assembly. All funds appropriated to the Department and all other cash received are under the custody and control of the State Treasurer, with the exception of the Travel and Allowance Revolving Fund, DOC Commissary Funds Fund, DOC Resident's and Employee's Benefit Fund, Moms and Babies Fund and DOC Resident's Trust Fund, which are locally held funds, and various petty cash funds, which are under the direct control of the Department.

The Department was created by the 76th General Assembly and became operational on January 1, 1970. The Department has the authority to carry out certain duties and to execute certain responsibilities within the following areas:

- The care, custody, treatment and rehabilitation of persons committed by the courts of the State;
- The maintenance and administration of all State correctional institutions and facilities under its control;
- The establishment of new institutions and facilities;
- The development of a system of supervision and guidance of committed persons in the community; and
- The development of standards and programs for better correctional services in the State.

(2) Summary of Significant Accounting Policies

The financial statements of 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 significant accounting policies.

(a) Financial 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 and the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government.

Based upon the required criteria, the Department has no component units and is not a component unit of any other entity. The Department has been determined to be part of the primary government of the State of Illinois, the financial reporting entity. The accompanying financial statements present the financial position and results of operations of all the funds which comprise the Department. Because the Department is not legally separate from the State of Illinois, the financial statements of the Department are included in the financial statements of the State. The State's Comprehensive Annual Financial Report (CAFR) may be obtained by accessing the State Comptroller's Office's website at http://ledger.illinoiscomptroller.com/find-reports/.

(b) Basis of Presentation

The accompanying financial statements of the State of Illinois, Department of Corrections, are intended to present the net position, changes in net position, and cash flows of only that portion of the governmental activities, the major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State as of June 30, 2018 and the changes in net position for the year then ended, and, where applicable, its cash flows in conformity with accounting principles generally accepted in the United States of America.

Government-wide Statements – The government-wide Statement of Net Position and Statement of Activities report the overall financial activity of the Department, excluding fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities of the Department. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The Statement of Net Position presents the assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the Department's governmental activities with the difference being reported as net position. The assets and liabilities are presented in order of their relative liquidity by class of asset or liability with liabilities whose average maturities are greater than one year reported in two components - the amount due within one year and the amount due in more than one year.

The Statement of Activities presents a comparison between direct expenses and program revenues for the public protection and justice function of the Department's governmental activities. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements – The fund financial statements provide information about the Department's funds, including the Department's fiduciary fund. Separate statements for each fund category – governmental, proprietary, and fiduciary – are presented. The emphasis of fund financial statements is on the major governmental fund displayed in a separate column. All remaining governmental and proprietary funds are aggregated and reported as nonmajor funds.

Proprietary fund 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, generally result from nonexchange transactions or ancillary activities.

Proprietary fund operating expenses include costs directly related to providing service and producing and delivering goods. All expenses not meeting this definition are reported as nonoperating expenses.

The Department administers the following major governmental fund (or portions thereof in the case of shared funds – see note 2(d)):

General – This is the State's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The services which are administered by the Department and accounted for in the General Fund include public protection and justice. The Department's General Fund grouping contains a primary sub-account (General Revenue) and three secondary sub-accounts (CMS vs AFSCME Wages Trust, Budget Stabilization, and Travel and Allowance Revolving).

Additionally, the Department administers the following fund types:

Governmental Fund Types:

Special Revenue – These funds are used to account for and report the proceeds of specific revenue sources that are *legally restricted or committed to expenditure for specific purposes* other than debt service or capital assets. The Department does not have any major special revenue funds to disclose.

Proprietary Fund Types:

Internal Service – This fund accounts for revenues and expenses derived from goods or services produced by manufacturing, food, and service programs charged to State agencies and other entities.

Fiduciary Fund Types:

Agency – This fund accounts for monies deposited by and on behalf of individual residents for the personal use of the individual resident while they are in the care and custody of the Department.

(c) Measurement Focus and Basis of Accounting

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus (except for agency funds which do not have a 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. Nonexchange transactions, in which the Department gives (or receives) value without directly receiving (or giving) equal value in exchange, include intergovernmental grants. Revenue from grants, entitlements, and similar items are recognized in the fiscal year in which all eligibility requirements imposed by the provider have been met.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Expenditures generally are recorded when the liability is incurred, as under accrual accounting. However, principal and interest on formal debt issues, claims and judgments, and compensated absences are recorded only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Significant revenue sources which are susceptible to accrual include interest and other charges for services. All other revenue sources are considered to be measurable and available only when cash is received.

(d) Shared Fund Presentation

The financial statement presentation for the General Revenue Fund, the CMS vs AFSCME Wages Trust Fund, the Department of Corrections Reimbursement Fund, and Budget Stabilization Fund represents only the portion of shared funds that can be directly attributed to the operations of the Department. Financial statements for total fund operations of the shared State funds are presented in the State's CAFR.

In presenting these financial statements, certain unique accounts are used for the presentation of shared funds. The following accounts are used in these financial statements to present the Department's portion of shared funds:

<u>Unexpended Appropriations</u>

This "asset" account represents lapse period expenditure transactions processed by the State Comptroller's Office after June 30 annually in accordance with Statewide Accounting Management System (SAMS) records plus any liabilities relating to obligations re-appropriated to the subsequent fiscal year and voucher, interfund payment, and mandatory SAMS transfer transactions held by the State Comptroller's Office at June 30, 2018.

Appropriations from State Resources

This "other financing source" account represents the final legally adopted appropriation according to SAMS records.

Lapsed Appropriations

Lapsed appropriations are the legally adopted appropriations less net warrants issued for the 14 month period from July to August of the following year and re-appropriations to subsequent years according to SAMS records. For fiscal year 2018, the lapse period was extended through October.

Receipts Collected and Transmitted to State Treasury

This "other financing use" account represents all cash receipts received during the fiscal year from SAMS records.

(e) Eliminations

Eliminations have been made in the government-wide statement of net position to minimize the "grossing-up" effect on assets and liabilities within the Department. As a result, amounts reported in the funds as departmental interfund receivables and payables have been eliminated in the government-wide statement of net position. Amounts reported in the funds as receivable from or payable to fiduciary funds have been included in the statement of net position as receivable from and payable to external parties, rather than as internal balances. Eliminations have also been made in the statement of activities to remove the "doubling-up" effect of departmental internal service fund activity.

(f) Cash and Cash Equivalents

Cash equivalents are defined as short-term, highly liquid investments readily convertible to cash with maturities of less than 90 days at the time of purchase. Cash and cash equivalents also include cash on hand and cash in banks for locally held funds.

(g) Inventories

Inventories, consisting primarily of raw materials, work in process, finished goods, and operating supplies are valued at the lower of cost or market, principally on the first-in, first-out (FIFO) method. At year-end, physical counts are taken of significant inventories, consisting primarily of food and supplies maintained at the Correctional Centers. For governmental funds, the Department recognizes the costs of material inventories as expenditures when purchased. For proprietary funds, inventories are recorded as expenditures when consumed or sold rather than when purchased.

(h) Interfund Transactions

The Department has the following types of interfund transactions between Department funds and funds of other State agencies:

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. At year end, unpaid amounts are reported as interfund receivables and payables in the governmental funds balance sheet, government-wide statement of net position, or proprietary fund statement of net position.

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.

Transfers – flows of assets (such as cash or goods) without equivalent flows of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing uses in the funds making transfers and as other financing sources in the funds receiving transfers. In proprietary funds, transfers are reported after nonoperating revenues and expenses.

(i) Capital Assets

Capital assets, which include property, plant, equipment, intangible items and purchased computer software are reported at cost or estimated historical cost based on appraisals. Contributed assets are reported at estimated fair value at the time received. Capital assets are depreciated and amortized using the straight-line method.

Capitalization thresholds and the estimated useful lives are as follows:

Capital Asset Category	Capitalization Threshold	Estimated Useful Life (in Years)
Land	$100,000	N/A
Land Improvements	25,000	N/A
Site Improvements	25,000	20
Buildings	100,000	50
Building Improvements	25,000	20
Equipment	5,000	3-10
Purchased Computer Software	25,000	10

(j) Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net assets that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Unavailable revenues in governmental funds include receivables not “available” to finance the current period.

(k) Compensated Absences

The liability for compensated absences reported in the government-wide and proprietary fund financial statements consists of unpaid, accumulated vacation, holiday and sick leave balances for Department employees. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. 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 tax).

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 a 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.

(l) Pensions

In accordance with the Department’s adoption of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, the net pension liability, deferred outflows of resources, deferred inflows of resources and pension expense have been recognized in the government-wide financial statements.

The net pension liability is calculated as the difference between the actuarially calculated value of the projected benefit payments attributed to past periods of service and the plans’ fiduciary net position. The total pension expense is comprised of the service cost or actuarial present value of projected benefit payments attributed to the valuation year, interest on the total pension liability, plan administrative expenses, current year benefit changes, and other changes in plan fiduciary net position less employee contributions and projected earnings on plan investments. Additionally, the total pension expense includes the annual recognition of outflows and inflows of resources due to pension assets and liabilities.

For purposes of measuring the net pension liability, deferred outflows of resources, deferred inflows of resources, pension expense and expenditures associated with the Department's contribution requirements, information about the fiduciary net position of the plans and additions to/deductions from the plans' fiduciary net position have been determined on the same basis as they are reported within the separately issued plan financial statements. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with terms of the plan. Investments are reported at fair value.

In the governmental fund financial statements, pension expenditures represent amounts paid to the pension plan and the change between the beginning and ending balances of amounts owed to the plan for contributions.

(m) Post-Employment Benefits Other Than Pensions ("OPEB")

The State provides health, dental, vision, and life insurance benefits for certain retirees and their dependents through the State Employees Group Insurance Program ("SEGIP"). The total OPEB liability, deferred outflows of resources, deferred inflows of resources, expense, and expenditures associated with the program have been determined through an actuarial valuation using certain actuarial assumptions as applicable to the current measurement period (see Note 8).

The OPEB liabilities, deferred outflows of resources, deferred inflows of resources, and OPEB expense have been recognized in the government-wide financial statements.

(n) Fund Balances

In fund financial statements, governmental funds report fund balances in the following categories:

Nonspendable **–** This consists of amounts that cannot be spent because they are either a) not in spendable form or b) legally or contractually required to be maintained intact. The following funds include nonspendable fund balances for inventories as of June 30, 2018: General Fund and DOC Commissary Funds Fund.

Restricted **–** This consists of amounts that are restricted for specific purposes; that is, when constraints placed on the use of resources are either a) externally imposed by creditors, grantors, or laws or regulations of other governments or b) imposed by law through constitutional provisions or enabling legislation. The Moms and Babies Fund had a restricted fund balance of $1 thousand as of June 30, 2018.

Committed **–** This consists of amounts with self-imposed constraints or limitations that have been placed through legislation imposed by the Illinois State Legislature and the Governor, the highest level of decision making authority. The following funds comprise committed fund balances as of June 30, 2018: Department of Corrections Reimbursement Fund and DOC Resident's and Employee's Benefit Fund. The Department of Corrections Reimbursement Fund is restricted through enabling legislation but has been subject to fund sweeps in previous years and therefore is classified as committed. These committed funds cannot be used for any other purpose unless the Department removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned **–** This consists of net amounts that are constrained by the Department's intent to be used for specific purposes, but are neither restricted nor committed. There are no assigned fund balances as of June 30, 2018.

Unassigned **–** This consists of amounts that are available financial resources and are not designated for a specific purpose. This classification is only reported in the General Fund, except in cases of negative fund balances reported in other governmental funds which are reported as unassigned. The following funds comprise unassigned fund balances as of June 30, 2018: General Fund and DOC Commissary Funds Fund.

When both restricted and unrestricted resources are available for use, generally it is the State's policy to use restricted resources first, then unrestricted resources when they are needed. When expenditures are incurred for which only unrestricted resources are available, the policy is to use committed resources first, then assigned. Unassigned amounts are only used after the other resources have been used.

(o) Net Positions

In government-wide and proprietary fund financial statements, equity is displayed in three components as follows:

Net Investment in Capital Assets – This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted **–** This consists of net position that is legally restricted by outside parties or by law through constitutional provisions or enabling legislation.

Unrestricted – This consists of net position that do not meet the definition of "restricted" or "net investment in capital assets."

(p) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and also deferred outflows and inflows, and disclosure 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 those estimates.

(q) Adoption of New Accounting Pronouncements

Effective for the year ended June 30, 2018, the Department adopted the following GASB statements:

Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*s, which replaces the requirements of Statement No. 45, and requires governments to report a liability on the face of the financial statements for the Other Postemployment Benefits (OPEB) they provide. In addition, this statement requires governments participating in all types of OPEB plans to present more extensive note disclosures and RSI about their OPEB liabilities. Among the new note disclosures is a description of the effect on the reported OPEB liability of using a discount rate and a healthcare cost trend rate that are one percentage point higher and one percentage point lower than assumed by the government. The new RSI includes a schedule showing the causes of increases and decreases in the OPEB liability and a schedule comparing a government's actual OPEB contributions to its contribution requirements. The implementation of this statement significantly impacted the Agency's government-wide financial statements and footnote disclosure with the recognition of OPEB liability, deferred outflows of resources and deferred inflows of resources on the Statement of Net Position and OPEB expense on the Statement of Activities. Additionally, the requirements of this statement resulted in the restatement of beginning net position as discussed in Note 9. Information regarding participation in the State Employees Group Insurance Program is disclosed in Note 8.

Statement No. 81, *Irrevocable Split-Interest Agreements*, which improves accounting and financial reporting guidance for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The implementation of this statement had no financial impact on the Agency's net position or results of operations.

Statement No. 85, *Omnibus 2017*, which addresses practice issues identified during implementation and application of certain GASB Statements. This statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. The provisions related to postemployment benefits of this statement were incorporated with the implementation of GASB Statement 75.

Statement No. 86, *Certain Debt Extinguishment Issues*, which improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources (resources other than the proceeds of refunding debt) are placed in an irrevocable trust for the sole purpose of extinguishing debt. In addition, this statement improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The implementation of this statement had no financial impact on the Agency's net position or results of operations.

(r) Future Adoption of GASB Statements

Effective for the year ending June 30, 2019, the Department will adopt the following GASB statements:

Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs) and establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs.

Statement No. 88, *Certain Disclosures Related to Debt*, including Direct Borrowings and Direct Placements, which is intended to improve the information that is disclosed in notes to governmental financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should be including when disclosing information related to debt.

Effective for the year ending June 30, 2020, the Department will adopt the following GASB statement:

Statement No. 84, *Fiduciary Activities*, which is intended to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. In addition, this Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployments benefit arrangements that are fiduciary activities.

Statement No. 90, *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61*, is intended to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units.

Effective for the year ending June 30, 2021, the Department will adopt the following GASB statements:

Statement No. 87, *Leases*, which is intended to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources and or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset.

Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, which is intended to (1) enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

The Department has not yet determined the impact of adopting these statements on its financial statements.

(3) Deposits

The State Treasurer is the custodian of the Department's deposits and investments for funds maintained in the State Treasury. The Department independently manages deposits and investments maintained outside the State Treasury.

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. Detail on the nature of these deposits and investments is available within the State's CAFR.

Cash on deposit for locally held funds had a carrying amount of $31.580 million and bank balance of $32.400 million at June 30, 2018. Custodial credit risk is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. None of the total bank balances were exposed to custodial credit risk.

(4) Interfund Balances and Activity

(a) Balances Due to/from Other Funds

The following balances (amounts expressed in thousands) at June 30, 2018 represent amounts due from other Department and State funds.

	Due from	
Fund Type	**Other Department Funds**	**Other State Funds**
General (a)	$ 97	$ -
Nonmajor governmental (b)	14,445	1,231
Internal service (c)	40,935	1,113
Fiduciary (d)	4,021	1
Totals	$ 59,498	$ 2,345

Description/Purpose

(a) Due from other Department funds for inmate payments.
(b) Due from other Department funds for inmate payments, commissary salaries, reimbursements, and pursuant to court order for AFSCME wages trust. Due from other State funds for unreimbursed grants expenditures.
(c) Due from other Department funds and other State funds for purchases of goods and services.
(d) Due from other Department funds for reimbursements of expenditures and accrued inmate payroll. Due from other State funds for inmate payments.

The following balances (amounts expressed in thousands) at June 30, 2018 represent amounts due to other Department and State funds.

	Due to			
Fund Type	**Other Department Funds**	**Other State Funds**	**Department Fiduciary Funds**	**State Fiduciary Funds**
General (a)	$ 41,360	$ 53,058	$ 2,555	$ -
Nonmajor governmental (b)	14,080	916	29	68
Internal service (c)	37	1,654	1,437	-
Totals	$ 55,477	$ 55,628	$ 4,021	$ 68

Description/Purpose

(a) Due to other Department funds for purchases, for reimbursements and pursuant to court order for AFSCME wages trust. Due to other State funds for services provided. Due to Department fiduciary funds for reimbursements of expenditures and accrued inmate payroll.

(b) Due to other Department funds for commissary profits. Due to other State funds for unspent grant proceeds. Due to Department fiduciary funds for reimbursements of expenditures. Due to State fiduciary funds for retirement.

(c) Due to other Department funds for restitution for inmate pay. Due to State funds for operating expense reimbursements. Due to Department fiduciary funds for reimbursements of expenditures and accrued payroll.

(b) Transfers to/from Other Funds

Interfund transfers in (amounts expressed in thousands) for the year ended June 30, 2018, were as follows:

	Transfers in from
Fund Type	**Other Department Funds**
General Fund (a)	$ 1
Nonmajor governmental (b)	9,342
Totals	$ 9,343

Description/Purpose

(a) Transfers from other Department general funds for recycling metals revenue.

(b) Transfers from other Department nonmajor governmental funds for commissary profits and salaries.

Interfund transfers out (amounts expressed in thousands) for the year ended June 30, 2018, were as follows:

Fund Type	Transfers out to Other Department Funds
General Fund (a)	$ 1
Nonmajor governmental (b)	9,342
Totals	$ 9,343

Description/Purpose

(a) Transfers to other Department general funds for recycling metals revenue.

(b) Transfers to other Department nonmajor governmental funds for Travel reimbursements.

(c) Balances Due to/from State of Illinois Component Units

The following balances (amounts expressed in thousands) at June 30, 2018 represent amounts due from State of Illinois Component Units for reimbursements for expenses incurred.

Fund Type	Due from Component Units University of Illinois
Internal service	$ 10
	$ 10

The following balances (amounts expressed in thousands) at June 30, 2018 represent amounts due to State of Illinois Component Units for reimbursements for expenses incurred.

	Due to Component Units			
Fund Type	**Illinois Toll Highway Authority**	**University of Illinois**	**Western Illinois University**	**Total**
General	$ 1	$ 5,470	$ 20	$ 5,491
Internal service	3	-	-	3
Totals	$ 4	$ 5,470	$ 20	$ 5,494

(5) Capital Assets

(a) Changes in Capital Assets

Capital asset activity (amounts expressed in thousands) for the year ended June 30, 2018 was as follows:

	Balance July 1, 2017	Additions	Deletions	Net Transfers	Balance June 30, 2018
Capital assets not being depreciated/amortized:					
Building and building					
Land and land improvements	$ 58,704	$ -	$ -	$ 427	$ 59,131
Total capital assets not being depreciated/amortized	58,704	-	-	427	59,131
Capital assets being depreciated/amortized:					
Site improvements	95,083	-	-	(4,020)	91,063
Buildings and building improvements	1,456,603	-	2,515	131,644	1,585,732
Equipment	76,822	1,330	4,514	2,091	75,729
Capital leases - equipment	4,164	274	270	-	4,168
Non-internally general software	161	-	-	-	161
Total capital assets being depreciated/amortized	1,632,833	1,604	7,299	129,715	1,756,853
Less accumulated depreciation/amortization:					
Site improvements	81,146	2,080	-	-	83,226
Buildings and building improvements	859,264	31,037	86	43,972	934,187
Equipment	67,854	2,375	4,658	703	66,274
Capital leases - equipment	1,153	687	270	-	1,570
Non-internally general software	161	-	-	-	161
Total accumulated depreciation/amortization	1,009,578	36,179	5,014	44,675	1,085,418
Total capital assets being depreciated/amortized, net	623,255	(34,575)	2,285	85,040	671,435
Total capital assets, net	$ 681,959	$ (34,575)	$ 2,285	$ 85,467	$ 730,566

Depreciation expense for governmental activities (amounts expressed in thousands) for the year ended June 30, 2018 was charged as follows:

Public protection and justice	$ 36,179

(b) Impairment of Capital Assets

The Department had determined, in a prior period, a closed facility to have been impaired. The asset has been reported in the financial statements at its carrying value of $1.887 million as a "Capital asset not being depreciated" due to the impairment.

The Department also has two closed facilities with carrying values of $43 million and $17 million. The Department continues to carry the closed facilities at their carrying values based on policy changes wherein facilities which have closed were reopened and causes the Department to believe that the impairment is temporary.

(6) Long-Term Obligations

(a) Changes in Long-Term Obligations

Changes in long-term obligations (amounts expressed in thousands) for the year ended June 30, 2018 were as follows:

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018	Amounts Due Within One Year
Other long-term obligations:					
Compensated absences	$ 70,794	$ 70,990	$ 71,340	$ 70,444	$ 8,070
Capital lease obligations	2,295	278	1,286	1,287	1,166
Net pension liability – State Employees' Retirement System	6,704,167	-	50,841	6,653,326	-
Other Post-Employment Benefits Liability	4,266,103	432,943	-	4,699,046	-
Net pension liability – Teachers' Retirement System	43	-	11	32	-
Totals	$ 11,043,402	$ 504,211	$ 123,478	$ 11,424,135	$ 9,236

Compensated absences have been liquidated by the applicable governmental funds that account for the salaries and wages of the related employees. Net pension liabilities and OPEB liabilities will be liquidated through the General Revenue Fund, and the special revenue funds that report wages. Capital lease obligations will be liquidated through the General Revenue Fund and the Department of Corrections Reimbursement Fund.

(b) Capital Lease Obligations

The Department leases office and computer equipment with a historical cost and accumulated depreciation of $4.168 million and $1.570 million, respectively, under capital lease arrangements. Although lease terms vary, certain leases are renewable subject to appropriation by the General Assembly. If renewal is reasonably assured leases requiring appropriation by the General Assembly are considered non-cancelable leases for financial reporting. The following is a schedule of future minimum lease payments (amounts expressed in thousands):

Year Ending June 30,	Principal	Interest	Total
2019	$ 1,166	$ 88	$ 1,254
2020	94	15	109
2021	27	2	29
	$ 1,287	$ 105	$ 1,392

(7) Defined Benefit Pension Plan

Plan descriptions. Substantially all of the Department's full-time employees who are not eligible for participation in another state-sponsored retirement plan participate in the State Employees' Retirement System (SERS) or the Teachers' Retirement System (TRS), which are pension trust funds in the State of Illinois reporting entity. SERS is a single-employer defined benefit pension trust fund in which State employees participate except those covered by the State Universities, Teachers', General Assembly, and Judges' Retirement Systems. SERS is governed by article 14 of the Illinois Pension Code (40 ILCS 5/1, et al.). TRS is the administrator of a cost-sharing multiple-employer public employee defined benefit pension plan with a "special funding situation" as described below. TRS provides coverage to personnel in positions that require a certification under the teacher certification law that are employed by public school districts in Illinois (excluding Chicago), special districts, and certain State agencies. There are 850 local school districts, 125 special districts, and 14 other State agencies that contribute to the TRS plan as of the measurement date June 30, 2017. The State of Illinois, as a nonemployer contributing entity, is legally mandated to make contributions to TRS, thus creating a special funding relationship with the plan. TRS is governed by article 16 of the Illinois Pension Code.

Both plans consist of two tiers of contribution requirements and benefit levels based on when an employee was hired. Members who first become an employee and participate under any of the State's retirement plans on or after January 1, 2011, are members of Tier 2, while Tier 1 consists of employees hired before January 1, 2011, or those who have service credit prior to January 1, 2011. The provisions below apply to both Tier 1 and Tier 2 members, except where noted.

Both plans also issue a publicly available financial report that includes financial statements and required supplementary information for that plan. Those reports are available on the respective plan websites or may be obtained by writing or calling the plan as follows:

- State Employees' Retirement System, 2101 South Veterans Parkway, PO Box 19255, Springfield, Illinois, 62794-9255, (217) 785-7444 or www.srs.illinois.gov.
- Teachers' Retirement System, 2815 West Washington Street, PO Box 19253, Springfield, Illinois, 62794-9253, (877) 927-5877 or www.trsil.org.

Benefit Provisions.

State Employee Retirement System

SERS provides retirement benefits based on the member's final average compensation and the number of years of service credit that have been established. The retirement benefit formula available to general State employees that are covered under the Federal Social Security Act is 1.67% for each year of service and for noncovered employees it is 2.2% for each year of service. The maximum retirement annuity payable is 75% of final average compensation as calculated under the regular formula. The minimum monthly retirement annuity payable is $15 for each year of covered service and $25 for each year of noncovered service.

Members in SERS under the regular formula Tier 1 and Tier 2 receive the following levels of benefits based on the respective age and years of service credits.

<table>
<tr><th>Regular Formula Tier 1</th><th>Regular Formula Tier 2</th></tr>
<tr><td>A member must have a minimum of eight years of service credit and may retire at:

• Age 60, with 8 years of service credit.
• Any age, when the member's age (years & whole months) plus years of service credit (years & whole months) equal 85 years (1,020 months) (Rule of 85) with 8 years of credited service.
• Between ages 55-60 with 25-30 years of service credit (reduced 1/2 of 1% for each month under age 60).

The retirement benefit is based on final average compensation and credited service. Final average compensation is the 48 highest consecutive months of service within the last 120 months of service.

Under the Rule of 85, a member is eligible for the first 3% increase on January 1 following the first full year of retirement, even if the member is not age 60. If the member retires at age 60 or older, he/she will receive a 3% pension increase every year on January 1, following the first full year of retirement.

If the member retires before age 60 with a reduced retirement benefit, he/she will receive a 3% pension increase every January 1 after the member turns age 60 and has been retired at least one full year. These pension increases are not limited by the 75% maximum.</td><td>A member must have a minimum of 10 years of credited service and may retire at:

• Age 67, with 10 years of credited service.
• Between ages 62-67 with 10 years of credited service (reduced 1/2 of 1% for each month under age 67).

The retirement benefit is based on final average compensation and credited service. For regular formula employees, final average compensation is the average of the 96 highest consecutive months of service within the last 120 months of service. The retirement benefit is calculated on a maximum salary of $106,800. This amount increases annually by 3% or one-half of the Consumer Price Index, whichever is less.

If the member retires at age 67 or older, he/she will receive a pension increase of 3% or one-half of the Consumer Price Index for the preceding calendar year, whichever is less, every year on January 1, following the first full year of retirement. The calendar year 2017 rate is $112,408.

If the member retires before age 67 with a reduced retirement benefit, he/she will receive a pension increase of 3% or one-half of the Consumer Price Index for the preceding calendar year, whichever is less, every January 1 after the member turns age 67 and has been retired at least one full year. These pension increases are not limited by the 75% maximum.</td></tr>
</table>

Additionally, the Plan provides an alternative retirement formula for State employees in high-risk jobs, such as State policemen, fire fighters, and security employees. Employees qualifying for benefits under the alternative formula may retire at an earlier age depending on membership in Tier 1 or Tier 2. The retirement formula is 2.5% for each year of covered service and 3.0% for each year of noncovered service. The maximum retirement annuity payable is 80% of final average compensation as calculated under the alternative formula.

SERS also provides occupational and nonoccupational (including temporary) disability benefits. To be eligible for nonoccupational (including temporary) disability benefits, an employee must have at least 18 months of credited service with the System. The nonoccupational (including temporary) disability benefit is equal to 50% of the monthly rate of compensation of the employee on the date of removal from the payroll. Occupational disability benefits are provided when the member becomes disabled as a direct result of injuries or diseases arising out of and in the course of State employment. The monthly benefit is equal to 75% of the monthly rate of compensation on the date of removal from the payroll. This benefit amount is reduced by Workers' Compensation or payments under the Occupational Diseases Act.

Occupational and nonoccupational death benefits are also available through SERS. Certain nonoccupational death benefits vest after 18 months of credited service. Occupational death benefits are provided from the date of employment.

Teachers' Retirement System
TRS provides retirement benefits, whereby most members retire under a formula that provides 2.2% of final average salary up to a maximum of 75% with 34 years of service. Under Tier 1, a member qualifies for an age retirement annuity after reaching age 62 with 5 years of credited service, age 60 with 10 years of credited service, age 55 with 20 years of credited service, or between the ages of 55 and 60 with fewer than 35 years of service. If a member retires between the ages of 55 and 60 with fewer than 35 years of service the annuity will be reduced one-half percent for each month the member is under age 60. The retirement benefit is based on the final average salary, which is the average salary for the highest 4 consecutive years within the last 10 years of credible service. Annual automatic increases equal to 3% are provided to essentially all retirees. Under Tier 2, a member qualifies for an age retirement annuity after reaching age 62 with 10 years of credited service, at a discounted rate, or age 67 with 10 years of credited service. The retirement benefit is based on the final average salary, which for Tier 2 is the average salary for the highest 8 consecutive years within the last 10 years of credible service. Annual automatic increases equal to the lesser of 3% or one half of the Consumer Price Index with the adjustment applied to the original benefit are provided to Tier 2 retirees. Disability and death benefits are also provided by TRS.

Contributions.

State Employees' Retirement System
Contribution requirements of active employees and the State are established in accordance with Chapter 40, section 5/14-133 of the Illinois Compiled Statutes. Member contributions are based on fixed percentages of covered payroll ranging between 4.00% and 12.50%. Employee contributions are fully refundable, without interest, upon withdrawal from State employment. Tier 1 members contribute based on total annual compensation. Tier 2 members contribute based on an annual compensation rate not to exceed $106,800 with limitations for future years increased by the lesser of 3% or one-half of the annual percentage increase in the Consumer Price Index. For 2018, this amount was $113,645.

The State is required to make payment for the required departmental employer contributions, all allowances, annuities, any benefits granted under Chapter 40, Article 5/14 of the ILCS and all administrative expenses of the System to the extent specified in the ILCS. State law provides that the employer contribution rate be determined based upon the results of each annual actuarial valuation.

For fiscal year 2018, the required employer contributions were computed in accordance with the State's funding plan. This funding legislation provides for a systematic 50-year funding plan with an ultimate goal to achieve 90% funding of the plan's liabilities. In addition, the funding plan provided for a 15-year phase-in period to allow the State to adapt to the increased financial commitment. Since the 15-year phase-in period ended June 30, 2010, the State's contribution will remain at a level percentage of payroll for the next 35 years until the 90% funded level is achieved. For fiscal year 2018, the employer contribution rate was 47.342%. The Department's contribution amount for fiscal year 2018 was $313 thousand. In addition, the Department recorded $399,118 million of revenue and expenditures in the General Revenue account of the General Fund to account for on-behalf payments to SERS for Department employees.

Teachers' Retirement System

The State maintains the primary responsibility for funding TRS. The Illinois Pension Code, as appended by Public Act 88-0593 and subsequent acts, provides that for years 2010 through 2045, the minimum contribution to TRS for each fiscal year be an amount determined to be sufficient to bring the total assets of TRS up to 90% funding. Contributions from active members and TRS contributing employers are also required by the Illinois Pension Code. The active member contribution rate for the year ended June 30, 2018 was 9.0% of salary. Employer contributions are made by or on behalf of employers from several sources. The State of Illinois provides the largest source of contributions through State appropriations. Employers also make contributions of 0.58% of total credible earnings for the 2.2 benefit formula change and for teachers who are paid from federal funds. Additionally, employers contribute their portion of any excess salary increase or sick leave costs due as defined within Chapter 40, section 5/16 of the Illinois Compiled Statutes.

For TRS, employee contributions are fully refundable, without interest, upon withdrawal from applicable employment. For Tier 1 members, there is no annual compensation limit on contributions. For Tier 2 members, annual compensation on which contributions are taken cannot exceed $106,800. This amount increases annually by the lesser of 3% or one-half of the annual percentage increase in the Consumer Price Index. For 2018, this amount was $113,645. The Department's contribution amount for fiscal year 2018 was $1 thousand. The Department recognized revenue and expenditures of $216 thousand in pension contributions from the State.

Pension liability, deferred outflows of resources, deferred inflows of resources and expense related to pensions.

State Employees' Retirement System

At June 30, 2018, the Department reported a liability of $6.653 billion for its proportionate share of the State's net pension liability for SERS on the statement of net position. The net pension liability was measured as of June 30, 2017 (current year measurement date), and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Department's portion of the net pension liability was based on the Department's proportion of employer contributions relative to all employer contributions made to the plan during the year ended June 30, 2017. As of the current year measurement date of

June 30, 2017, the Department's proportion was 20.2186%, which was an increase of 0.5844% from its proportion measured as of the prior year measurement date of June 30, 2016.

For the year ended June 30, 2018, the Department recognized pension expense of $953,537 million. At June 30, 2018, the Department reported deferred outflows of resources and deferred inflows of resources related to the pension liability, as of the measurement date of June 30, 2017, from the following sources (amounts expressed in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 3,916	$ 210,732
Changes of assumptions	686,238	138,716
Net difference between projected and actual investment earnings on pension plan investments	5,801	-
Changes in proportion	234,476	14,043
Department contributions subsequent to the measurement date	313	-
Total	**$ 930,744**	**$ 363,491**

$313 reported as deferred outflows of resources related to pensions resulting from Department contributions subsequent to the measurement date will be recognized as a reduction to the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (amounts expressed in thousands):

Year ended June 30,	SERS
2019	$ 272,187
2020	215,132
2021	124,195
2022	(44,574)
Total	**$ 566,940**

Teachers' Retirement System
At June 30, 2018, the Department reported a liability of $32 thousand for its proportionate share of the TRS net pension liability on the statement of net position. The State's proportionate share of the net pension liability (as a nonemployer contributing entity in a special funding situation) for the Department was $2.196 million. The total net pension liability for the Department's employees participating in TRS was $2.228 million as of the measurement date. The net pension liability was measured as of June 30, 2017 (current year measurement date), and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016, and rolled forward to June 30, 2017. The Department's portion of the net pension liability was based on the Department' contributions relative to the contributions of all participating TRS employers and the State during the year ended June 30, 2017. At June 30, 2017, the measurement date, the Department's proportionate share was 0.000041175% for the TRS plan, which was a 0.00001257% decrease from its proportion measured at the prior year measurement date of June 30, 2016.

For the year ended June 30, 2018, the Department recognized pension expense of $5 thousand. At June 30, 2018, the Department reported deferred outflows and deferred inflows of resources related to the pension liability, as of the measurement date of June 30, 2017, from the following sources (amounts expressed in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 1	$ -
Changes of assumptions	2	1
Net difference between projected and actual investment earnings on pension plan investments	-	-
Changes in proportion	42	62
Department contributions subsequent to the measurement date	1	-
Total	**$ 46**	**$ 63**

$1 thousand reported as deferred outflows of resources related to pensions resulting from Department contributions subsequent to the measurement date will be recognized as a reduction to the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (amounts expressed in thousands):

Year ended June 30,	TRS
2019	$ (10)
2020	(17)
2021	9
Total	**$ (18)**

Actuarial Methods and Assumptions. The total pension liability was determined by an actuarial valuation using the following actuarial assumptions, applied to all periods included in the measurement:

	SERS	**TRS**
Valuation date	06/30/17	06/30/16*
Measurement date	06/30/17	06/30/17
Actuarial cost method	Entry Age	Entry Age
Actuarial assumptions:		
Investment rate of return	7.00%	7.00%
Projected salary increases**	3.25% - 7.67%	3.25% - 9.25%
Inflation rate	2.75%	2.50%
Postretirement benefit increases		
Tier 1	3%, compounded	3%, compounded
Tier 2	Lesser of 3% or ½ of CPI^, on original benefit	1.25% not compounded
Retirement age experience study^^	July 2009 - June 2013	July 2011 - June 2014
Mortality^^^		
SERS	105 percent of the RP 2014 Healthy Annuitant table, sex distinct, with rates projected to 2015; generational mortality improvement factors were added	
TRS	RP - 2014 with future mortality improvements on a fully generational basis using projection table MP-2014	

* The total pension liability is based on an actuarial valuation date of June 30, 2016, rolled-forward to the measurement date using generally accepted actuarial procedures.
** Includes inflation rate listed.
^ Consumer Price Index
^^ The actuarial assumptions used in the respective actuarial valuations are based on the results of actuarial experience studies for the periods defined. A modified experience review was completed for SERS for the 3-year period ending June 30, 2015. Changes were made to the assumptions regarding investment rate of return, projected salary increases, inflation rate, and mortality based on this review. All other assumptions remained unchanged.
^^^ Mortality rates are based on mortality tables published by the Society of Actuaries' Retirement Plans Experience Committee.

State Employees' Retirement System
The long-term expected real rate of return on pension plan investments was determined using the best estimates of geometric real rates of return for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. For each major asset class that is included in the pension plan's target asset allocation, calculated as of the measurement date of June 30, 2017, the best estimates of the geometric real rates of return are summarized in the following table:

	SERS	
Asset Class	**Target Allocation**	**Long-Term Expected Real Rate of Return**
U.S. Equity	23.0%	5.50%
Developed Foreign Equity	13.0%	5.30%
Emerging Market Equity	8.0%	7.80%
Private Equity	7.0%	7.60%
Intermediate Investment Grade Bonds	14.0%	1.50%
Long-term Government Bonds	4.0%	1.80%
TIPS	4.0%	1.50%
High Yield and Bank Loans	5.0%	3.80%
Opportunistic Debt	8.0%	5.00%
Emerging Market Debt	2.0%	3.70%
Real Estate	5.5%	3.70%
Non-core Real Estate	4.5%	5.90%
Infrastructure	2.0%	5.80%
Total	100.0%	

Teachers' Retirement System
The long-term expected rate of return assumption on pension plan investments under the TRS plan was determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2017, that were used by the actuary are summarized in the following table:

	TRS	
Asset Class	**Target Allocation**	**Long-Term Expected Real Rates of Return**
U.S. Equities Large Cap	14.0%	6.94%
U.S. Equities Small/Mid Cap	4.0%	8.09%
International Equities Developed	14.0%	7.46%
Emerging Market Equities	4.0%	10.15%
U.S. Bonds Core	11.0%	2.44%
International Debt Developed	5.0%	1.70%
Real Estate	15.0%	5.44%
Commodities (Real Return)	11.0%	4.28%
Hedge Funds (Absolute Return)	8.0%	4.16%
Private Equity	14.0%	10.63%
Total	100.0%	

Discount Rate.

State Employees' Retirement System
A discount rate of 6.78% was used to measure the total pension liability. This single blended discount rate was based on the expected rate of return on pension plan investments of 7.00% and a municipal bond rate of 3.56%, based on an index of 20 year general obligation bonds with an average AA credit rating as published by the Federal Reserve. The projection of cash flows used to determine this single discount rate assumed that contributions will be made based on the statutorily required rates under Illinois law. Based on these assumptions, it has been determined that the pension plan's fiduciary net position and future contributions will be sufficient to finance the benefit payments through the year 2073 for SERS. As a result, the long-term expected rate of return on pension plan investments has been applied to projected benefit payments through the year 2073, at which time the municipal bond rate has been applied to all remaining benefit payments.

Teachers' Retirement System

A discount rate of 7.00% was used to measure the total pension liability. This single blended discount rate was based on the expected rate of return on pension plan investments of 7.00% and a municipal bond rate of 3.56%, based on an S&P Municipal Bond 20-year High Grade Rate Index. The projection of cash flows used to determine the discount rate assumed that employee contributions, employer contributions, and state contributions will be made at the current statutorily-required rates. Based on these assumptions, the pension plan's fiduciary net position and future contributions will be sufficient to finance the benefit payments through the year 2119. As a result, the long-term expected rate of return on pension plan investments has been applied to projected benefit payments through the year 2119, at which time the municipal bond rate has been applied to all remaining benefit payments.

Sensitivity of the net pension liability to changes in the discount rate. The net pension liability for SERS and TRS was calculated using the stated discount rate, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate as shown below (amounts expressed in thousands):

	1% Decrease 5.78%	Discount Rate 6.78%	1% Increase 7.78%
Department's Proportionate Share of the SERS Net Pension Liability	$ 8,050,667	$ 6,653,326	$ 5,509,736

	1% Decrease 6.00%	Discount Rate 7.00%	1% Increase 8.00%
Department's Proportionate Share of the TRS Net Pension Liability	$ 39	$ 32	$ 26

Payables to the pension plan. At June 30, 2018 the Department reported a payable of $8 thousand and SERS for the outstanding amount of contributions to the pension plans required for the year ended June 30, 2018.

(8) Postemployment Benefits

Plan description. The State Employees Group Insurance Act of 1971 ("Act"), as amended, authorizes the Illinois State Employees Group Insurance Program ("SEGIP") to provide health, dental, vision, and life insurance benefits for certain retirees and their dependents. Substantially all of the Department's full-time employees are members of SEGIP. Members receiving monthly benefits from the General Assembly Retirement System ("GARS"), Judges Retirement System ("JRS"), State Employees' Retirement System of Illinois ("SERS"), Teachers' Retirement System ("TRS"), and State Universities Retirement System of Illinois ("SURS") are eligible for these other post-employment benefits ("OPEB"). The eligibility provisions for each of the retirement systems are defined within Note 7. Certain TRS members eligible for coverage under SEGIP include: certified teachers employed by certain State agencies, executives employed by the Board of Education, regional superintendents, regional assistant superintendents, TRS employees and members with certain reciprocal service.

The Department of Central Management Services administers these benefits for annuitants with the assistance of the public retirement systems sponsored by the State (GARS, JRS, SERS, TRS and SURS). The State recognizes SEGIP OPEB benefits as a single-employer defined benefit plan. The plan does not issue a stand-alone financial report.

Benefits provided. The health, dental, and vision benefits provided to and contribution amounts required from annuitants are the result of collective bargaining between the State and the various unions representing the State's and the university component units' employees in accordance with limitations established in the Act. Therefore, the benefits provided and contribution amounts are subject to periodic change. Coverage through SEGIP becomes secondary to Medicare after Medicare eligibility has been reached. Members must enroll in Medicare Parts A and B to receive the subsidized SEGIP premium available to Medicare eligible participants. The Act requires the State to provide life insurance benefits for annuitants equal to their annual salary as of the last day of employment until age 60, at which time the benefit amount becomes $5,000.

Funding policy and annual other postemployment benefit cost. OPEB offered through SEGIP are financed through a combination of retiree premiums, State contributions and Federal government subsidies from the Medicare Part D program. Contributions are deposited in the Health Insurance Reserve Fund, which covers both active State employees and retirement members. Annuitants may be required to contribute towards health 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 toward health and vision 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 and vision benefits. All annuitants are required to pay for dental benefits regardless of retirement date. The Director of Central Management Services shall, on an annual basis, determine the amount the State shall contribute toward the basic program of group health benefits. State contributions are made primarily from the General Revenue Fund on a pay-as-you-go basis. No assets are accumulated or dedicated to funding the retiree health insurance benefit and a separate trust has not been established for the funding of OPEB.

For fiscal year 2018, the annual cost of the basic program of group health, dental, and vision benefits before the State's contribution was $10,926.24 ($6,145.92 if Medicare eligible) if the annuitant chose benefits provided by a health maintenance organization and $14,939.04 ($5,165.04 if Medicare eligible) if the annuitant chose other benefits. The State is not required to fund the plan other than the pay-as-you-go amount necessary to provide the current benefits to retirees.

Total OPEB liability, deferred outflows of resources, deferred inflows of resources and expense related to OPEB. The total OPEB liability, as reported at June 30, 2018, was measured as of June 30, 2017, with an actuarial valuation as of June 30, 2016. At June 30, 2018, the Department recorded a liability of $4,699.046 million for its proportionate share of the State's total OPEB liability. The Department's portion of the OPEB liability was based on the Department's proportion of employer contributions relative to all employer contributions made to the plan during the year ended June 30, 2017. As of the current year measurement date of June 30, 2017, the Department's proportion was 11.3713%, which was an increase of 1.5640% from its proportion measured as of the prior year measurement date of June 30, 2016.

The Department recognized OPEB expense for the year ended June 30, 2018, of $360,396 million. At June 30, 2018, the Department reported deferred outflows and deferred inflows of resources, as of the measurement date of June 30, 2017, from the following sources (amounts expressed in thousands):

Deferred outflows of resources		
Differences between expected and actual experience	$	1,506
Changes in proportion and differences between Employer contributions and proportionate share of contributions		555,460
Department contributions subsequent to the measurement date		83
Total deferred outflows of resources	**$**	**557,049**
Deferred inflows of resources		
Changes of assumptions	$	446,173
Changes in proportion and differences between Employer contributions and proportionate share of contributions		-
Total deferred inflows of resources	**$**	**446,173**

The amounts reported as deferred outflows of resources related to OPEB resulting from Department contributions subsequent to the measurement date will be recognized as a reduction to the OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows (amounts expressed in thousands):

Year ended June 30,		OPEB
2019	$	24,906
2020		24,906
2021		24,906
2022		24,906
2023		11,169
Total	**$**	**110,793**

Actuarial methods and assumptions. The total OPEB liability was determined by an actuarial valuation using the following actuarial assumptions, applied to all periods included in the measurement unless otherwise specified. The actuarial valuation for the SEGIP was based on GARS, JRS, SERS, TRS, and SURS active, inactive, and retiree data as of June 30, 2016, for eligible SEGIP employees, and SEGIP retiree data as of June 30, 2016.

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry Age Normal
Inflation Rate	2.75%
Projected Salary Increases*	3.00% - 15.00%
Discount Rate	3.56%
Healthcare Cost Trend Rate:	
Medical (Pre-Medicare)	8.0% grading down 0.5% in the first year to 7.5%, then grading down 0.01% in the second year to 7.49%, followed by grading down of 0.5% per year over 5 years to 4.99% in year 7
Medical (Post-Medicare)	9.0% grading down 0.5% per year over 9 years to 4.5%
Dental	7.5% grading down 0.5% per year over 6 years to 4.5%
Vision	3.00%
Retirees' share of benefit-related costs	Healthcare premium rates for members depend on the date of retirement and the years of service earned at retirement. Members who retired before January 1, 1998, are eligible for single coverage at no cost to the member. Members who retire after January 1, 1998, are eligible for single coverage provided they pay a portion of the premium equal to 5 percent for each year of service under 20 years. Eligible dependents receive coverage provided they pay 100 percent of the required dependent premium. Premiums for plan year 2017 and 2018 were projected based on actual premiums. Premiums after 2018 were projected based on the same healthcare cost trend rates applied to per capita claim costs but excluding the additional trend rates that estimates the impact of the Excise Tax.

* Dependent upon service and participation in the respective retirement systems. Includes inflation rate listed.

Additionally, the demographic assumptions used in the OPEB valuation are identical to those used in the June 30, 2016 valuations for GARS, JRS, SERS, TRS, and SURS as follows:

	Retirement age experience study^	Mortality^^
GARS	July 2012 – June 2015	RP-2014 White Collar Total Healthy Annuitant mortality table, sex distinct, set forward 1 year for males and set back 1 year for females and generational mortality improvement using MP-2014 two-dimensional mortality improvement scales
JRS	July 2012 – June 2015	RP-2014 White Collar Total Healthy Annuitant mortality table, sex distinct, set forward 1 year for males and set back 1 year for females and generational mortality improvement using MP-2014 two-dimensional mortality improvement scales
SERS	July 2009 – June 2015	105 percent of the RP-2014 Healthy Annuitant mortality table, sex distinct, with rates projected to 2015; generational mortality improvement factors were added
TRS	July 2011 – June 2014	RP-2014 with future mortality improvements on a fully generational basis using projection table MP-2014
SURS	July 2010 – June 2014	RP-2014 White Collar, gender distinct, projected using MP-2014 two dimensional mortality improvement scale, set forward one year for male and female annuitants

^ The actuarial assumptions used in the respective actuarial valuations are based on the results of actuarial experience studies for the periods defined. A modified experience review was completed for SERS for the 3-year period ending June 30, 2015. Changes were made to the assumptions regarding investment rate of return, projected salary increases, inflation rate, and mortality based on this review. All other assumptions remained unchanged.
^^ Mortality rates are based on mortality tables published by the Society of Actuaries' Retirement Plans Experience Committee.

Discount rate. Retirees contribute a percentage of the premium rate based on service at retirement. The State contributes additional amounts to cover claims and expenses in excess of retiree contributions. Because plan benefits are financed on a pay-as-you-go basis, the single discount rate is based on a tax-exempt municipal bond rate index of 20-year general obligation bonds with an average AA credit rating as of the measurement date. A single discount rate of 2.85% at June 30, 2016, and 3.56% at June 30, 2017, was used to measure the total OPEB liability.

Sensitivity of total OPEB liability to changes in the single discount rate. The following presents the plan's total OPEB liability, calculated using a Single Discount Rate of 3.56%, as well as what the plan's total OPEB liability would be if it were calculated using a Single Discount rate that is one percentage point higher (4.56%) or lower (2.56%) than the current rate (amounts expressed in thousands):

	1% Decrease 2.56%	Current Single Discount Rate Assumption 3.56%	1% Increase 4.56%
Department's Proportionate Share of the Total OPEB Liability	$ 5,331,029	$ 4,699,046	$ 4,070,621

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rate. The following presents the plans total OPEB liability, calculated using the healthcare cost trend rates as well as what the plan's total OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point higher or lower, than the current healthcare cost trend. The key trend rates are 8.0% in 2018 decreasing to an ultimate trend rate of 4.99% in 2025, for non-Medicare coverage, and 9.0% decreasing to an ultimate trend rate of 4.5% in 2027 for Medicare coverage rates (amounts expressed in thousands).

	1% Decrease	Current Healthcare Cost Trend Rate Assumption	1% Increase
Department's Proportionate Share of the Total OPEB Liability	$ 4,015,296	$ 4,699,046	$ 5,263,531

(9) Restatement for Implementation of New Accounting Standard

The Department's financial statements have been restated as of July 1, 2017. The restatement is a result of the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Governmental Activities will report a restatement of net position for the beginning of the year net OPEB liability as follows (amounts expressed in thousands):

	Governmental Activities
Net Position, July 1, 2017, as previously reported	$ (5,408,445)
Implementation of GASB Statement No. 75:	
Beginning Net OPEB Liability	(4,266,103)
Beginning Deferred Outflows	58
Net Position, July 1, 2017, as restated	**$ (9,674,490)**

The effect of the restatement of beginning net position includes the beginning deferred outflows of resources for OPEB contributions made subsequent to the measurement date of the beginning net OPEB liability. Restatement of the beginning balances for other deferred outflows of resources and deferred inflows of resources related to OPEB was not made because it was not practical to determine all such amounts. Additionally, the impact on the change in net position for Fiscal Year 2017 was not determined.

(10) Fund Balances

(a) Categories

At June 30, 2018, the Department's fund balances were classified as follows (amounts expressed in thousands):

	General Fund	Nonmajor Governmental Funds	Total
Nonspendable			
Inventory	$ 12,059	$ 2,374	$ 14,433
Restricted Purposes			
Public Protection and Justice	-	1	1
Committed Purposes			
Public Protection and Justice	-	24,327	24,327
Unassigned	(179,713)	(2,374)	(182,087)
Total fund balances/ net position	$ (167,654)	$ 24,328	$ (143,326)

(b) Fund Deficits

The General Revenue Fund, subaccount of the General Fund had a fund deficit of $167,764, (amount expressed in thousands), at June 30, 2018. This deficit is expected to be recovered from future years' State appropriations.

The CMS vs AFSCME Wages Trust Fund also had a $328 (amount expressed in thousands) deficit at June 30, 2018.

(11) Risk Management

The Department is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; workers compensation and natural disasters. The State retains the risk of loss (i.e., self-insured) for these risks.

The Department's risk management activities for self-insurance, unemployment insurance and workers' compensation are financed through appropriations to the Illinois Department of Central Management Services and are accounted for in the General Fund of the State. The claims are not considered to be a liability of the Department; and accordingly, have not been reported in the Department's financial statements for the year ended June 30, 2018.

(12) Commitments and Contingencies

(a) Operating leases

The Department leases certain office facilities and equipment, under the terms of noncancelable operating lease agreements that require the Department to make minimum lease payments plus pay a pro rata share of certain operating costs. Rent expense under operating leases (amount expressed in thousands) was $17.014 million for the year ended June 30, 2018.

The following is a schedule of future minimum lease payments under operating leases (amounts expressed in thousands):

Year Ending June 30,	Amount
2019	$ 24
2020	22
2021	46
Total	$ 92

(b) Federal Funding

The Department receives federal grants which are subject to review and audit by federal grantor agencies. Certain costs could be questioned as not being an eligible expenditure under the terms of the grants. At June 30, 2018 there were no material questioned costs that have not been resolved with the federal awarding agencies. However, questioned costs could still be identified during audits to be conducted in the future. Management of the Department believes there will be no material adjustments to the federal grants and, accordingly, has not recorded a provision for possible repayment.

(c) Litigation

The Department is routinely involved in a number of legal proceedings and claims that cover a wide range of matters. In the opinion of management, the outcome of these matters is not expected to have any material adverse effect on the financial position or results of operations of the Department.

SUPPLEMENTARY INFORMATION

STATE OF ILLINOIS
DEPARTMENT OF CORRECTIONS
COMBINING SCHEDULE OF ACCOUNTS
GENERAL FUND
JUNE 30, 2018
(Expressed in Thousands)

	Sub-Accounts					
	General Revenue	CMS VS AFSCME Wages Trust	Budget Stabilization	Travel and Allowance Revolving	Eliminations	Total
ASSETS						
Unexpended appropriations	$ 533,498	$ -	$ -	$ -	$ -	$ 533,498
Cash and cash equivalents	13	-	-	258	-	271
Due from other Department funds	98	-	-	111	(112)	97
Inventories	12,059	-	-	-	-	12,059
Total assets	$ 545,668	$ -	$ -	$ 369	$ (112)	$ 545,925
LIABILITIES						
Accounts payable and accrued liabilities	$ 590,006	$ -	$ -	$ 1	$ -	$ 590,007
Due to other Department funds	40,994	328	-	150	(112)	41,360
Due to other State funds	53,058	-	-	-	-	53,058
Due to Department fiduciary funds	2,555	-	-	-	-	2,555
Due to Local government	9,542	-	-	-	-	9,542
Due to Federal government	11,676	-	-	-	-	11,676
Due to State of Illinois component units	5,491	-	-	-	-	5,491
Total liabilities	713,322	328	-	151	(112)	713,689
FUND BALANCES (DEFICITS)						
Nonspendable for Inventories	12,059	-	-	-	-	12,059
Unassigned	(179,713)	(328)	-	218	-	(179,823)
Total fund balances (deficits)	(167,654)	(328)	-	218	-	(167,764)
Total liabilities and fund balances (deficits)	$ 545,668	$ -	$ -	$ 369	$ (112)	$ 545,925

STATE OF ILLLINOIS
DEPARTMENT OF CORRECTIONS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2018
(Expressed in Thousands)

		Sub-Accounts				
	General Revenue	CMS VS AFSCME Wages Trust	Budget Stabilization	Travel and Allowance Revolving	Eliminations	Total
REVENUES						
Other	$ 45	$ -	$ -	$ 1	$ -	$ 46
Other charges for services	162	-	-	-	-	162
Total revenues	207	-	-	1	-	208
EXPENDITURES						
Public protection and justice	1,873,070	-	(23)	-	-	1,873,047
Debt service - principal	795	-	-	-	-	795
Debt service - interest	102	-	-	-	-	102
Capital outlays	1,256	-	-	-	-	1,256
Total expenditures	1,875,223	-	(23)	-	-	1,875,200
Excess (deficiency) of revenues over (under) expenditures	(1,875,016)	-	23	1	-	(1,874,992)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES						
Appropriations from State resources	2,333,856	-	-	-	-	2,333,856
Lapsed appropriations	(85,198)	-	(23)	-	-	(85,221)
Receipts collected and transmitted to State Treasury	(358)	-	-	-	-	(358)
Transfers-in	1	-	-	-	-	1
Transfers-out	-	-	-	(1)	-	(1)
Proceeds from capital lease financing	241	-	-	-	-	241
Net other sources (uses) of financial resources	2,248,542	-	(23)	(1)	-	2,248,518
Net change in fund balances	373,526	-	-	-	-	373,526
Fund balances (deficits), July 1, 2017	(540,990)	(328)	-	218	-	(541,100)
Decrease for change in inventories	(190)	-	-	-	-	(190)
FUND BALANCES (DEFICITS), JUNE 30, 2018	$ (167,654)	$ (328)	$ -	$ 218	$ -	$ (167,764)

STATE OF ILLLINOIS
DEPARTMENT OF CORRECTIONS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2018
(Expressed in Thousands)

	Special Revenue				
	Department of Corrections Reimbursement	**DOC Commissary Funds**	**DOC Resident's and Employee's Benefit**	**Moms and Babies**	**Total**
ASSETS					
Unexpended appropriations	$ 2,559	$ -	$ -	$ -	$ 2,559
Cash and cash equivalents	1,312	14,241	9,084	1	24,638
Other receivables, net of $0 allowance	-	70	-	-	70
Due from other Department funds	4,943	148	9,354	-	14,445
Due from other State funds	1,231	-	-	-	1,231
Due from Federal government	80	-	-	-	80
Inventories	-	2,374	-	-	2,374
Total assets	$ 10,125	$ 16,833	$ 18,438	$ 1	$ 45,397
LIABILITIES					
Accounts payable and accrued liabilities	$ 2,553	$ 2,519	$ 7	$ -	$ 5,079
Due to other Department funds	-	14,074	6	-	14,080
Due to other State funds	916	-	-	-	916
Due to Department fiduciary funds	-	-	29	-	29
Due to State fiduciary funds	68	-	-	-	68
Due to Local government	486	-	-	-	486
Due to Federal government	11	-	-	-	11
Unearned revenue	80	240	-	-	320
Total liabilities	4,114	16,833	42	-	20,989
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue	80	-	-	-	80
Total deferred inflows of resources	80	-	-	-	80
FUND BALANCES (DEFICITS)					
Nonspendable for Inventories	-	2,374	-	-	2,374
Restricted	-	-	-	1	1
Committed	5,931	-	18,396	-	24,327
Unassigned	-	(2,374)	-	-	(2,374)
Total fund balances (deficits)	5,931	-	18,396	1	24,328
Total liabilities, deferred inflows of resources and fund balances (deficits)	$ 10,125	$ 16,833	$ 18,438	$ 1	$ 45,397

STATE OF ILLLINOIS
DEPARTMENT OF CORRECTIONS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2018
(Expressed in Thousands)

	Special Revenue				
	Department of Corrections Reimbursement	DOC Commissary Funds	DOC Resident's and Employee's Benefit	Moms and Babies	Total
REVENUES					
Federal government	$ 2,019	$ -	$ -	$ -	$ 2,019
Interest and other investment income	-	16	21	-	37
Other	10,561	-	1,191	1	11,753
Other charges for services	-	55,150	-	-	55,150
Total revenues	12,580	55,166	1,212	1	68,959
EXPENDITURES					
Public protection and justice	17,787	45,669	3,608	1	67,065
Debt service - principal	536	-	-	-	536
Debt service - interest	59	-	-	-	59
Capital outlays	74	-	-	-	74
Total expenditures	18,456	45,669	3,608	1	67,734
Excess (deficiency) of revenues over (under) expenditures	(5,876)	9,497	(2,396)	-	1,225
OTHER SOURCES (USES) OF FINANCIAL RESOURCES					
Appropriations from State resources	47,000	-	-	-	47,000
Lapsed appropriations	(25,089)	-	-	-	(25,089)
Receipts collected and transmitted to State Treasury	(20,142)	-	-	-	(20,142)
Transfers-in	5,601	-	3,741	-	9,342
Transfers-out	-	(9,342)	-	-	(9,342)
Proceeds from capital lease financing	33	-	-	-	33
Net other sources (uses) of financial resources	7,403	(9,342)	3,741	-	1,802
Net change in fund balances	1,527	155	1,345	-	3,027
Fund balances, July 1, 2017	4,404	-	17,051	1	21,456
Decrease for change in inventories	-	(155)	-	-	(155)
FUND BALANCES, JUNE 30, 2018	$ 5,931	$ -	$ 18,396	$ 1	$ 24,328

STATE OF ILLLINOIS
DEPARTMENT OF CORRECTIONS
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND
FOR THE YEAR ENDED JUNE 30, 2018
(Expressed in Thousands)

	Balance at July 1, 2017	Additions	Deletions	Balance at June 30, 2018
DOC Resident's Trust				
ASSETS				
Cash and cash equivalents	$ 3,015	$ 21,806	$ 18,150	$ 6,671
Other receivables	1	-	-	1
Due from other State funds	-	1	-	1
Due from other Department funds	6,577	8,511	11,067	4,021
Total assets	$ 9,593	$ 30,318	$ 29,217	$ 10,694
LIABILITIES				
Other liabilities	$ 9,593	$ 19,251	$ 18,150	$ 10,694
Total liabilities	$ 9,593	$ 19,251	$ 18,150	$ 10,694

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INDEPENDENT AUDITOR'S 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 Frank J. Mautino
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with the 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, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the State of Illinois, Department of Corrections (the Department), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements and have issued our report thereon dated April 10, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Department's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings as items 2018-001 through 2018-003 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings as items 2018-004 through 2018-007 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free from 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as items 2018-001 through 2018-007.

Department's Responses to Findings

The Department's responses to the findings identified in our audit are described in the accompanying schedule of findings. The Department's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

SIGNED ORIGINAL ON FILE

Chicago, Illinois
April 10, 2019

2018-001 **<u>FINDING</u>:** (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 of Correction's (Department) 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 following were noted during our audit of the Department's June 30, 2018 financial statements:

- The Department did not have adequate documentation of its procedures for development of liability estimates that were material to the financial statements. Estimated liabilities as of June 30, 2018 reported as part of Accounts Payable and Accrued Expenses in the financial statements amounted to $223.175 million. In our test of estimated liability accruals, we obtained an understanding of how management developed the estimates. However, we noted for some estimates, the Department did not completely document and did not retain all the supporting documentation for the basis of the assumptions used and how they were applied in calculating the estimated liabilities. We were able to perform tests of reasonableness of the estimated liabilities using information provided by the Department upon request.

- The Department did not accrue liabilities totaling $17.841 million in the originally submitted GAAP Package to the Comptroller. The additional liabilities were identified as part of the review process by the Comptroller.

- The Central Inventory System (CIS) 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 in the originally submitted GAAP Reporting forms and financial statements were noted:

    - The Department did not report in the GAAP packages and financial statements capital assets transferred-in for assets with a net book value totaling $27,145,630 as of date of transfer. Consequently, depreciation expense totaling $863,614 related to these unrecorded capital transfers for Fiscal Year 2018 was also not reported in the financial statements (See Finding 2018-002).

    - The Department overstated the net book value of the assets received and the amount of capital transfers-in reported in the financial statements by $4,484,107 due to not calculating the accumulated depreciation of these assets on the date of transfer (See Finding 2018-002).

- The Department's manually calculated depreciation schedules contained errors due to duplicate entries, wrong useful life and improper encoding in roll forward schedules, resulting in an understated depreciation expense of $12,534,155.

- We noted the Department did not fully evaluate changes in circumstances affecting capital assets to determine whether impairment occurred and did not properly account for and report capital asset impairments for the following:

  - The Department was preparing for demolition of two buildings at Menard Correctional Center but did not record the loss on impairment totaling $239,198 to write down the net book value to zero as of June 30, 2018.

  - The Department also assessed two closed facilities (Tamms and Dwight) as temporarily impaired subject to continued assessment in future reporting periods. However, the Department did not disclose the carrying values of the idle facilities totaling $60,209,199.

- We also noted the following errors in reporting classification in the financial statements:

Reported As	Should Be	Amount
Capital Assets – Land	Capital Assets – Building Improvements	$ 324,431
Capital Assets – Site Improvements	Capital Assets – Building Improvements	$4,020,151
Compensated Absences – Noncurrent	Compensated Absences – Current	$ 524,000
Due from Component Unit	Due from Other State Funds	$ 567,000

The Department subsequently adjusted the financial statements to correct these errors and also revised the notes to the financial statements to properly disclose the idle facilities.

The Fiscal Control and Internal Auditing Act (FCIAA) (30 ILCS 10/3001) requires all State agencies to establish and maintain a system of internal fiscal and administrative controls, which shall 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 accounts and reliable financial and statistical reports and to maintain accountability over the State's resources. Good internal control procedures require adequate management oversight and review of accounting policies and procedures as well as an overall review of financial reporting for accuracy and compliance with GAAP.

The Comptroller requires State agencies to prepare GAAP Reporting Packages for each of their funds to assist in the annual preparation of the Statewide financial statements and the Departmental financial statements. GAAP Reporting Package instructions are specified in the Comptroller's Statewide Accounting Management System (SAMS) Manual, Chapter 27. Specifically, the SAMS Manual provides the following guidance:

SAMS Manual (Procedure 02.50.20) states agencies should establish internal control objectives and techniques for payables, debt and other liabilities to ensure all payables and other claims against the State are recorded promptly and accurately. SAMS (Procedure 02.50.10) states written procedures and flowcharts must be prepared to adequately document the internal control systems and processes for authorizing, executing, and recording transactions. Such documentation must be easily accessible for examination.

SAMS Manual (Procedure 27.20.49) instructions on preparing the GAAP form Summary of Liabilities state that accounts payable and accrued liabilities can be determined by using a reasonable estimate. Each agency is encouraged to use internal records and procedures to develop an appropriate estimation approach.

The SAMS Manual (Procedure 03.30.30) on transferring ownership of capital assets states the receiving agency should record the asset's original cost and related accumulated depreciation at the time of the transfer and depreciate the asset over the useful life remaining when it is transferred.

Governmental Accounting Standards Board (GASB) Statement No. 42 – *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* requires entities to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred by identifying potential impairments and testing for impairment. Impaired capital assets that will no longer be used should be reported at the lower of carrying value or fair value. The Statement also states the loss should be recognized when the impairment event or change in circumstance occurs.

GASB Statement No. 42 paragraph 20 also requires that the carrying amount of impaired capital assets that are idle at year-end should be disclosed, regardless of whether the impairment is considered permanent or temporary.

In response to the prior year finding, the Department stated it would continue devoting the resources necessary to complete the GAAP reporting as required by taking all possible steps to ensure the GAAP Reporting Packages and financial statements are prepared in an accurate manner. The Department initiated corrective actions during the review period to update records more timely and reduce the number of manual calculations. However, those actions were not fully implemented or sufficient to address all weaknesses identified.

Department management stated the liability estimate was unusual and complex in nature and was required to be calculated in a relatively short period of time. The additional liabilities were not initially identified due to delays in receipt and processing of vendor invoices.

The Department attributed, as it did during the prior audit, the exceptions relating to capital assets and financial reporting classification errors to staff turnovers, staff limitations, competing priorities, human error, and employee oversight.

Because of the significance of the exceptions noted, we consider this to be a material weakness in the Department's internal control over financial and fiscal operations. A material weakness is a deficiency or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements or material noncompliance will occur and not be prevented or detected and corrected on a timely basis.

These exceptions, if not detected and corrected, have the potential to materially misstate the Department's financial statements. Accurate preparation of the Department's financial information for GAAP and financial reporting purposes is important due to the impact adjustments may have on the Statewide financial statements. (Finding Code No. 2018-001, 2016-001, 2014-001, 12-01, 10-01, 08-01)

RECOMMENDATION

We recommend the Department maintain documentation of the calculation and basis of liability estimates. We also recommend the Department outline and implement procedures to ensure GAAP Reporting Packages and financial statements are prepared in an accurate manner. Lastly, we recommend 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 RESPONSE

Recommendation accepted. The Department will strengthen its controls and documentation related to liability estimates used in the financial statements. However, the Department does want to make mention that the audit cycle covered two years which presented unique and unprecedented challenges. Due to the lack of a comprehensive budget from starting July 1, 2015 and encapsulating the fiscal years 2016, 2017 and 2018, the Department was forced to manage its payables, both principal and interest, based on stopgap appropriations and within the fiscal year parameters. In addition, the State was able to pay down existing GRF liabilities by increased funding that resulted in unanticipated interest penalties, which were also able to be vouchered out of Fiscal Year 2018 funds, as opposed to rolling over to subsequent fiscal years. Furthermore, during Fiscal Year 2018 lapse period it was determined that the State owed AFSCME bargaining unit employees for step increases that had not been awarded since July 1, 2015. This resulted in the Department being tasked with estimating a total dollar impact for associated personnel moves of over 7,000 employees. The Department will also work with its contractual provider in ensuring depreciation and roll forward schedules are properly calculated and recorded.

2018-002 **FINDING:** (Weaknesses in the financial accounting for, and inaccurate and inadequate recordkeeping of property)

The Department of Corrections (Department) did not maintain accurate and adequate property records and did not timely and accurately record all capital asset information in its financial records.

The auditors identified the following errors and inadequacies in the Department's property recordkeeping process and capital assets reporting in the GAAP Packages:

- The Department started operations of the Joliet Treatment Center in October 2017 using the facility from the Department of Juvenile Justice (DJJ). The Department did not record in the property records and report in the financial statements submitted to the Comptroller property items with a net book value of $9,285,276 received from DJJ consisting of land, buildings and building improvements. In addition, Capital Development Board (CDB) renovation and upgrade of facility project costs for the Joliet Treatment Center totaling $16,667,148 were also not included in the property records as of June 30, 2018.

- The Department received property items from DJJ for the Kewanee Life Skills Re-Entry Center and for the Murphysboro Life Skills Re-Entry Center and properly recorded the cost of the assets transferred but did not calculate the related accumulated depreciation as of the date of transfer for certain property items totaling $4,484,107. Accordingly, the Department overstated the net book value of the assets received in the capital assets reported in the GAAP Packages as of June 30, 2018.

- The Department did not update its property records timely. We noted additions totaling $805,000 and CDB capitalized transfers totaling $14,972,108 were reflected in the capital asset amounts in the financial statements but not entered in the Central Inventory System (CIS) records. We also noted additions totaling $135,002 that were not reflected in the capital asset amounts in the financial statements and also not entered in the CIS.

- We noted the following CDB capitalizable transfers were not included in the CIS records or were not included accurately in the manually summarized property transactions and balances as of June 30, 2018. As a result, these transfers were not reported in the capital asset balances in the proper fiscal years and the related current depreciation and prior year accumulated depreciation amounts were understated. The following table presents the amounts not reported related to these unrecorded CDB transfers:

Transfer Year	Capitalizable Transfers Amount	Fiscal Year 2018 Depreciation	Prior Year Depreciation	Fiscal Year 2018 Accumulated Depreciation
2015	$ 3,189,340	$ 131,045	$ 402,695	$ 533,740
2016	383,647	-	38,887	38,887
2017	51,990	2,600	1,061	3,661
2018	168,709	3,728	-	3,728
Total	$ 3,793,686	$ 137,373	$442,643	$ 580,016

In addition, we noted the Department did not review CDB projects for proper capitalization based on the scope and nature of the project. The Department capitalized CDB transfers based on the amount of the quarterly turn-over reports per project and considered each quarterly transfer as a separate asset entry.

- We also noted CDB transfers amounting to $324,431 and $4,020,151 were reported in the GAAP Package as land and site improvements, respectively, instead of building improvements.

- The Department did not consistently apply its capitalization policy. We noted assets totaling $330,004 that met the capitalization threshold but were not capitalized, and assets totaling $16,054 that did not meet the threshold but were capitalized. We also noted assets totaling $51,155 that were actually received in Fiscal Year 2019 but the Department capitalized this equipment as of June 30, 2018.

In relation to our detailed testing of State property items, the following exceptions were noted:

- During testing of the C-15 reports, we noted additions reported during Fiscal Years 2017 and 2018 were not adequately reconciled with the total State property expenditures. The unreconciled difference totaled $9,107,063 in Fiscal Year 2017 and $11,841,666 in Fiscal Year 2018.

- During our review of property year-end inventory reports, we noted 3,568 equipment items, totaling $3,367,855, were missing or unlocated during Fiscal Year 2018 and 2,751 property items, totaling $1,997,947, were missing or unlocated during Fiscal Year 2017.

- During our testing of 60 equipment vouchers, we noted the following:

    - For eleven (18%) equipment vouchers tested, totaling $199,456, equipment was not recorded in the Department's property control records as of June 30, 2018.

    - For two (3%) equipment vouchers tested, equipment was incorrectly recorded on the property control records, resulting in a $342 overstatement.

- We tested eight equipment vouchers for new furniture, and noted the Department did not file/maintain a State Property Surplus – New Furniture Affidavit for two (25%) new furniture expenditures tested, totaling $1,261.

- Three of eight (38%) material purchases selected for testing, totaling $51,896, were missing supporting documentation and could not be tested.

- During our property testing at the Department's Concordia Court campus, we noted the following:

    - We noted two of 10 (20%) items of undetermined value located at the Concordia Court campus did not have property control tags.

    - During property testing of 60 additions, we noted the following:

        - Four (7%) equipment additions tested did not include freight charges of $265 in the cost of the asset.
        - Thirty-seven (62%) equipment additions tested were recorded in the Department property records more than 30 days after purchase, ranging from 29 to 639 days late.
        - One (2%) equipment addition tested was understated on the property records by $157.
        - Eleven (18%) equipment additions tested, totaling $334,338, were missing all supporting documentation; therefore, we were unable to verify the cost of these items.

    - During property testing of 60 deletions, we noted the following:

        - Fifteen (25%) equipment deletions tested, totaling $100,962, were removed from the Department property records more than 30 days after the receipt of approval from the Department of Central Management Services (DCMS), ranging from 4 to 1,820 days late.
        - Three (5%) equipment deletions tested, totaling $17,082, did not indicate the date DCMS received the item; therefore, we were unable to determine timeliness of updating property records.
        - For five (8%) equipment deletions tested, totaling $11,144, Department staff approved the transfer of equipment items from 128 to 1,014 days after the date of DCMS receipt of the items.
        - Thirteen (22%) equipment deletions tested, totaling $62,962, were missing DCMS Surplus Property Delivery Forms; therefore, we were unable to verify if DCMS received the items.
        - One (2%) equipment deletion tested, totaling $21,250, was deleted in the system but still physically located at the center.

        - Five (8%) equipment items tested, totaling $21,310, were removed from Department records more than 30 days after approval, ranging from 13 to 592 days late.
        - For one (2%) deletion tested, totaling $11,220, acquisition cost and acquisition date on the DCMS Surplus Property Delivery Form provided did not match Department records. The DCMS Surplus Property Delivery Form indicated the item was acquired on the day of receipt and valued at $0.
        - Three (5%) equipment deletions tested, totaling $49,012, were missing all supporting documentation; therefore, we were unable to test these deleted items.

    - During our test of controls over a separate sample of 60 deletions, we noted the following:

        - Three (5%) equipment items, totaling $11,259, were missing DCMS Surplus Property Delivery Forms; therefore, we were unable to verify if DCMS received the items.
        - Nine (15%) equipment items, totaling $157,149, were missing all supporting documentation; therefore, we were unable to test these deleted items.
        - Two (3%) equipment items sent to DCMS Scrap, totaling $4,329, were missing the DCMS Scrap Approval Report.

- During the detailed testing of State property at fifteen Correctional Centers and four Adult Transition Centers (ATC), the following exceptions were noted:

    - During the testing of equipment at the Correctional Centers, auditors noted two of 10 (20%) disposals tested, totaling $2,977, were not properly removed from the Center's property records timely. Assets were approved for disposal in Fiscal Year 2016 but were not removed from the property records until January 2017. This exception was noted at Pinckneyville Correctional Center.

    - Fifteen of 17 (88%) items selected from Department records were not properly tagged at Crossroads ATC.

    - Two of 10 (20%) items selected from Department records were not able to be located at North Lawndale ATC.

    - One of 10 (10%) items selected from Department records was transferred to DCMS surplus property from Peoria ATC, but was still on Department records.

    - One of 10 (10%) items selected from Department records at Fox Valley ATC was unused and broken, but was still on Department records and approval had not been requested to dispose of it.

    - Eight of 10 (80%) items identified at North Lawndale ATC were physically found, but not reported on Department records.

- Eleven of 30 (37%) items totaling $15,650, were not properly removed from the property listing after disposal at Lawrence, Pontiac, and Stateville Correctional Centers.

- Five of 15 (33%) items totaling $14,583, were identified on property records as disposed or transferred, but were still physically located at the Center. This exception was noted at Lawrence and Menard Correctional Centers.

- At Stateville Correctional Center, auditors were unable to determine the completeness and accuracy of the Center's property listing. CIS cost of property items at this location as of June 30, 2018 totaled $191,656,238.

- Twelve of 30 (40%) items disposed totaling $24,553, did not have adequate supporting documentation for disposal at Lawrence, Vienna, and Stateville Correctional Center. Furthermore, Pontiac Correctional Center did not maintain any documentation of property disposals.

- At Vienna Correctional Center, 2 of 10 (20%) items disposed totaling $3,501 were removed from property records 210 and 336 days after approval.

- For 17 of 100 (17%) items tested totaling $30,163, the description or location did not match property records. This exception was noted at Danville, Dixon, Lawrence, Logan, Pontiac, and Stateville Correctional Centers.

- Two of 5 (40%) items tested totaling $620, were incorrectly recorded as deletions instead of transferred items. This exception was noted at Western Illinois Correctional Center.

- Eight of 30 (27%) items tested were physically found, but not reported on property records. This exception was noted at Dixon, Pontiac, and Stateville Correctional Centers.

- Nine of 70 (13%) items tested totaling $95,918 were not properly tagged. This exception was noted at Dixon, Hill, Lawrence, Logan, Pontiac, Shawnee, and Stateville Correctional Centers.

- Fifteen of 70 (21%) items tested totaling $49,041 were inoperable or obsolete. This exception was noted at Danville, Dixon, Logan, Pontiac, Sheridan, and Stateville Correctional Centers. Furthermore, auditors noted obsolete computers and computer equipment that has been awaiting surplus for over two years at Stateville Correctional Center. Auditors also noted that Sheridan Correctional Center has two barns full of items such as computers, washer, dryers, dietary equipment, and various office equipment which have been there for multiple years and should have been disposed.

- Seventeen of 35 (49%) items transferred totaling $65,065 did not have adequate supporting documentation for the transfer. This exception was noted at Lawrence, Logan, Pontiac, Stateville, and Vienna Correctional Centers.

- Ten of 50 (20%) items tested totaling $26,440 could not be located. This exception was noted at Danville, Dixon, Logan, Pontiac, and Stateville Correctional Centers.

- Improper Central Inventory System (CIS) access rights were noted at Danville, Dixon, Illinois River, Lawrence, Logan, Pontiac, Shawnee, Stateville, and Western Correctional Centers. Individuals had access rights when they no longer required access or had more access rights than what was required. Also, other individuals did not have access rights when required. Furthermore, Pinckneyville Correctional Center submitted an Information Services Unit request to have two employees' CIS access rights removed 209 and 542 days following each employee's job status change.

- Auditors noted inadequate maintenance of buildings and storage areas at Dixon and Vandalia Correctional Centers. Standing water was found under pallets of inventory in the Inmate Commissary Warehouse, and inventory was damaged due to mice at Vandalia Correctional Center. Several roofs of the Center's buildings were leaking and mold was noted in the dishwashing area of the dietary building at Dixon Correctional Center.

- We noted 2 of 20 (10%) items tested, totaling $35,532, were fully depreciated and were deemed as obsolete, but the Department had not taken measures to dispose of them.

The State Property Control Act (Act) (30 ILCS 605/6.02) states, "Each responsible officer shall maintain a permanent record of all items of property under his jurisdiction and control..." The Act (30 ILCS 605/6.03) requires the record for each item of property shall contain such information as will in the discretion of the administrator provide for the proper identification thereof. The Act (30 ILCS 605/4) requires every responsible officer of state government to be accountable for the supervision, control, and inventory of all items under their jurisdiction.

The State Records Act (5 ILCS 160/8) requires the head of each agency to make and preserve records containing adequate and proper documentation of essential transactions of the agency designed to furnish information to protect the legal and financial rights of the State and of persons directly affected by the agency's activities.

The Comptroller's Statewide Accounting Management System (SAMS) Manual (Procedure 29.10.10) provides agencies with guidance on how to maintain such records and states that detailed records are to be organized by major asset category and include the following information for each asset: (1) Cost (or other value); (2) function and activity; (3) reference to acquisition source document... (8) location... (13) date, method and authorization of disposition... The procedure also states this list is not exhaustive, and an agency may include additional information for its own needs.

The SAMS Manual (Procedure 29.10.30) on CDB Activity states costs associated with non-major remodeling, renovation and rehabilitation projects are to be recorded by the agency in their capital records as a repair and maintenance cost for that period. Guidance for distinguishing between repairs and maintenance and capital items is provided in SAMS (Procedure 03.30.10).

The SAMS Manual (Procedure 03.30.30) on transferring ownership of capital assets states the receiving agency should record the asset's original cost and related accumulated depreciation at the time of the transfer and depreciate the asset over the useful life remaining when it is transferred. It also states the transferring agency should record a transfer-out equal to the net book value at the time of transfer and write off the cost of the asset and related depreciation.

The SAMS Manual (Procedure 03.30.10) states the accumulated costs incurred during construction of assets should be held in Construction in progress until such time as the project is determined to be "substantially complete" (i.e. ready for its intended use).

The SAMS Manual (Procedures 03.30.30 and 27.20.38) outline the instructions for capitalizing assets and the preparation of the Capital Asset Summary (SCO-538). This reporting process is necessary for the Comptroller to complete the Statewide financial statements in accordance with Generally Accepted Accounting Principles (GAAP).

The State Finance Act (30 ILCS 105/20) defines equipment to include all expenditures having a unit value exceeding $100.

The Illinois Administrative Code (Code) (44 Ill. Adm. Code 5010.210) requires agencies to mark each piece of State-owned equipment in their possession with a unique six digit identification number; (44 Ill. Adm. Code 5010.230) and requires agencies to maintain records including identification number, location code number, description, date of purchase, purchase price, object code, and voucher number.

Administrative Directive (A.D.) (02.70.105) requires the Center to identify or tag each piece of State-owned controlled property in its possession with a unique identification number. A.D. (02.70.115) states property that is no longer needed by a facility shall be identified as either transferable, non-transferable, trade-in, or demolition. Transferable property is property that is in good condition and that may be useful to another facility or agency. Non-transferable is property that is no longer useful due to condition or requires costly repairs. Transfers or other disposition of property require the signatures of the Responsible Officer, Receiving Officer, the respective Deputy Director or Chief, the Assistant Deputy Director of Fiscal Operations, and the Property Control Manager on a Request for Change of Status of Equipment form per A.D. (02.70.150).

Fiscal Control and Internal Auditing Act (FCIAA) (30 ILCS 10/3001) requires all 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.

The Code (44 Ill. Admin. Code 5010.400) requires agencies to adjust property records within 30 days of acquisition, change or deletion of equipment items.

In response to the prior year finding, the Department stated it would 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. Department officials previously stated they were working to update the Central Inventory System (CIS) to reflect accurate amounts. In response to the prior finding, management also stated fiscal would work with the Capital Development Board (CDB) to try to make sure all necessary information will be captured in the future. Although the Department initiated corrective actions during the review period and did reduce the number of errors and manual calculations, those actions were not fully implemented or sufficient to address all weaknesses identified.

The Department attributed, as it did in the prior audit, the exceptions to staff turnovers, staff limitations, competing priorities, human error, and employee oversight.

Because of the significance of the exceptions noted, we consider this to be a material weakness in the Department's internal control over financial and fiscal operations. A material weakness is a deficiency or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements or material noncompliance will occur and not be prevented or detected and corrected on a timely basis.

The Department had property and equipment throughout the State totaling approximately \$1.8 billion as reported on the Form C-15 at June 30, 2018. Failure to maintain adequate property records and inaccurate reporting of capital assets increases the risk of equipment theft or loss occurring without detection, and has resulted in inaccurate property reporting. Improper service or maintenance of buildings and storage areas increases the risk of hazards to employees and inmates, increases the risk of damage to commodities and equipment, and may cause disruption in operations. (Finding Code No. 2018-002, 2016-002, 2014-002, 12-02, 10-04, 08-07)

RECOMMENDATION

We recommend the Department:

- Strengthen its procedures over property and equipment to ensure accurate and timely recordkeeping and accountability for all State assets.

- 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 financial information and reports to the Illinois Office of the Comptroller.

DEPARTMENT RESPONSE

Recommendation accepted. The Department will work to improve its oversight over property record keeping and capital assets reporting. Staff will work to ensure that GAAP capital asset related detail is properly recorded by our contractual vendor and that the capitalization policy is properly applied. The Department will remind facility staff so that they know the proper procedures for obtaining, removing and documenting equipment and property related transactions. System access will be periodically reviewed by Central Office and revoked when appropriate. The Department stands in support of a capital bill addressing deferred maintenance and ensuring the State's assets can be adequately protected.

2018-003 **FINDING** (Lack of control over computer systems)

The Department of Corrections (Department) failed to implement or document the controls over its computing environment to ensure sufficient protection.

In order to meet its mission of "protecting the public from criminal offenders", the Department utilizes a myriad of computer systems such as Offender 360, Fund Accounting and Commissary Trading Systems and Accounting Information System. The Department utilizes these systems to track offender's location, information, and maintain accounting of offender's finances and the Department's finances.

In the prior three audits, the auditors determined the Department had not implemented adequate controls over its computing environment. During the current audit, the auditors determined the Department still had not taken appropriate actions to correct these weaknesses.

During testing, the auditors noted:

- The Department had not developed a disaster recovery plan or conducted testing.
- The Department did not have controls in place to ensure only authorized individuals had access or had appropriate access to its applications.
- The Department had not implemented a formal change management process to control changes to its environment and applications.

Department management indicated the exceptions were due to the understaffing of support personnel to monitor and document the controls for the computer systems.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance that funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use, and misappropriation.

Due to the severity of the deficiencies noted, auditors were unable to rely upon the IT environment controls. As such, the auditors consider the weakness to be a material weakness in the Department's internal control over financial and fiscal operations. (Finding Code No. 2018-003, 2016-003, 2014-005, 12-08)

RECOMMENDATION

We recommend the Department implement and document the controls over its computing environment and ensure the controls provide sufficient protection.

DEPARTMENT RESPONSE

Recommendation accepted. The Department will work to ensure that adequate disaster recovery plans are in place and tested, ensure proper safeguards are in place with respect to user access and develop/implement a formal change management process for its environment and applications. In addition, the Department will collaborate with external entities such as DoIT and work on ensuring adequate resources are in place.

2018-004 **<u>FINDING:</u>** (Inadequate administration of locally held funds at the Correctional Centers)

The Department of Corrections' (Department) Correctional Centers inadequately administered locally held funds (bank accounts) during the audit period.

As part of performing the financial audit of the Department, auditors performed tests of the locally held funds at the Department's 27 Correctional Centers. The specific locally held funds tested included the DOC Commissary Funds (Commissary Fund), DOC Resident's Trust Fund (Trust Fund), DOC Resident's and Employee's Benefit Fund (Resident Benefit Fund and Employee Benefit Fund), Travel and Allowance Revolving Fund, and Moms and Babies Fund.

Following were the year-end fund balances of the locally held funds at the Department:

	Fiscal Year 2017	Fiscal Year 2018
DOC Commissary Funds	$6,220,283	$ 8,755,227
DOC Resident's Trust Fund	$7,748,125	$12,265,400
DOC Resident's and Employee's Benefit Fund	$8,430,719	$ 8,979,377
Travel and Allowance Revolving Fund	$ 187,815	$ 255,008
Moms and Babies Fund	$ 1,238	$ 908

Auditors identified several exceptions and weaknesses related to the controls over the Correctional Centers' locally held funds as follows:

- Correctional Centers could not provide minutes from the committee meetings or committee meeting minutes did not include approval of the expenditures for the Employee Benefit Fund at Big Muddy, Danville, Logan, Stateville, and Vienna Correctional Centers.

  Department Administrative Directive (A.D.) (02.43.102) establishes written guidelines for expenditures from both of the Resident Benefit Fund and the Employee Benefit Fund, including the creation of a committee at each Center for the benefit funds it administers. The benefit fund committees review and approve the purchase requests. The minutes must be maintained for each meeting. The A.D. also specifies the types of expenditures which can be made out of the benefit funds. A.D. (02.43.103) states a check shall be prepared and processed for payment of the authorized invoice. A.D. (02.95.105) requires records to be properly identified for ready access and to be stored and safeguarded at the facility.

- Big Muddy, Danville, Logan, Pontiac, Sheridan, and Stateville Correctional Centers did not properly perform or were missing the required signatures on the monthly reconciliations on some of their locally held funds. Outstanding checks were not voided or were not timely voided at Danville, Sheridan, and Stateville Correctional Centers. Furthermore, monthly statements of operations were not properly signed for 23 of 24 months within the examination period for Vienna Correctional Center.

A.D. (02.40.104) requires reconciliation of the locally held fund, general ledger, and subsidiary accounts to occur monthly after the fund checking account has been reconciled and the General Ledger posting is completed. Once completed, the reconciliation is to be submitted to the Center's Business Administrator and Chief Administrator for review and signature.

A.D. (02.40.104) states that checks outstanding for three months shall be reviewed. A Stop Payment request shall be submitted to the bank unless the bank assesses a charge for processing a "stop payment" that is equal to or greater than fifty percent of the value of the check. Then a stop payment shall not be issued. The check shall remain open for a period of 14 months, at which time the check shall be voided and the payable deleted.

- Auditors noted the following exceptions at the Correctional Centers related to the recording of financial transactions:

    - Accounts payables were not properly recorded at Big Muddy, Centralia, Danville, Kewanee, Lawrence, Lincoln, Logan, Pontiac, Vienna, and Western Illinois Correctional Centers. Accounts payable were understated by a total of $100,096 in Fiscal Year 2017, and by $193,252 in Fiscal Year 2018 for the Employee Benefit, Employee Commissary, Inmate Commissary, and Resident Trust funds.

    - Accounts payables totaling $64,474 did not have appropriate supporting documentation at Big Muddy and Logan Correctional Centers for the following funds: $64,194 for the Inmate Commissary Fund and $280 for the Resident Trust Fund.

  Fiscal Control Internal Auditing Act (30 ILCS 10/3001) requires the Department establish and maintain a system of internal fiscal and administrative controls 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 accounts and reliable financial reports and to maintain accountability over the State's resources.

- Big Muddy, Danville, Logan, Pontiac, Sheridan, Stateville, Vienna, and Western Illinois Correctional Centers did not deposit locally held fund receipts timely. Receipts were deposited between 1 to 16 days late. In addition, Big Muddy Correctional Center could not provide supporting documentation for 5 (50%) of 10 receipt samples totaling $4,503, and therefore planned audit procedures could not be completed, including ensuring accuracy and timeliness of deposits.

  A.D. (02.40.110) requires the Department to deposit cash accumulated in the amount of $1,000 or more on any Business Office working day no later than 12:00 am the next working day. The A.D. also requires deposits to be made at least once a week.

  A.D. (02.95.105) requires records to be properly identified for ready access, stored, and safeguarded at the Center.

The State Records Act (5 ILCS 160/8) requires the Center to preserve records containing adequate and proper documentation of the essential transactions of the Center to protect the legal and financial rights of the State.

- Weaknesses in segregation of duties were noted as follows:

  - The same employee was responsible for writing and signing checks at the Joliet Treatment Center.

  - An employee who was not authorized to accept cash for checks drawn and issued to the Travel and Allowance Fund on behalf of Sheridan Correctional Center was able to do so.

  - An employee both signed and accepted cash for checks drawn and issued to the Travel and Allowance Fund and Resident Trust Fund at the Sheridan Correctional Center, when there were other authorized employees to sign the checks and properly segregate duties.

  - The same employee ordered goods, compared receiving reports to invoices, and prepared and presented vouchers for approval at the Big Muddy Correctional Center. No independent person compared goods ordered, received, billed to, and paid by the Center.

  - The same employee was responsible for writing and mailing checks. This exception was noted at Dixon, Sheridan, and Taylorville Correctional Centers.

  - Three employees at Stateville Correctional Center had signature authority for the Inmate Trust Fund, Resident Commissary Fund, and Travel and Allowance Fund who had taken a new position at the Center which should not have such authority or were no longer employees at the Center.

  A.D. (02.40.101) establishes the Department's guidelines for segregation of duties for its locally held funds. The A.D. states any exceptions to the policies within the A.D. must be stated in writing from the Chief Administrative Officer and approved by the Deputy Director of the Division of Finance and Administration.

- Auditors noted the following exceptions related to disbursements and receipts:

  - Twenty of 64 (31%) disbursements totaling $10,617 were not adequately supported. These were noted at Big Muddy and Vienna for Employee Benefit Fund disbursements; at Big Muddy Correctional Center for Travel and Allowance Revolving Fund and Employee Commissary Fund disbursements; at Lincoln Correctional Center and Joliet Treatment Center for Inmate Commissary Fund disbursements; and Decatur Correctional Center for Moms and Babies Fund disbursements.

- Three of 10 (30%) receipts totaling $30,816 were not adequately supported at Stateville Correctional Center for the Resident Trust Fund.

- For 6 of 10 (60%) receipts totaling $68,075, the corresponding Monies Received List (DOC 0167 Form) was not properly signed at Western Illinois Correctional Center for the Resident Trust Fund. Four of 10 (40%) receipts totaling $15,329 either did not include a complete Monies Received List or were missing the Monies Received List at Logan Correctional Center for the Resident Trust Fund.

A.D. (02.42.102) requires the mailroom employee to complete, then sign the DOC 0167 Form or Monies Received List Report at the time of delivery to the Cashier. The mailroom shall restrictively endorse all checks and shall either record the amount received in each envelope on the DOC 0167 or enter the receipts to the FACTS that shall create a money receipt list. The A.D. also states that upon receiving the DOC 0167 or Monies Received List Report, the Cashier shall sign the report. A.D. (02.95.105) requires records to be properly identified for ready access, stored, and safeguarded at the facility.

- Danville, Dixon, Lincoln, and Logan Correctional Centers failed to make timely deposits from the Inmate Trust Fund to the Inmate Commissary Fund for purchases, for all 10 (100%) samples tested at each center. The Centers' receipt records show the deposits were being made on a monthly/bi-monthly basis. In addition, one of five (20%) receipts tested at Joliet Treatment Center, totaling $28,583, included a transfer to the Inmate Commissary Fund from the Inmate Trust Fund that covered five months of sales from the Inmate Trust Fund.

A.D. (02.42.105) states, at least weekly, a check payable to the Inmates' Commissary Fund shall be prepared for the total amount of daily purchases for the week.

- Big Muddy Correctional Center's employee commissary operated at a loss for the majority of the examination period. During Fiscal Year 2017, the Center's employee commissary operated at a loss for 7 of 12 months, recording a net loss of $1,559 for the fiscal year. During Fiscal Year 2018, the Center's employee commissary operated at a loss for 9 of 12 months, recording a net loss of $13,078. The losses by month for both Fiscal Year 2017 and Fiscal Year 2018 ranged from $39 to $4,468 per month.

Good internal controls require Center personnel to examine operations and related controls when operating losses are noted on a persistent or ongoing basis. The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Center to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance funds held outside of the State Treasury are used in strict accordance with the terms of the fund's enabling authorities.

- Auditors noted the following exceptions related to accrual of profits and required transfers in compliance with the Unified Code of Corrections (Code) (730 ILCS 5/3-4-3c). The Department utilized a Commissary Fund Cash Review Form (DOC 0075) to calculate and effectuate the transfers.

  We performed a review of the DOC 0075's completed during Fiscal Years 2017 and 2018 and noted the following:

  - Danville and Logan Correctional Centers completed the DOC 0075 but did not transfer funds during the audit period.

  - Lincoln Correctional Center did not use the DOC 0075 and determined the transfer amount according to an alternative methodology.

  - Joliet Treatment Center did not use the DOC 0075 and made no transfers during Fiscal Year 2018.

  - Nine centers were unable to provide complete documentation of DOC 0075 for the Inmate Commissary Fund and Employee Commissary Fund for Fiscal Years 2017 and 2018. This was noted at Big Muddy, Danville, Kewanee, Pinckneyville, Robinson, Stateville, Taylorville, Vienna, and Western Illinois Correctional Centers. Since the documentation was incomplete, we were unable to determine accurately how much money was transferred to the Inmate and Employee Benefit Funds. Furthermore, we noted differences between the amounts indicated in the DOC 0075 forms and the General Ledger Trial Balance Reports for June 30, 2017 and June 30, 2018 at Decatur, East Moline, Hill, Jacksonville, Joliet, Kewanee, Menard, Shawnee, and Western Illinois Correctional Centers ranging from $6 to $324,217.

  - The Inmate Benefit Fund's mandated 40% share of Inmate Commissary Fund's profits totaled $4,004,388 and $4,322,205 during Fiscal Years 2017 and 2018, respectively. We were not provided with all the documentation supporting the transfers made. However, based on the incomplete documentation, the total transfers made were only $2,304,691 and $1,457,051 during Fiscal Years 2017 and 2018, respectively.

  - The Employee Benefit Fund's mandated 40% share of Employee Commissary Fund's profits totaled $54,371 and $71,891 during Fiscal Years 2017 and 2018, respectively. We were not provided with all the documentation supporting the transfers made. However, based on the incomplete documentation, the total transfers were only $37,592 and $52,837 during Fiscal Years 2017 and 2018, respectively.

  The Fiscal Control and Internal Auditing Act (FCIAA) (30 ILCS 10/3001) requires all State agencies to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance resources applicable to operations are properly recorded and accounted for to permit the preparation of reliable financial reports and to maintain accountability over the State's resources.

The Code (730 ILCS 5/3-4-3c) states forty percent of the profits on sales from commissary stores shall be expended by the Department for the special benefit of committed persons which shall include but not be limited to the advancement of inmate payrolls, for the special benefit of employees, and for the advancement or reimbursement of employee travel, provided that amounts expended for employees shall not exceed the amount of profits derived from sales made to employees by such commissaries, as determined by the Department. The remainder of the profits from sales from commissary stores must be used first to pay for wages and benefits of employees covered under a collective bargaining agreement who are employed at commissary facilities of the Department and then to pay the costs of dietary staff.

A.D. (02.44.110) specifies once a month, 40% of the net profit of the Employee Commissary shall be accrued to Employee Benefit Fund while 60% of the net profit shall be distributed to the Department of Corrections 523 – Salary Reimbursement Fund. The checks made payable to the Department of Corrections Fund 523 – Salary Reimbursement Fund are to be prepared expeditiously, allowing sufficient time to ensure receipt by the 20th of the month at the office of the Central Account Section.

A.D. (02.44.110) also states that once per month, the Business Administrator shall determine the excess cash available in the Inmate Commissary Fund and Employee Commissary Fund, if applicable, and authorize payment to the appropriate benefit fund. Sufficient funds shall be retained in the commissary fund to maintain operation of the commissary. The Business Office shall complete the reconciliation using the Commissary Fund Cash Review Form (Form), DOC 0075, and submit the form to the Business Administrator. The Business Administrator shall review and approve the Commissary Fund Cash Review Form prior to any payments of excess cash from the commissary funds.

- The bank accounts of Shawnee Correctional Center and Vienna Correctional Center were held at the same bank with a combined bank balance of $615,635 as of June 30, 2018. The total balance was not adequately covered by Federal Deposit Insurance Coverage (FDIC) of $250,000 and additional collateral pledged by the financial institution of $311,248. The balance of $54,387 was uncollateralized as of June 30, 2018. We also noted the A.D. has not been updated to reflect the current FDIC limit or to provide guidance to centers when multiple centers use the same bank.

A.D. (02.40.102) establishes if the sum of locally held funds excluding offender trust funds on deposit at a single financial institution exceeds $100,000, the Business Administrator shall request pledged collateral to equal the amount in excess of the $100,000 Federal Insurance maximum. On July 22, 2010, the Federal Insurance maximum increased from $100,000 to $250,000.

In response to the prior year finding, the Department stated it would continue working with Center staff on the requirements related to the operation and maintenance of locally held funds and was striving for continual improvements in the Department's centralized oversight and audit function by recommending improvements and the maintaining of accuracy of locally held funds at the Centers. Officials previously responded the Department was reviewing directives related to locally held funds and was processing revisions as necessary. In addition, Fiscal Accounting Compliance was reviewing and revising the FACTS manual. Officials also stated fiscal staff conduct monthly conference calls with business office staff to discuss relevant issues and concerns to assist in communicating proper procedures and ensuring understanding among staff.

During the current period, the Department reminded staff of the various policies that apply to the locally held funds regarding receipts, disbursements, and record keeping. We also noted the FDIC limits were beginning to once again be tracked by Central Office. Although the Department initiated corrective actions during the review period, those actions were not fully implemented or sufficient to address all weaknesses identified.

Department management stated the exceptions were due to lack of employee oversight, insufficient staffing, failure to follow established policies and procedures, human error, and competing priorities at the Correctional Center level. At the Central Office level, lack of staff to monitor Correctional Center issues, as well as competing priorities, compounded the problems.

It is important to properly administer locally held funds as they are not subject to appropriation and are held outside the State Treasury. In addition, failure to adequately administer locally held funds could lead to a failure to prevent or detect fraud, theft, unauthorized use or insufficient funds, causing overdrafts. Untimely deposits result in the loss of interest earnings. Failure to adequately monitor and ensure Department funds are sufficiently covered by collateral exposes the Department to risk of loss. Further, inadequate administration of locally held funds also deters sufficient oversight, monitoring, and management's ability to identify and take timely corrective action when locally held funds are not operating as intended. Further, inadequate administration may result in a misstatement of the financial statements. (Finding Code No. 2018-004, 2016-004, 2014-004, 12-04, 10-07, 08-14)

RECOMMENDATION:

We recommend the Department remind Center staff of the requirements set forth within the Administrative Directives and statutes related to the operation and maintenance of the locally held funds. We further recommend the Department devote adequate resources, ensure sufficient oversight, and implement sufficient internal controls to ensure adequate administration of locally held funds.

DEPARTMENT RESPONSE:

Recommendation accepted. The Department will continue working with Center staff on the requirements related to the operation and maintenance of locally held funds and reminding the staff of the various policies that apply to the locally held funds regarding receipts, disbursements, and record keeping. The Department has implemented a policy since January 2019 that Central Office keeps a track of pledged collateral quarterly if the Center's bank balance exceeds $250,000, which is not covered by Federal Deposit Insurance Coverage (FDIC). The Department will review and consider revising the A.D. (02.40.102) related to FDIC coverage balances and other Administrative Directives related to locally held funds. In addition, the Department will devote adequate resources, ensure sufficient oversight, and implement sufficient internal controls to ensure adequate administration of locally held funds.

2018-005 **FINDING:** (Inadequate controls over commodity and commissary inventory)

The Department of Corrections (Department) failed to maintain adequate controls over its commodity and commissary inventory.

The inventory balance reported by the Department at June 30, 2018 totaled $14.4 million, excluding the inventory balance of the Department's Correctional Industries. Each Correctional Center maintained at least a portion of that inventory balance with commodity and/or commissary inventory.

As part of performing the financial audit of the Department, auditors performed tests of commodity and/or commissary inventory at 20 of the Department's 27 Correctional Centers. The determination of which Correctional Centers to test by sampling was made based upon an analysis of the Correctional Centers' inventory, capital assets, and locally held fund balances.

Auditors identified the following exceptions and weaknesses related to the controls over commodity and commissary inventory records and accounting:

- The inventory counts completed by Center personnel did not agree to the accounting records in The Inventory Management System (TIMS) or the Fund Accounting and Commissary Trading System (FACTS) due to errors in unit of measure and quantity at Danville, Dixon, Graham, Hill, and Vienna Illinois Correctional Centers, resulting in a net difference of $27,861.

- Auditors noted errors in encoding in TIMS regarding cost and units per item based on supporting documents at Vienna Illinois Correctional Center.

- Auditor test counts did not agree or were unable to be reconciled to agency records at Danville, Decatur, Hill, Illinois River, Lawrence, Logan, Pontiac, Sheridan, Stateville, Vandalia, Vienna, and Western Illinois Correctional Centers. The total net overstatement amount was $4,440 and differences in total units ranged from 1 to 1,087. In addition, 2 of 20 (10%) items tested at Sheridan Correctional Center did not trace to the year-end count documents for Fiscal Year 2018 and TIMS inventory was overstated by $539.

- Shawnee and Vienna Correctional Centers failed to include commodity and commissary items, totaling $24,694, in inventory in the proper period.

- Auditors noted the following related to inventory counts:

    - Center personnel performed physical inventory counts in the inmate commissary using the TIMS Item Status Report to see if the counts were correct instead of using a blank count sheet. The lack of blind counts was noted at Logan, Stateville, and Western Illinois Correctional Centers.

- At Logan Correctional Center, inmate commissary items were not printed out of FACTS, but were handwritten and did not include product numbers. As a result, the completeness of inventory items needed to be counted was not readily determinable. In addition, 2 of 10 (20%) employee commissary items were not mathematically accurate. The auditors noted a $64 difference.

Center inventory procedures require the use of blank count sheets. Sound internal controls over inventory counts would require the use of blank count sheets so counters would not be influenced by what they believe the counts should be and therefore could lead to more accurate counts.

- Auditors noted the final priced inventory balances for commodities and commissaries in the Trial Balance in FACTS as of June 30, 2018 at Stateville Correctional Center were overstated by $161,384 and understated by $774, respectively. Further, the Fiscal Year 2018 year-end Item Status Report in FACTS did not agree to the commissary physical inventory quantities observed, resulting in an overstatement of the balance by $451.

- Auditors noted the following exceptions related to inventory adjustments:

  - Danville and Dixon Correctional Centers made inventory adjustments totaling $4,002 and $4,004, respectively, that were not adequately supported and properly approved. In addition, Stateville Correctional Center adjusted commissary inventory for 143 items totaling $737 and 227 items totaling $237, for Fiscal Year 2017 and 2018, respectively.

  - Stateville Correctional Center also made a large quantity of adjustments to agree its records within TIMS and FACTS. One hundred items were adjusted to agree Fiscal Year 2017 commodities inventory records, resulting in a net negative adjustment of $129,341, and 266 items were adjusted to agree Fiscal Year 2018 commodities inventory records, resulting in a net positive adjustment of $149,624.

  - Logan, Shawnee, and Vienna Correctional Centers failed to make the necessary inventory adjustments, resulting in a total understatement of the balance of $65,719.

  - At Logan Correctional Center, items listed on the Employee Commissary Inventory Listing were not included in the General Inventory Merchandise account on the Employee Commissary General Ledger Trial Balance at June 30, 2018 and June 30, 2017. The total net understatement amount was $279.

- Auditors noted Danville Correctional Center could not provide explanations for 3 of 20 (15%) unusual commodity and commissary items tested totaling $1,586. Logan Correctional Center could not provide explanations for unusual prices or quantities for 4 of 20 (20%) commodity and commissary items tested. Stateville Correctional Centers failed to provide reasonable explanations for significant variances noted on 4 of 10 (40%) commodity inventory items and 3 of 12 (25%) commissary inventory items tested. The unexplained significant variances were $478 of $26,659, and $12,066 of $12,684, respectively.

- The final inventory balance per TIMS did not agree to the balance communicated to the Central Office for Danville (Fiscal Year 2017) and Logan Correctional Centers (Fiscal Year 2018). The difference of $6,677 was comprised of $5,931 for Danville and $746 for Logan. In addition, the final inventory balance of commodities for Shawnee Correctional Center did not agree to the balance reported to Central Office. The overstatement amounted to $44,726.

- Auditors noted the Fiscal Year 2018 employee commissary final inventory balance on the general ledger for Shawnee Correctional Center was overstated by $1,280. The Center recorded a transaction prior to actual receipt of the items.

- Shawnee Correctional Center overstated the cost of 5 of 45 (11%) Employee Commissary items tested totaling $91.

- Shawnee Correctional Center did not add inventory from one order in the correct fiscal year for the inmate commissary, totaling $228. The items were included in the Center's Fiscal Year 2019 inventory, instead of its FY18 inventory, resulting in an understatement of inventory as of June 30, 2018.

- Pinckneyville Correctional Center's Inmate Commissary records maintained in FACTS did not properly distinguish between items held at different locations. As a result, the Center was not able to readily account for items held at each facility and there was an increased risk of inaccurate records.

The Department has established Administrative Directives (A.D.'s) concerning controls over commodity and commissary inventory records and accounting as follows:

- A.D. (02.82.101) requires a standardized inventory control system in order to account for all commodity items received, to maintain records that reflect commodity usage and consumption at each facility, and to ensure accurate accounting records are maintained.

- A.D. (02.82.114A-J) requires the reconciliation of the inventory records to the accounting records to verify the accuracy and value on hand of commodity items.

In addition, the Statewide Accounting Management System (SAMS) Manual (Procedure 03.60.20) requires the Department to perform an annual physical count of inventory on hand and to reconcile the results to inventory records to ensure the completeness and accuracy of those records.

Auditors identified the following exceptions and weaknesses related to the controls over commodity and commissary inventory access, maintenance and procedures:

- Auditors identified access control weaknesses associated with TIMS at Danville, Logan, Stateville, Vienna, and Western Illinois Correctional Centers. Retired employees and employees whose job responsibilities did not require access to the application were noted to have access to TIMS. Auditors also noted that employees utilizing TIMS were not given adequate training on TIMS at Stateville Correctional Center.

  Good internal controls would require the Center ensure only authorized employees with specific operational needs have access to the Center's computerized systems. In addition, employees should be properly trained and have resources available to perform their assigned duties.

- Auditors noted weaknesses in segregation of duties for inventory procedures at Stateville Correctional Center. Employees performing the year-end counts, including the Correctional Supply Supervisor, had access to accounting records in TIMS and FACTS. The Correctional Supply Supervisor had custody of the inventory and was also responsible for updating the inventory records when items were sold or disposed.

- Auditors noted that Logan Correctional Center failed to remove obsolete items in inventory amounting to $356.

- Auditors noted Danville and Logan Correctional Centers failed to freeze commodity and commissary operations during inventory count.

- Inventory procedures at Danville, Dixon, and Logan Correctional Centers did not specify sufficient procedures to accurately identify and direct staff how to handle obsolete or damaged items and third-party owned inventory.

- Centers failed to keep commodity inventory secure from damage and loss. Auditors noted expired and freezer burned items in inventory at Hill and Logan Correctional Centers.

A.D. (02.85.103) requires the Department's Commissary Supervisors to maintain strict control over inventory.

Auditors identified the following exceptions and weaknesses related to the controls over commodity and commissary inventory recordkeeping:

- Stateville Correctional Center was unable to provide the Item Status Report for Fiscal Year 2017 and 2018 relating to the commissary or the commodities on hand and ending value.

- Logan Correctional Center failed to provide invoices showing cost of goods purchased amounting to $44,780.

A.D. (02.95.105) requires records to be properly identified for ready access, stored and safeguarded at the facility.

In addition, the State Records Act (5 ILCS 160/8 and 160/9) requires the Center to preserve records containing adequate and proper documentation of the essential transactions of the Center to protect the legal and financial rights of the State as well as to establish and maintain a program for agency records management, which includes effective controls over maintenance of records.

Auditors noted exceptions related to inventory receiving and sales documents as follows:

- For Dixon Correctional Center, quantities received per receiving reports at the end of Fiscal Year 2018 did not match first-in, first-out layers included in the Center's year-end physical inventory for 1 of 20 (5%) samples tested, amounting to $190.

- Big Muddy River, Stateville and Western Illinois Correctional Centers did not properly enter receiving and/or sales documents in the appropriate period.

A.D. (02.82.114A-J) requires the reconciliation of the inventory records to the accounting records to verify the accuracy and value on hand of commodity items. A.D. (02.85.110) states, to ensure proper cutoff and inclusion of goods for costing of month end inventory, all goods received on the day of inventory shall be stored and recorded before the physical inventory begins

Auditors noted exceptions related to stockpiling of inventory as follows:

- Auditors noted stockpiling of inventory totaling $99,129 at Big Muddy River, Dixon, Hill, Logan, Sheridan, Stateville, Vienna, and Western Illinois Correctional Centers. Stockpiling is defined as maintaining a supply greater than the level needed for a twelve-month period.

- Auditors noted 8 of 26 (31%) items tested at Sheridan Correctional Center totaling $58,294, had an inventory turnover ratio of less than one. An inventory turnover ratio of less than one indicates the Center was holding more than one year's supply of inventory.

A.D. (02.82.120) requires the Center to review inventory records at least once a year to determine if any items in stock are surplus to current needs.

In addition, the Illinois Procurement Code (30 ILCS 500/50-55) requires every State agency to stock no more than a 12-month supply of inventory. It furthers states inventory shall be periodically reviewed and excess inventory shall be transferred or otherwise addressed to ensure compliance with the Code.

Auditors noted the following exceptions during inventory markup testing:

- 31 of 90 (34%) employee and commissary goods tested at Centralia, Jacksonville, Lawrence, Logan, Pinckneyville, Shawnee, and Vienna Correctional Centers were priced over the allowed markup, ranging from an additional 3.68% to 23.75% markup.

- The price list was not provided for Big Muddy River, Centralia, Illinois River, Kewanee, Shawnee, and Western Illinois Correctional Centers. Further, auditors were unable to conclude on the accuracy of the Fiscal Year 2018 price listing for Vienna Correctional Center. As a result, the auditors were unable to test whether the Center's mark-up of the employee and commissary goods as allowed was within statutory limits.

The Unified Code of Corrections (730 ILCS 5/3-7-2a) sets an upper limit on the selling price for goods sold in the inmate commissary and employee commissary at 25% and 10% above cost, respectively, for non-tobacco products.

In relation to all the exceptions noted, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires agencies establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance property is safeguarded against loss or misappropriation and assets are properly recorded and accounted for to maintain accountability over the State's resources. SAMS Manual (Procedure 03.60.20) provides guidance on inventory valuation and reporting.

In response to the prior finding, the Department stated it continued working with Centers in maintaining and accounting for inventory with TIMS and FACTS and was striving to continue making improvements in the Department's centralized oversight function and the inventory accounting and maintenance within the Centers. During the current audit period, the Department emphasized to staff the importance of performing timely and accurate counts while maintaining only the necessary amount of inventory. Although the Department initiated corrective actions during the review period, those actions were not sufficient to address all weaknesses identified.

The Department indicated, as it did in the prior examination, the exceptions noted were due to staff turnovers, staff limitations, competing priorities, human error, and employee oversight at the Correctional Centers.

Strong internal controls require an improved centralized oversight function related to inventory. Failure to implement such controls could lead to theft, loss of assets and a failure to comply with legislative intent, as well as inaccurate reporting of fiscal year-end inventory balances which would, in turn, reduce the reliability of Statewide financial reporting. (Finding Code No. 2018-005, 2016-005, 2014-003, 12-03, 10-06, 08-09)

RECOMMENDATION:

We recommend the Department improve its centralized oversight function related to inventory to allow for improved controls, as well as provide guidance, reminders and assistance to the Centers to help facility staff improve compliance and internal controls.

DEPARTMENT RESPONSE:

Recommendation accepted. The Department will strive to improve its centralized oversight on inventory controls and continue working with Center staff regarding maintaining and accounting for inventory in The Inventory Management System (TIMS) and Fund Accounting and Commissary Trading System (FACTS). In addition, the Department will continue providing guidance, reminders and assistance to the Centers to help facility staff improve compliance and internal controls.

2018-006 **<u>FINDING:</u>** (Adult Transition Centers financial transactions not properly recorded and administered)

The Department of Corrections (Department) did not properly record, maintain required documentation, or ensure adequate internal controls, over financial transactions at the Adult Transition Centers (ATCs).

During our testing of four ATCs (Crossroads, Fox Valley, North Lawndale, and Peoria), we noted the following weaknesses:

- We noted inadequate controls over the bank reconciliation process for the Resident Trust Fund at Crossroads, Fox Valley, and North Lawndale ATCs as follows:

    - At Crossroads, North Lawndale and Fox Valley ATCs, the Resident Trust Fund balances reported on the bank reconciliations and on the balance sheets compared with the Resident Trust Fund Trial Balances, as of June 30, 2017 and 2018, had unexplained differences totaling \$24,962 and \$75,610, respectively.

    - At Crossroads and North Lawndale ATCs, Fiscal Year 2017 and 2018 accounting transactions were not properly closed for the Resident Trust Fund. Since accounting transactions were not properly closed, the financial statements did not agree with the amounts in the ATC's trial balance. Crossroads ATC reported a \$323,794 net increase in the Resident Trust Fund for both Fiscal Years while the financial statements reported a \$303,674 net increase and a \$1,658 net decrease in financial position for Fiscal Year 2017 and 2018, respectively. North Lawndale ATC reported a \$334,495 net change in the Resident Trust Fund for both fiscal years, while the financial statements reported net decreases in financial position of \$43,659 and \$1,505 for Fiscal Year 2017 and 2018, respectively.

    - At the Fox Valley ATC, the same employee wrote and approved checks and prepared the bank reconciliation for Resident Trust Fund and Employee Benefit Fund balances since January 2018.

  The Statewide Accounting Management System (SAMS) Manual (Procedure 02.50.20) states agencies should establish control objectives and control techniques for fiduciary and trust funds to ensure detailed subsidiary records are maintained and are periodically reconciled to control accounts.

  SAMS Manual (Procedure 02.50.40) states the organization should provide for an appropriate segregation of functions. SAMS Manual (Procedure 02.50.50) on internal controls defines segregation of duties as assigning duties to individuals so that no one individual controls all phases of the processing of a transaction, thereby permitting errors of omission or commission to go undetected.

  The Department's Administrative Directive (A.D.) (02.40.104) states that upon receipt of the bank statement for each checking account, the bank statement shall be reconciled with the general ledger. The person completing the reconciliation and the Business Administrator shall sign the completed reconciliation documentation. Reconciliation of the locally held fund, general ledger, and subsidiary accounts shall occur monthly after the fund checking account has been reconciled and after a general ledger posting is completed. When completed, the reconciliation shall be submitted to the Business Administrator and Chief Administrative Officer for review and signature.

Sound internal controls require that accounting records accurately and completely record all transactions of the entity. Balances in the general ledger accounts should be reconciled with statement of accounts on a regular basis and adjustments recorded timely and correctly in the books of accounts. Reconciling items should be investigated immediately and adjustments made to the general ledger.

- During our review of the financial statements for the Resident Trust Fund of Crossroads ATC, we noted a misclassification of expenses to Resident Loans amounting to $314 and $1,558 in FY17 and FY18, respectively. In addition, for North Lawndale ATC, we also noted an outstanding balance of $35 under Resident Loan general ledger account which was already paid based on supporting document.

  A.D. (02.42.101) provides general guidelines for handling and maintaining Resident Trust Funds. A.D. (02.42.105) provides guidelines for staff for processing disbursements and A.D. (02.42.116) states procedures for inmate loans.

- At three ATCs, there were seven instances in which stop-payments were not issued for Resident Trust Fund checks that were outstanding for more than three months. The exceptions occurred at Crossroads (one instance), Peoria (three instances), and Fox Valley (three instances). In addition, Fox Valley ATC had four dormant checks that were not voided for three Resident Trust Fund checks and one Employee Benefit Fund check.

  (A.D.) (02.40.104) requires the issuance of a stop payment for checks that are outstanding for a period of 90 days or more unless the bank's stop payment charge is greater than 50 percent of the check amount. Otherwise, these checks shall remain open until the account reaches a dormant status (outstanding over 14 months). When considered dormant, checks shall be voided and the payable deleted.

- During our Resident Trust Fund resident folder testing, we noted the letter of dependent verification was not filed in the resident's folder for 3 of 10 (30%) resident folders at the Peoria ATC.

  A.D. (04.23.110c) states that on a weekly basis, the Chief Administrative Officer shall forward a letter of dependent verification to the Department of Healthcare and Family Services, listing all residents received during the past week. A copy of the letter of dependent verification shall be placed in the financial folder of each resident who was reported.

- During our Employee Benefit Fund receipts testing at Fox Valley ATC, we noted 1 of 10 (10%) receipts tested, totaling $94, was deposited 52 days late.

  A.D. (02.40.110) states that cash accumulated in the amount of $1,000 or more on any business office working day shall be deposited no later than 12:00 a.m. the next working day. Deposits shall be made at least once a week.

- Peoria ATC was unable to provide supporting documentation and copies of voided checks in 1 of 10 (10%) instances, totaling $200.

  A.D. (02.40.104 E c(2)) states that the locally held fund monthly bank statements shall be filed with cancelled checks, if provided, sequentially by check number.

- During our review of cancelled checks, we noted one check of Fox Valley ATC amounting to $350 did not have signatures but was still cleared by the bank.

  A.D. (02.40.102) requires two signatures on all checks.

- During our resident personal property testing, we noted residents had more property items than what was allowed for 19 of 40 (48%) resident personal property folders tested at the Crossroads, Fox Valley, North Lawndale and Peoria ATCs.

  A.D. (05.03.111c) states the center's Chief Administrative Officer shall determine the type and quantity of personal property residents placed in a community correctional center may have in their assigned living quarters. It states which items are controlled within a resident's living area for reasons of safety, security, health, and hygiene. It also states that designated staff shall be responsible for checking each resident's personal property upon reception to the center against the personal property inventory list received with the resident and providing the personal property coordinator with the inventory list received with the resident. Further, the personal property coordinator shall maintain a current inventory list of each resident's personal property which requires a permit and ensure that any permit items obtained or disposed are documented on the Resident Personal Property Permit form DCA 3816.

- During our Employee Benefit Fund disbursement testing, we noted 2 of 10 (20%) disbursements, totaling $520, did not have the required Employee Benefit Fund committee meeting minutes at the Peoria ATC. During our Resident Benefit Fund disbursement testing, we noted 7 of 10 (70%) disbursements, totaling $6,432, did not have the required Resident Benefit Fund committee meeting minutes at the Peoria ATC.

  A.D. (02.43.102) states that each committee shall meet when necessary to review requests for expenditures. Minutes shall be kept for each meeting. All decisions made by the committees shall be documented and shall be subject to the approval of the Chief Administrative Officer.

- During our IRS Form 1099-MISC (1099 forms) testing, we noted at Crossroads, North Lawndale and Fox Valley ATCs, 32 of 46 (70%) 1099 forms reported earnings greater than the Resident general ledger amounts by a total of $4,330.

  A.D. (02.99.110) states that individual inmate earnings which equal or exceed $600 during one calendar year shall be reported to the IRS on IRS Form 1099-MISC.

The Fiscal Control and Internal Auditing Act (FCIAA) (30 ILCS 10/3001) requires all State agencies to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance resources applicable to operations are properly recorded and accounted for to permit the preparation of reliable financial reports and to maintain accountability over the State's resources.

The State Records Act (5 ILCS 160/8) requires the Center to preserve records containing adequate and proper documentation of the essential transactions of the Center to protect the legal and financial rights of the State.

In response to the prior year finding, Department officials stated they would continue to make every effort to improve accounting procedures and controls to ensure accurate and appropriate records are maintained at the ATCs. During the current period, the accounting unit worked with ATC staff when new locally held fund issues arose and helped staff clear up and resolve prior period problems. Although the Department initiated corrective actions during the review period, those actions were not fully implemented or sufficient to address all weaknesses identified.

Department management indicated, as it did during the prior examination, the exceptions noted were due to inadequate staffing, lack of training, human error, and insufficient central level oversight over offender financials.

Improper recording of financial transactions resulted in inaccurate financial reporting and noncompliance with Administrative Directives may result in health and safety violations or mismanagement of Department responsibilities. A lack of proper segregation of duties and internal controls over financial transactions increases the likelihood errors, loss or abuse would not be prevented or detected in the normal course of employees performing assigned duties. (Finding Code No. 2018-006, 2016-037, 2014-023, 12-14, 10-14, 08-18, 06-02, 04-04, 02-05, 00-05, 99-11, 98-08, 96-04, 94-05)

RECOMMENDATION:

We recommend the Department allocate sufficient resources, provide staff training and adequate supervisory review, and perform central level oversight over offender financials to ensure ATCs properly record financial transactions.

DEPARTMENT RESPONSE:

Recommendation accepted. The Department will strive to improve its centralized oversight of offender financial transactions at the Adult Transition Centers to properly record financial activities. In addition, the Department will continue working with ATCs' staff regarding staff training, compliance and internal controls.

2018-007 **FINDING:** (Lack of adequate controls over the review of internal control over service providers)

The Department of Corrections (Department) did not obtain or conduct timely independent internal control reviews over its external service providers.

We requested the Department provide the population of external service providers utilized by the Department in order to determine if they had reviewed the internal controls over the service providers; however, the Department was unable to provide a listing of all service providers utilized. During our testing, we worked with the Department to identify their service providers to determine the services delivered. Generally, external service providers are used to supplement the skills and resources of the department to assist them in achieving their mission.

Due to these conditions, we were unable to conclude whether the Department's population records were sufficiently precise and detailed under the Professional Standards promulgated by the American Institute of Certified Public Accountants (AU-C § 330, AU-C § 530, AT-C § 205).

Even given the population limitations noted above, we performed testing of eleven service providers utilized.

The Department utilized various service providers for hosting the Department's Offender 360 application, maintaining residents' trust funds and medical records, as well as for the preparation of financial reports and statements.

During testing, we noted the Department had not:

- Developed a process for identifying service providers and assessing the effect on internal controls of these services on an annual basis.
- Obtained System and Organization Control (SOC) reports or conduct independent internal control reviews for nine of the eleven external service providers tested.
- Conducted an analysis of the two SOC reports they did obtain to determine the impact of the modified opinion(s) or the noted deviations.
- Conducted an analysis of the complementary user entity controls documented in the two SOC reports.
- Obtained and reviewed SOC reports for subservice organizations or performed alternative procedures to determine the impact on its internal control environment.

Additionally, it was noted the contracts between the Department and the service providers did not contain a requirement for an independent review to be completed.

The Department is responsible for the design, implementation, and maintenance of internal controls related to information systems and operations to assure its critical and confidential data are adequately safeguarded. This responsibility is not limited due to the processes being outsourced.

Department management stated contract managers were unaware of the need for SOC reports from certain types of service providers.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies to establish and maintain a system, or systems, of internal fiscal and administrative controls 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 accounts and reliable financial and statistical reports and to maintain accountability over the State's resources. In addition, generally accepted information technology guidance endorses the review and assessment of internal controls related to information systems and operations to assure the accurate processing and security of information.

Without having obtained and reviewed a SOC report or another form of independent internal controls review, the Department does not have assurance the external service providers' or subservice organizations' internal controls are adequate. (Finding Code No. 2018-007)

<u>RECOMMENDATION</u>

We recommend the Department identify all third party service providers and determine and document if a review of controls is required. We also recommend the Department:

- Obtain SOC reports or perform independent reviews of internal controls associated with third party service providers at least annually.
- Monitor and document the operation of the Complementary User Entity Controls relevant to the Department's operations.
- Either obtain and review SOC reports for subservice organizations or perform alternative procedures to satisfy itself that the existence of the subservice organization would not impact its internal control environment.
- Document its review of the SOC reports and review all significant issues with subservice organizations to ascertain if a corrective action plan exists and when it will be implemented, any impacts to the Department, and any compensating controls.
- Review contracts with service providers to ensure applicable requirements over the independent review of internal controls are included.

<u>DEPARTMENT RESPONSE</u>

Recommendation accepted. The Department recognizes the need to ensure adequate controls over applicable service providers and will work to ensure that the appropriate actions are taken. The Department will review all current contracts as well as identify third-party service providers at contract award so that a comprehensive review of required controls and procedures are in place. This will include monitoring any changes in operational conditions for the Department or the third-party service providers, obtaining SOC reports if warranted for subservice providers and performing alternative procedures to ensure that service delivery will not impact the service provider’s internal control environment.